

2 October 2020

Willie Botha — Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Botha:

Deloitte Touche Tohmatsu Limited (DTTL) is pleased to have the opportunity to provide comments on the exposure draft, proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (“ED-600” or the “proposed standard”) issued by the International Auditing and Assurance Standards Board (“IAASB” or the “Board”) in April 2020.

DTTL appreciates and commends the IAASB’s substantial endeavors that resulted in the release of ED-600 for comment. Specifically, DTTL believes that the holistic approach adopted by the IAASB to solicit the views of various stakeholders, commencing with the release in December 2015 of the Invitation to Comment, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, was appropriate as the resulting feedback provided insights that led to the necessary advancement of standard-setting activities related to certain key foundational standards¹ upon which ED-600 is contingent. For the proposed standard to remain adaptable, it is imperative that ED-600 remains principles-based so that it can continue to be “fit for purpose.” This is important because the structure and organization of group entities and business units continues to evolve. The resulting flexibility will manifest itself in an overall group audit strategy and group audit plan that allows for the group engagement team to effectively and efficiently plan and perform the group audit in order to obtain sufficient appropriate audit evidence from the audit procedures performed, including the work performed by component auditors. DTTL supports the overall direction of ED-600, in particular with respect to the following areas outlined in the scope of the proposed standard:

- Clarifying the entry point to the proposed standard as being when an auditor has been *engaged to audit group financial statements*.
- Recognizing that a *group may be organized in various ways*, and as such there are alternatives available to the group engagement team when planning and performing an audit of group financial statements.

¹ The foundational standards included:

- ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.
- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*.
- ISA 220, *Quality Control for an Audit of Financial Statements*.

- Applying the *risk-based approach* and aligning the principles in ED-600 with ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*.
- Focusing on the sufficient and appropriate involvement by the group engagement team in the work of component auditors, including addressing the importance of iterative *two-way communication between the group engagement team and component auditors* throughout the audit process.
- Emphasizing the importance of *professional skepticism* and how it may be demonstrated through practical application.

DTTL believes these and other enhancements and clarifications in ED-600 will strengthen the auditor's efforts to drive further quality improvements when performing a group audit, especially where component auditors are used. In addition, DTTL would, however like to draw attention to the following overall comments:

Obtaining sufficient appropriate audit evidence

DTTL notes that the objective in paragraph 8(d) of ED-600 is to “evaluate whether sufficient appropriate audit evidence has been obtained,” and as such DTTL agrees with the approach in the proposed standard to place greater emphasis on the identification and assessment of the risks of material misstatement at the group financial statement and assertions levels in accordance with ISA 315 (Revised 2019), including the resulting identification of significant classes of transactions, account balances, and disclosures² and the relevant assertions at the group level, and the related response to those assessed risks as required by ISA 330, *The Auditor's Responses to Assessed Risks* (referred to as the “risk-based approach”). In doing so, DTTL agrees with the determination by the Board to remove the extant concept of identifying a “significant component” for purposes of scoping a group audit and instead focus on obtaining audit evidence to address the assessed risk(s) of material misstatement, which may involve component auditors performing audit procedures on financial information of the component at the request of the group engagement team. DTTL therefore also agrees with the shift in the standards from a focus primarily on a rigid set of audit procedures required to be performed on components based on a high-level identification of their significance to the group, to applying the risk-based approach iteratively and flexibly and focusing first on the identification of the risks of material misstatement for the significant classes of transactions and account balances to the group (i.e., what work to perform), followed by determining the components where the work will be performed (i.e., where to perform the work), and ultimately identifying the members of the engagement team that will be performing the audit procedures (i.e., by whom; either the group engagement team or component auditors).

However, while ED-600 provides guidance on scoping a group audit (i.e., paragraphs A86-A93 of ED-600), the proposed standard provides only limited guidance related to considerations on determining the amount of audit work that is necessary to obtain sufficient appropriate audit evidence (i.e., paragraph 33 of ED-600, as well as the stand-back requirement in paragraph 49 of ED-600). DTTL is concerned that without providing factors for the auditor to consider, the auditor will find it challenging to make a determination that sufficient appropriate audit evidence has been obtained in a group audit and that audit risk has been reduced to an acceptably low level. DTTL strongly encourages the Board to more clearly articulate the special considerations related to the planned approach to obtaining sufficient appropriate audit evidence in a group audit (including application material related to the expected documentation of such considerations), including how such considerations are necessary when planning

² “Classes of transactions, account balances and disclosures” are referred to as “classes of transactions and account balances” throughout the comment letter.

further audit procedures, as well as when evaluating whether sufficient appropriate audit evidence has been obtained. Without this, there is the potential for vast differences in the nature and extent of audit evidence that is obtained in a group audit, including for group audits in which there would be an expectation of general consistency in the nature and extent of evidence obtained.

DTTL notes that paragraph A62 of ISA 330 includes various factors that may be considered when concluding that sufficient appropriate audit evidence has been obtained. DTTL believes that this can be used as a starting point for determining the special considerations in a group audit, in addition to the following concepts:

- The nature and amount of classes of transactions and account balances in the group financial statements, and the transactions that are executed at the entities or business units that comprise the group, including the related risks of material misstatement and the commonality of risks across the entities or business units.
- The materiality of the entities or business units that comprise the group, as well as the materiality of the components selected for testing.
- The nature and extent of audit evidence obtained for significant classes of transactions and account balances.
- The effectiveness of the control environment, including the commonality of controls, the information technology (IT) systems, and the monitoring activities by the group as it relates to the entities or business units comprising the group.

Engaging with the International Ethics Standards Board for Accountants (IESBA)

Given the refinement of the extant definition of *engagement team* in proposed ISA 220 (Revised), *Quality Management for and Audit of Financial Statements*, to eliminate the necessity for those on the engagement team to be “engaged by a firm or network” and instead focus broadly on “any other individuals who perform audit procedures on the engagement,” DTTL believes it is of utmost importance to understand the implications and possible unintended consequences of changes to the definition in the context of the IESBA’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (“IESBA Code”). DTTL notes that paragraph A18 of proposed ISA 220 (Revised) highlights that an engagement team includes individuals from both a network firm and a firm that is not a network firm. ED-600 similarly draws no distinction between individuals in a network firm or individuals in a firm that is not a network firm as it relates to the group engagement partner’s responsibility to obtain confirmation from the component auditors that ethical requirements, including those related to independence, that are relevant to the group have been fulfilled. While the IESBA Code addresses the relevant ethical requirements, including independence, that apply to the auditor’s network firm, the IESBA Code as currently drafted does not contemplate the situation in which component auditors are from a firm that is not a network firm. It is therefore unclear to what extent the relevant ethical requirements that are applicable to the broader engagement team are now extended to those component auditors that are from a firm that is not a network firm.

DTTL understands that the IESBA Project³ currently underway will potentially address these issues and DTTL believes that as part of this, it is imperative that the IESBA Code be revised to more holistically

³ The objectives of IESBA’s Engagement Team-Group Audits Independence Project are to (a) align the definition of the term “engagement team” in the IESBA Code with the revised definition of the same term in proposed ISA 220 (Revised) and (b) revise the International

encompass the changes made to both proposed ISA 220 (Revised) and ED-600. This includes explicitly defining the relevant ethical requirements in the context of a group audit, including circumstances in which component auditors are performing work at the request of the group engagement team, and when such component auditors are performing work for a component that is not a wholly owned subsidiary (e.g., an equity method investment). This allows for a common understanding by all members of the engagement team (i.e., those individuals in a network firm and those individuals in a firm that is not a network firm), when referencing the ISAs as well as the IESBA Code. This understanding is of utmost importance when the component auditor confirms compliance with the relevant ethical requirements, including independence. In addition, this common understanding is a required element⁴ in the “Basis of Opinion” section in the auditor’s report on the group financial statements.

DTTL notes current practical challenges when addressing circumstances in which there is an inadvertent breach of the independence requirements by the component auditor when such component auditors are from another network firm; this is not currently addressed by the IESBA Code. As drafted, paragraph 22 of ED-600 could be interpreted that even when the component auditor communicates to the group engagement team an inadvertent breach of the independence requirements, and the breach has been remediated and is deemed to not impact the component auditor’s objectivity, the group engagement team would nevertheless not be permitted to use the work performed by that component auditor. DTTL does not believe this is the intent of the IAASB where the inadvertent breach is inconsequential in nature, and deviates from the way in which a breach by a component auditor from the same network firm is addressed in the IESBA Code, thereby making the ethical requirements when using a non-network firm component auditor more onerous than when using a component auditor from the same network firm. DTTL acknowledges the potential inconsistency in practice when addressing the implications of an inadvertent breach and the impact on the group audit. DTTL also believes these ethical requirement matters may be further exacerbated and impacted by the firm auditor rotation requirements that are in effect in certain jurisdictions, whereby prospectively more component auditors may be from non-network firms. DTTL strongly encourages the IAASB to engage with IESBA (as part of the aforementioned IESBA Project) to provide further clarity in this area in order to resolve this public interest matter.

Lastly, amending the definition of “component” in ED-600 to reflect “a location, function or activity [...] determined by the group engagement team” may create challenges when identifying the related entity or business unit when obtaining an independence confirmation from component auditors. DTTL believes that the IAASB should engage with IESBA to ensure that this amendment to the definition is also addressed as part of the revisions to the IESBA Code (i.e., as part of the IESBA Project) and that there are no unintended consequences resulting from the conceptual change in the identification of what constitutes a component. DTTL strongly encourages the IAASB to continue its dialogue with IESBA with respect to these matters.

Consequently, given the interrelatedness of ED-600 and the need to have clearly defined relevant ethical requirements in the IESBA Code, DTTL believes that the effective date of the revised IESBA Code (as a result of the IESBA Project) and ED-600 should be aligned (along with the effective date of proposed ISA 220 – see below) in order to ensure consistency between the professional standards issued by the IAASB and IESBA.

Independence Standards so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.

⁴ ISA 700 (Revised), *Forming an Opinion and reporting on Financial Statements*, paragraph 28(c).

Interaction with and effective date of Proposed ISA 220 (Revised)

DTTL observes that there is potentially a six-month difference in effective dates between ED-600 and proposed ISA 220 (Revised), based on the webinar held by the IAASB on June 15, 2020, related to ED-600 where an initial targeted approval date of September 2021 was indicated. With the proposed 18-month implementation period after approval of a final ISA, a preliminary estimate is that ED-600 would likely be effective for audits of group financial statements for periods beginning on or after June 15, 2023. The September 2020 IAASB agenda papers presented an effective date for proposed ISA 220 (Revised) for audits of financial statements for periods beginning on or after December 15, 2022.

DTTL notes that a mid-year effective date for the proposed standard will present practical challenges for firms given the nature and extent of changes that would be necessary to a firms' audit approach, including the related guidance and trainings. DTTL recommends that the IAASB consider an effective date that is aligned with the calendar year-end, i.e., for audits of group financial statements for periods beginning on or after December 15, 2023.

Given the fundamental changes to proposed ISA 220 (Revised) and the interplay between management of quality at the engagement level for audits of financial statements and group audit engagements, DTTL is concerned about the implications of proposed ISA 220 (Revised) being effective while extant ISA 600 is still applicable to group audit engagements, and strongly urges the Board to align the effective dates of the two standards (e.g., delay the implementation of proposed ISA 220 (Revised)). If aligning the effective dates is not feasible, the IAASB should issue transitional guidance to bridge any gap should extant ISA 600 still be applicable to group audit engagements when proposed ISA 220 (Revised) is effective.

When considering the matters noted above and the related impact as it pertains to ED-600, in particular the concerns expressed regarding proposed ISA 220 (Revised) and the IESBA Code, DTTL believes that it will be confusing for auditors and users of group financial statements for the three interrelated standards to have differing effective dates, as well as potentially burdensome to the profession to implement these foundational standards without the needed clarity. DTTL believes the IAASB and IESBA should develop a cohesive plan for the finalization and adoption of these standards, including consideration of aligning their effective dates (e.g., either speeding up, or slowing down implementation dates). DTTL believes that the public interest is best served to have clarity on this matter prior to the finalization of ED-600.

DTTL hopes that the comments articulated in this letter, including the more detailed responses in [Appendix I](#), "Response to Requests for Specific Comments," will assist the IAASB as it continues its important deliberations. In addition, in order to enhance audit quality, DTTL believes that it is essential for professional standards implemented globally to be broadly aligned as this serves to promote consistency when performing and reporting on financial statements in the various jurisdictions. This is particularly important when performing an audit of group financial statements, where many groups may operate and report across multiple jurisdictions and in some instances, entities are listed on more than one stock exchange. DTTL strongly encourages the IAASB to continue its outreach to other standard setters and regulators as it relates to the supervision of other auditors, including the PCAOB given their current standard-setting project on this topic.



DTTL appreciates the opportunity to provide perspectives on ED-600 and would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (dsullivan@deloitte.com) or at +1 714 478 9852.

Very truly yours,

A handwritten signature in black ink that reads "Dave Sullivan". The signature is written in a cursive, flowing style.

Dave Sullivan
Deloitte Global Audit & Assurance Quality Leader
Deloitte Touche Tohmatsu Limited

APPENDIX I

RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

DTTL's responses to the detailed questions included in the IAASB's Explanatory Memorandum accompanying the proposed standard are set forth in this appendix. In these comments, recommended additional text is shown using **bold underline**; recommended deletions to the text are shown using double ~~strikethrough~~.

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?
- (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) DTTL is of the view that the linkages to the other ISAs and the proposed ISQMs are appropriate. The convention adopted makes it clear as to which particular requirement(s) in the suite of professional standards are being built on for the purposes of ED-600.
- (b) DTTL has provided various recommendations related to areas of ED-600 that can be enhanced, as well as providing more detailed suggestions within this appendix.

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?

DTTL supports the use of sub-sections to specifically address the involvement of the component auditors. DTTL believes that this approach makes the proposed standard inherently scalable because when component auditors are not involved those requirements would not be applicable. Further, it highlights the importance of integrating component auditors throughout the audit cycle. However, DTTL notes some inconsistencies in the use of sub-sections. For example:

- Paragraph 20(b) of ED-600 requires that the group engagement partner takes responsibility for “[o]btaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement...”. Addressing this requirement would likely involve the need for the group engagement team to communicate ethical requirements to component auditors; however, this requirement does not fall under the sub-section of “Considerations When Component Auditors Are Involved.”
- Paragraph 30 of ED-600 requires that the group engagement team communicate to the component auditor component performance materiality (among other items). This requirement does fall under the sub-section for when component auditors are involved; however, the nature of the requirement (i.e., the group engagement team is communicating an item to a component auditor) seems similar to the involvement in the performance of the engagement noted in paragraph 23 of ED-600 (which does not fall under the sub-section).

DTTL believes that there is a risk that auditors will fail to understand that considerations for the involvement of component auditors does not strictly fall under the sub-sections of “Considerations When Component Auditors Are Involved,” and encourages the Board to either clarify the intention of

the sub-sections or to more fulsomely identify all instances in which a sub-section is needed.

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?

DTTL believes that professional skepticism has been appropriately reinforced in ED-600. DTTL agrees with the approach adopted to address professional skepticism, in particular the use of the stand-back requirement in paragraphs 49–51 of ED-600 to challenge the group engagement to evaluate whether sufficient appropriate audit evidence has been obtained.

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).

As noted in the cover letter, DTTL agrees with the scope, the entry point, and the definition of group financial statements. However, DTTL does note that the linkage between the definition of the group financial statements and the description of what constitutes a “consolidation process” in paragraph 11 of ED-600 is not clear. DTTL therefore believes that including a reference in paragraph 9(k) of ED-600 to paragraph 11 of ED-600 would provide the additional clarity needed.

Further, it would appear that auditors may confuse “consolidation process” as stated in paragraph 11 of ED-600 to only mean group financial statements that are “consolidated.” DTTL recommends that paragraph 11 of ED-600 be amended to focus on the importance of the financial reporting framework, as follows.

11. Reference in this ISA to “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements. The “consolidation process” as used within this ISA encompasses the following ~~by way of~~ way of: ...

In addition, DTTL believes that the guidance in paragraph A17 of ED-600 causes confusion, as it is not clear what the underlying principles are that are driving the distinction between when the financial information of the branch or division is considered to be aggregated versus when it is not. As drafted, it would appear that the distinction is based on whether or not the financial information is being separately prepared. However, such a distinction may result in an inconsistent determination as to what constitutes a consolidation process for purposes of determining whether group financial statements are prepared. For example, when an off-the-shelf software package is used, parameters may be established to generate separately prepared financial information for each branch or division. Alternatively, the parameters may be established to reflect multiple sub-accounts in which each sub-account is representative of a branch or division, such that no separate financial information is prepared. In both instances, the underlying financial information is the same, yet the outcome differs and ultimately this affects the applicability of ED-600. For this reason, DTTL recommends that paragraph A17 of ED-600 be deleted.

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?

As noted in the cover letter, DTTL believes the proposed standard is scalable for a number of reasons, including:

- a. *Structure of ED-600.* Separately identifying the requirements applicable to component auditors under a heading “Consideration When Component Auditors Are Involved” allows for those groups in which component auditors are not involved to focus on those relevant requirements and the related application material. (See also the response to question 2.)
- b. *Definition of component.* The ability of the group engagement team to define what constitutes a component allows the proposed standard to be scaled for purposes of planning and performing audit procedures in a group audit.
- c. *Risk-based approach.* Developing an overall group audit strategy and group audit plan that is focused on obtaining sufficient appropriate audit evidence in response to the risk assessment.
- d. *Direction and supervision.* The ability of the group engagement team to tailor their direction, supervision, and review of the component auditor’s work based on the nature and circumstances of the engagement, including the determination of the component auditor’s competence and capabilities.

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?

As noted in the cover letter, DTTL supports the evolution of ED-600, including the shift to the “auditor view” of components, such that the proposed standard remains adaptable for use in both simple and complex group audit environments. DTTL believes that this flexibility is necessary given that the changing structure of groups (e.g., the use of shared service centers by groups) may result in the auditor to plan and perform the audit considering more factors than simply the entities or business units that make up a group (e.g., commonality of controls, IT systems, or centralized activities).

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?

DTTL is supportive of the enhancements to the acceptance and continuance requirements and application material; however, DTTL does believe that further enhancements and clarifications are needed as follows:

Paragraph 13

DTTL does not believe that the group engagement team will have a sufficient understanding when accepting an audit engagement to identify components (i.e., a location, function or activity determined by the group engagement team for purposes of planning and performing audit procedures in a group audit), especially if the overall group audit strategy and group audit plan have yet to be formalized. DTTL notes that while a preliminary identification of components is likely, the group engagement team would need to have a more detailed understanding of the group in order to identify all the applicable components where audit procedures will be performed. DTTL recommends the following edits to paragraph 13 of ED-600:

13. The group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group

financial statements. For this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to ~~make a preliminary~~ **identify identification of** components and ~~make a preliminary~~ determination about whether to involve component auditors.

Paragraph 16 and the related application material

The application material in paragraph A29 of ED-600 states that a group engagement team may overcome restrictions on access to information or people when the group has a non-controlling interest in an entity that is accounted for by the equity method by considering publicly available information such as audited financial statements. It is unclear whether paragraph A29, in the context of the standard as a whole, means that the auditor may therefore use those publicly available audited financial statements as the primary, or sole, source of audit evidence for the related balances recorded by the group with respect to the non-controlled entity. As a practical matter, DTTL believes that flexibility needs to exist for obtaining sufficient appropriate audit evidence in situations where different ownership structures of an entity or affiliate of a group exist (e.g., an equity method investment, or fund that is part of an investment company as defined by U.S. GAAP), and that in certain cases publicly available audited financial statements, along with an understanding of the auditor of those financial statements, provides sufficient appropriate audit evidence.

Paragraph A30 of ED-600 indicates that in certain circumstances it may be appropriate for the group engagement team's firm to communicate with regulators, listing authorities, or others, about restrictions. DTTL agrees with the intention of this application material, however, it is unclear as to what the expected outcome of these communications is and why this is relevant or useful; for example, is the expectation that such communications would result in a regulator easing restrictions? Without additional guidance on the purpose of these communications, the usefulness or relevance of this guidance to a group audit is questionable, and deletion is therefore advisable. However, if this paragraph is maintained, DTTL believes that the application material should be enhanced to indicate that where appropriate, these communications should occur in conjunction with the component auditor's firm so as not to cause any unintended negative consequences in the jurisdiction of the component auditor's firm without the awareness of such firm. DTTL recommends the following:

A30. When the group engagement team cannot overcome restrictions, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may communicate with regulators, listing authorities, or others, about the restrictions and may encourage group management to communicate with regulators. **Prior to making such communication, the group engagement team's firm may discuss the matter with the component auditor's firm.** This may be particularly useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.

Paragraph 18 and the related application material

DTTL believes at the acceptance and continuance stage of the audit, it is appropriate for the group engagement partner to make a determination about the future ability of the group engagement team to be involved in the audit. Paragraph 18 of ED-600 references proposed ISA 220 (Revised), which is related to the execution of the audit, yet decisions on acceptance and continuance have not yet been made. Further, the footnote reference to proposed ISA 220 (Revised) relates to a requirement that addresses "Leadership Responsibilities for Managing and Achieving Quality on Audits." DTTL believes paragraph 18 of ED-600 should reference and build on the requirement in paragraph 13 of ED-600, as well as the objective in paragraph 8(c) of ED-600. DTTL therefore recommends edits to the paragraph to address these matters as follows:

18. ~~In applying proposed ISA 220 (Revised) As part of the determination in paragraph 13, the group engagement partner shall evaluate whether the group engagement team has the ability to be sufficiently and appropriately will be able to be involved in the work of the component auditor ~~to the extent necessary to obtain sufficient appropriate audit evidence.~~~~

DTTL believes that the application material should provide guidance in instances in which the component auditor is unable or unwilling to cooperate with the group engagement team as requested. DTTL believes that in such instances the component auditor should provide the reason for the lack of cooperation, including if there are specific areas or aspects of the request that the component auditor is unable to comply with. Further, DTTL believes that if the component auditor is unable to cooperate due to an existing law or regulation in effect in a jurisdiction, it is prudent to provide the information to the group engagement team as part of the two-way communication between members of the engagement team such that the group engagement team can take the appropriate action, and if necessary, adjust the request accordingly. In instances in which the component auditor is unwilling or unable to cooperate, the group engagement team may need to perform the work without involving that component auditor. DTTL recommends the following edits to paragraph A35 of ED-600:

A35. When requesting the component auditor to confirm that the component auditor will cooperate with the group engagement team, the group engagement team may also request the component auditor to confirm that it will conduct its work as directed by the group engagement team. Where the component auditor is unable or unwilling to cooperate with the group engagement team, the group engagement team may request the component auditor to provide additional details regarding the lack of cooperation, including if such action is as a result of restrictions imposed by a law or regulation. In such circumstances, the group engagement team may be able to take appropriate action to address the matter, including adjusting the nature of the request. Where the component auditor is unable or unwilling to cooperate, the group engagement team may need to obtain sufficient appropriate audit evidence without involving that component auditor.

Paragraph 20 and the related application material

DTTL has noted that paragraph 17 of proposed ISA 220 (Revised) states the “engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable ...” There is no reference to a “determination” as required by paragraph 20(a) of ED-600. DTTL recommends that the wording in paragraph 20(a) in ED-600 be aligned to the wording in paragraph 17 of proposed ISA 220 (Revised). In addition, DTTL proposes amending the wording in paragraph 20(b) of ED-600 for clarity such that the group engagement team is not obtaining an understanding about the component auditors related understanding, which DTTL believes is confusing as currently drafted.

DTTL agrees that the communication of the confirmation from the component auditors outlined in paragraph 20(c) of ED-600 should occur prior to the dating of the auditor’s report; however, it is also important that if the component auditor is unable to comply with the relevant ethical requirements, or there is an impairment related to independence during the performance of the component auditor’s work, that these matters are communicated timely to the group engagement partner. This will allow the group engagement partner sufficient time to appropriately address and resolve the matter. DTTL recommends the following amendments to paragraphs 20 and A38 of ED-600:

20. In applying proposed ISA 220 (Revised), the group engagement partner shall take responsibility for: (Ref: Para. A36–A39, A111)

- (a) ~~Determining that~~ **Communicating with the** component auditors ~~have been made~~ **and making such component auditors** aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;
- (b) ~~Obtaining an understanding about~~ **Confirming** whether **the** component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement and, in particular are independent; and ...

A38. Proposed ISA 220 (Revised) requires the engagement partner to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements by the engagement team. Becoming aware of actual or suspected breaches of relevant ethical requirements may be more challenging in a group audit, particularly where component auditors do not use common network services. In such circumstances, the group engagement team may also instruct component auditors to communicate relevant information **timely** to the group engagement partner, **such that the group engagement partner has sufficient time to respond and address the actual or suspected breach.**

Paragraph 21 and the related application material

The sub-bullets in paragraph 21 should be reflected as two separate requirements to follow the layout in proposed ISA 220 (Revised) — specifically paragraphs 25 and 26. Further, DTTL believes that the determination related to the monitoring and remediation process or external inspections with respect to the component auditor’s firm may inform the assessment of the appropriateness of the component auditor’s competencies and capabilities. As such, ED-600 should be drafted to reflect this as a determining factor to take into account with respect to the group engagement partner’s assessment of the component auditor’s competence and capabilities. Refer to the following edits. The related application material would also be moved and renumbered accordingly.

DTTL also believes that the guidance in paragraph A48 of ED-600 is better placed cross-referenced to paragraph 21(a) of ED-600, as the considerations in the application material directly affect the group engagement partner’s determination of the competence and capabilities of the component auditor. DTTL also noted that the application material references the group engagement team and proposes that this be amended to the group engagement partner as required in paragraph 22 of ED-600. DTTL recommends that paragraph A48 of ED-600 be amended, moved, and renumbered as noted below.

21. In applying proposed ISA 220 (Revised) [*insert footnote reference*], the group engagement partner shall, ~~(Ref: Para. A40)~~

- ~~(a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)~~

NOTE: Text moved below to new paragraph 21A.

- ~~(b) W~~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. (Ref: Para. ~~A46~~ **A40**)

Footnote: **Proposed ISA 220 (Revised) paragraph 25.**

21A. In applying proposed ISA 220 (Revised) [*insert footnote reference*] **and taking into account the determination in paragraph 21**, the group engagement partner shall, ~~(Ref: Para. A40)~~

- ~~(a) D~~determine that component auditors have the appropriate competence and

capabilities, including sufficient time to perform the assigned audit procedures at the component, ~~and (Ref: Para. A41–A45A47)~~

~~(b) 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. (Ref: Para. A46)~~

Footnote: **Proposed ISA 220 (Revised) paragraph 26.**

~~A48. A47. However,~~ The group engagement team ~~partner~~ **partner** may be able to overcome concerns ~~that are not determined to be serious~~ about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by **the group engagement team** being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Paragraph 22 and the related application material

DTTL believes that the requirement in paragraph 22 of ED-600 should not refer to the determination by the group engagement partner in paragraphs 21(a) or (b) of ED-600, as the determination in paragraph 21 of ED-600 would already have encompassed any concerns, serious or otherwise, and the resulting impact on the use of the component auditor to perform the requested work at the component.

Paragraph 23 and the related application material

DTTL believes that the specific example in paragraph A51 (second bullet) of ED-600 as it pertains to the competence and capabilities of the component auditor should be enhanced to address situations where "greater in-person supervision" is not practicable. DTTL recommends the following wording amendment:

A51. ...

- The competence and capabilities of the component auditors performing the audit work. For example, if the group engagement team has no previous experience working with a component auditor, the group engagement team may communicate more detailed instructions, ~~or~~ introduce greater in-person supervision, **increase the frequency of check-ins or discussions with component auditors, or assign more experienced group engagement team members to oversee** ~~or~~ the component auditor as the work is performed. ...

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?

DTTL believes that the risk-based approach appropriately builds on ISA 315 (Revised 2019) and will result in the group engagement team developing a group audit plan that addresses the nature,

timing, and extent of the planned risk assessment procedures. DTTL also acknowledges that in certain circumstances, there may be practical challenges to implementing a risk-based approach, for example; in a complex group engagement structure in which there may be many sub-groups. However, DTTL believes that in these circumstances the practical challenges can be overcome when the group engagement team applies the principles in ED-600, including determining (1) whether the component auditor has the appropriate competence and capabilities and (2) the level of involvement in the work of the component auditor, including review of their work. DTTL believes that this, in combination with robust two-way communication with the immediate sub-group component auditors, and other component auditors as necessary based on the professional judgment of the group engagement partner, is foundational to executing a high-quality group audit. DTTL believes that application material addressing sub-groups explicitly may be appropriate, especially in the context of the group engagement team's ability to direct and supervise, and assign risk assessment procedures to component auditors. DTTL recommends that the addition of "sub-groups" as an example in paragraph A71 of ED-600.

With respect to the risk-based approach, DTTL does have observations and recommendations that may further clarify the intent of certain paragraphs in the proposed standard, as follows.

Paragraph 28

DTTL believes that paragraph 28(b) of ED-600 is unclear, and could be interpreted that the group engagement team is communicating back to the component auditor events or conditions that may cast significant doubt on the group's ability to continue as a going concern, that have previously been identified by the component auditor. DTTL recommends clarifying that the communication is from the component auditor to the group engagement team. Additionally, DTTL recommends referencing paragraph 10 of ISA 570 (Revised), *Going Concern*, to enhance the linkage that communicating such information is relevant for risk assessment.

28. In applying ISA 570 (Revised)¹⁶, the group engagement team shall:

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

Footnote 16: ISA 570 (Revised), *Going Concern*, paragraph 10.

Paragraph 37 and the related application material

DTTL noted that in instances where the group engagement team has requested the component auditor to design and perform further audit procedures on the entire financial information of the component, paragraph A98 of ED-600 provides guidance that the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained. It is not clear what specific action is intended of the component auditor to address this guidance as the objective of a component auditor when performing work at the request of the group engagement team is to obtain sufficient appropriate audit evidence. DTTL recommends that the last sentence of paragraph A98 of ED-600 be deleted.

Paragraph 42

DTTL believes that paragraph 42 of ED-600 may be misconstrued in terms of when it is applicable in the context of a group audit engagement. The specific cross-reference to paragraphs 20-22 of ED-600 may imply that in order to use the audit evidence the group engagement team need only comply with

these requirements; it is unclear which “other relevant requirements” (as stated in paragraph 42(c)) would also be applicable. Additionally, as currently drafted, DTTL believes that the lack of a framework for determining when use of evidence from an audit that has already been performed is unclear (e.g., in an extreme circumstance, a group engagement team could simply postpone issuance of an audit report until all the statutory audits of a group were completed, and then apply paragraph 42 of ED-600 to obtain audit evidence for the group audit). DTTL recommends that the paragraph be clarified to provide a framework for when it is appropriate to use this paragraph.

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

DTTL believes the application material regarding common and centralized controls 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?

DTTL agrees with the approach adopted by the IAASB to keep the materiality requirements in paragraphs 29 and 30 of ED-600 and the related guidance principles based. DTTL is also supportive of the focus on determining component performance materiality at a level at which appropriately precise and meaningful procedures may be performed in order to obtain sufficient appropriate audit evidence regarding the component’s financial information. DTTL does acknowledge that various stakeholders have requested additional qualitative guidance to demonstrate application of the principles, but DTTL recommends that any illustrative examples be provided as supplementary material to the proposed standard.

Paragraph 29 of ED-600 states that component performance materiality (i.e., an amount that is lower than group performance materiality) shall be determined “when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components...” DTTL notes that ED-600 may be enhanced to address circumstances in which the probability of aggregation risk is lower, and suggests including examples in ED-600 or other supplementary material to the proposed standard. Examples may include situations in which the group engagement team determines to test the totality of a significant account in the aggregate (e.g., as one population), or where there is only one component that is relatively significant in relation to the group (i.e., the significant account balance at the component comprises a significant portion of the total significant account of the group). DTTL believes that in such circumstances it may be appropriate for the group engagement team to establish a component performance materiality that approaches group performance materiality.

DTTL also recommends that paragraph A75 of ED-600 be amended to bifurcate the first bullet in order to focus on the importance of “relative significance” and to provide enhanced guidance with respect to this matter.

A75. Factors the group engagement team may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality generally would be appropriate to address aggregation risk).
- The relative significance of the component to the group ~~may affect the extent of~~

disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components), or the relative significance of a particular class of transactions, account balance or disclosures to the group (e.g., if an account balance is tested in the aggregate, there is likely to be little to no aggregation risk) may affect the extent of disaggregation.

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) DTTL supports the audit documentation requirements in paragraph 57 of ED-600. However, DTTL believes that the application material in paragraph A124 of ED-600 may have varying interpretations as to the extent of documentation to be included in the group engagement file, given the subjectivity of this judgment (and therefore, consistency in documentation across engagements is likely not going to be achieved).

DTTL strongly agrees with the application material as it relates to the component auditor documentation, and that such documentation "need not be replicated in the group engagement team's audit file." DTTL believes, however, that further clarification is of particular importance especially given the amendment of the engagement team definition in proposed ISA 220 (Revised) to explicitly include component auditors. Without additional guidance, stakeholders may infer that the component auditor engagement file is also an extension of the group engagement team audit file. DTTL does not believe this is the intent of ED-600 and recommends illustrative examples be added to demonstrate the considerations relevant to determining the component auditor documentation that may be included in the group engagement team audit file.

Further, DTTL notes that paragraph A124 of ED-600 indicates that the group engagement team may determine that it is appropriate to include certain of the component auditor documentation in the group engagement team audit file. While DTTL agrees that this determination is the purview of the group engagement team, the ability to include certain component auditor documentation may be subject to local laws and regulations, including privacy restrictions, that may be in effect in the component auditor's jurisdiction. DTTL believes that if the group engagement team anticipates the necessity to include certain audit documentation from a component auditor in the group engagement team audit file, the group engagement team likely should engage in timely two-way discussions with the component auditor regarding the ability of the component auditor to provide the information, such that the group engagement team is able to take appropriate action as needed. DTTL recommends adding the following new application material to paragraph 37 of ED-600 to address this matter:

A101A. For circumstances in which the group engagement team anticipated that it may request the component auditor to provide component auditor documentation to include in the group engagement team audit file, the group engagement team may engage in two-way communication with the component auditor such that the group engagement

team is made aware of on a timely basis, and understands the reasons for, any restrictions as it relates to the sharing of audit documentation.

DTTL also believes that the application material may be enhanced to address the documentation considerations related to the extent to which the group engagement team is involved in the direction and supervision of the component auditors, and the review of their work. DTTL notes that this involvement is affected by the understanding of the competence and capabilities of the component auditors. DTTL recommends enhancing paragraph A125 of ED-600 as follows:

A125. ISA 300⁶¹ requires the auditor to describe, in the **group** audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. The extent of direction and supervision by the group engagement team in the work of component auditors is impacted by the group engagement partner’s determination of the component auditor’s competence and capability.

- (b) DTTL agrees with the application material as drafted.; Further, DTTL believes that the reference to ISA 230, *Audit Documentation* is appropriate in terms of providing the requisite guidance as to what to include in the group engagement team’s working papers.

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

DTTL has noted additional areas in ED-600 for which further clarification and enhancement may be needed:

Scope (paragraphs 3 and 6):

Paragraph 3

For purposes of clarity and to highlight the distinction between the how a group is organized versus how the group engagement team plans and performs an audit of the financial statements, DTTL recommends bifurcating paragraph 3 of ED-600 as follows:

3. A group may be organized in various ways. For example, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions), or business activities, which are collectively referred to as “entities or business units” in this ISA.

3A. When planning and performing an audit of the group financial statements, the group engagement team may plan and perform an audit of group financial statements may determine based on the overall group audit strategy and the group audit plan using entities or business units as viewed by group management. Alternatively, the group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group. This ISA uses the term “component” to refer to the manner in which the group engagement team views the group structure for purposes of planning and performing audit procedures for the group audit.

Paragraph 6

DTTL recommends that a cross-reference be inserted to paragraph A19 of ED-600 where there is

further application material to address the conventions used in ED-600 regarding the assignment of responsibilities in a group audit.

Definitions (paragraph 9):

Component auditor and group engagement team (paragraphs 9 (c) and (j))

It is unclear as to whether the definition of “group engagement team” in ED-600 is intended to incorporate any component auditors who meet the requirements noted in paragraph 9(j)(i)-(iii), or if component auditors should be excluded from those “other members of the engagement team”. DTTL suggests clarifying the intent of the definition. In addition, DTTL recommends the following edits to increase consistency of the use of the phrases group audit strategy and group audit plan:

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 **group** audit plan; ...

Component management (paragraph 9(d))

Because “component” is how the group engagement team determines the overall group strategy and group audit plan for purposes of planning and performing audit procedures in a group audit, there may not be instances in which management exists that is specifically responsible for the related financial information of the component. DTTL therefore recommends deleting this definition, and amending the phrase throughout to reflect “management of the component.”

Subsequent Events (paragraphs 47 and 48):

DTTL believes that the requirement in paragraph 47 of ED-600 should be modified to remove the portion of the sentence stating the timing for when component auditors should perform subsequent events procedures. Given that it is the group engagement team’s decision as to whether to request component auditors to perform such procedures, the timing for when they perform them should be at the discretion of the group engagement team.

47. In applying ISA 560,²² the group engagement team shall take responsibility for performing procedures designed to identify events that may require adjustment to or disclosure in the group financial statements, including, as appropriate, requesting component auditors to perform procedures, ~~for 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. (Ref: Para. A114)~~

In addition, DTTL believes that the requirement in paragraph 48 of ED-600 should be moved to paragraph 44 of ED-600 (and amended as necessary) as it is unclear why the requirement related to subsequent events would not be presented with the other information the group engagement team requests from the component auditor.

Auditor’s Report (paragraph 52):

DTTL believes that by adding the suggested wording “as a basis for forming an opinion on the group financial statements” to paragraph 52 of ED-600 (as outlined below), three potential areas of confusion are addressed, as follows:

- As drafted, the proposed standard may infer that the auditor’s report cannot make mention of the component auditor in the auditor’s report, as opposed to focusing on the intention that the group engagement partner may not divide responsibility with a component auditor as a basis for

forming an opinion on the group financial statements.

- There is an apparent contradiction between paragraph 52 of ED-600 in which reference to the component auditor is not permitted, unless required by laws or regulation to include such reference, and paragraph A118 of ED-600 in which a reference to the component auditor may be necessary to adequately explain the circumstances pertaining to an inability to obtain sufficient appropriate audit evidence.
- It is unclear whether the restriction in paragraph 52 of ED-600 prohibits reference to a component auditor when communicating key audit matters in accordance with ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

DTTL believes the proposed edit limits the prohibition to making reference to a component auditor as a basis for forming an opinion, while leaving flexibility for situations where mention of a component auditor may be necessary.

DTTL therefore believes that it would be clear that the auditor may make mention of the component auditor in the auditor's report of the group financial statements if such a reference is necessary, for example; to adequately explain the circumstances resulting in a modification of the group audit opinion (see paragraph A118 of ED-600), while prohibiting the reference to the component auditor only with respect to the basis for forming an opinion.

DTTL recommends the following edit to address the matters noted above:

Auditor's Report

52. The auditor's report on the group financial statements shall not refer to a component auditor **as a basis for forming an opinion on the group financial statements**, 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.

Communication with Group Management and Those Charged with Governance of the Group (paragraphs 53-56):

DTTL recommends that this section of the proposed standard be reordered to more logically follow the sequence of the existing ISAs (refer to the recommendation outlined below), and that the headings and paragraph numbers be adjusted. In addition, DTTL has observations as it relates to paragraphs 53, 55, 56, and A119 of ED-600.

Paragraph 53

ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, is clear that all significant deficiencies in internal control are communicated in writing to those charged with governance and, where applicable, to management. Further, all other deficiencies in internal control that are of sufficient importance and have not otherwise already been communicated to management should be communicated to management. Paragraph 53 of ED-600 implies that the group engagement team "shall consider" communicating deficiencies in internal control that have been identified by the group engagement team and the component auditors. This implies a level of optionality that does not exist, and as such DTTL recommends clarifying the intention of the requirement. (See amended and renumbered paragraph 56 below.)

As drafted, the requirement is also not clear whether the significant deficiency determination for those identified deficiencies arising at the component is being made by the group engagement team

or the component auditor. DTTL recommends that application material clarifying this matter be included in ED-600. (See new paragraph A122 below).

Paragraph 55

DTTL believes that the intention of paragraph 55 of ED 600 is specific to the communication of matters between the group engagement team and the auditor that performs an audit for statutory, regulatory, or another reason on the financial statements of an entity or business unit that is part of a group in which such auditor may or may not also be the component auditor. DTTL has recommended edits to the requisite paragraph to address this matter. (See amended and renumbered paragraph 54 below.)

Paragraph 56

DTTL is of the opinion that circumstances in which the group engagement team would communicate concerns regarding the quality of the component auditor's work and how these concerns were addressed to those charged with governance as required by paragraph 56(b) of ED-600 would be infrequent or rare. The group engagement team, led by the group engagement partner, is responsible within the context of a firm's system of quality management and through complying with proposed ISA 220 (Revised) and other ISAs, for quality management at the group engagement level. Paragraph 11 of proposed ISA 220 (Revised) states the "objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that the auditor has fulfilled the auditor's responsibilities ...". Further, paragraph 13 of proposed ISA 220 (Revised) states that "the [group] engagement partner shall take overall responsibility for managing and achieving quality on the [group] audit engagement ...". Paragraph 21 of ED-600 addresses the special considerations applicable to a group audit and the responsibility of the group engagement partner to determine the competency and capabilities of the component auditors.

DTTL believes that if areas of concern are identified by the group engagement team related to the quality of the component auditor's work, these would necessarily need to be mitigated in order for the group engagement partner to comply with the responsibilities in proposed ISA 220 (Revised). Further, if necessary, the overall group audit strategy and group audit plan would be adjusted. Paragraph A26 of ISA 260 (Revised), *Communication with Those Charged with Governance*, already provides guidance that if the group engagement team modifies the overall group audit strategy and group audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, the group engagement team may communicate with those charged with governance about such matters as an update to initial discussions about the planned scope and timing of the group audit. DTTL believes that if the concerns were of consequence to the group audit, the group engagement team would be communicating to those charged with governance in accordance with ISA 260 (Revised). For these reasons, DTTL recommends that paragraph 56(b) of ED-600 be deleted. (See amended and renumbered paragraph 55 below).

Requirements

Communication with Group Management and Those Charged with Governance of the Group

~~53~~

NOTE: Paragraph moved below to new paragraph 56.

Communication with Group Management

53. 54. If fraud ... (Ref. Para. ~~A120~~ **A119**)

~~54. 55. A component~~ **An** auditor 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 not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref. Para. ~~A124~~ **A120**)

Communication with Those Charged with Governance of the Group

~~55. 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) and other ISAs: (Ref: Para. ~~A122~~ **A121**)

(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~~ **A122**)

~~(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.~~

...

Communication of Deficiencies in Internal Control with Those Charged with Governance of the Group

~~56. 53. In applying ISA 265,~~ ²³ ~~t~~ The group engagement team shall determine whether any which identified deficiencies in the group's system of internal control, including with respect to those communicated by component auditors in accordance with paragraph 44 (e), are required to be communicated to those charged with governance of the group and group management ~~in accordance with ISA 265. In making this determination, the group engagement team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors.~~ (Ref: Para. ~~A119~~ **A122A-A123**)

Application and Other Explanatory Material

Communication with Group Management and Those Charged with Governance of the Group

*Communication with Group Management (Ref: Para. ~~54-55~~ **53-54**)*

~~A119. A120.~~ ISA 240 ...

~~A120. A124.~~ Group management ...

*Communication with Those Charged with Governance of the Group (Ref: Para. ~~56~~ **55**)*

~~A121. A122.~~ The matters ...

A122. ~~A123.~~ ISA 260 ...

Communication of Deficiencies in Internal Control with Those Charged with Governance of the Group (Ref: Para. 56)

A122A. The group engagement team may request the component auditor to make a preliminary determination as to whether an identified deficiency or combination of deficiencies is a significant deficiency in internal control at the component. Depending on the facts and circumstances, the component auditor may have the relevant information to make such a determination. The group engagement team is ultimately responsible for determining, on the basis of the work performed, whether, individually or in combination, deficiencies in internal control constitute significant deficiencies for purposes of the group audit.

Group Engagement Partner's Review of Component Auditor Communications (Ref: Para. ~~53~~56)

A123. ~~A119.~~ The group ...

Automated tools or techniques (paragraph A45):

DTTL agrees that when the group engagement team requires the use of specific automated tools and techniques when performing audit procedures, that the use of such automated tools and techniques need to be in accordance with the group engagement team's instructions. DTTL recommends that this guidance be further enhanced to address the component auditor's evaluation of the audit tool to ensure compliance with the quality and audit control objectives. DTTL suggests the following wording edits to paragraph A45 of ED-600:

A45. As described in proposed ISA 220 (Revised), when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group engagement team requires component auditors to use specific automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team's instructions, **including instructions to evaluate the audit tool to ensure compliance with the audit tool's quality objectives.**

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained (paragraph A115)

The proposed standard is focused on special considerations related to a group audit; it is therefore unclear what different or unique action is intended to be performed by the group engagement team as it relates to paragraph 18 of ISA 330 with respect to the group financial statements. In addition, the paragraphs in ISA 330 related to evaluating the sufficiency and appropriateness of audit evidence obtained (i.e., paragraphs 25-27 of ISA 330) do not incorporate the concepts discussed in paragraph 18 of ISA 330; therefore, it is unclear as to the relevancy when evaluating the sufficiency and appropriateness of audit evidence obtained in a group audit. As a result, DTTL recommends deleting the sentence from paragraph A115 of ED-600.

A115. The evaluation required by paragraph 49 assists the group engagement team in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements

continues to be appropriate, or may need to be revised in order to reduce audit risk to an acceptably low level. ~~The requirement in ISA 330 for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.~~

Other Application Material Paragraphs

Paragraph A26

DTTL believes that the reference to “components” in the third bullet should likely be to “entities or business units” as regulators would be communicating with the group as organized and viewed by group management.

A26. ...

- Communications between regulatory authorities and **entities or business units** ~~components~~ related to financial reporting matters should be communicated to the group engagement team; and ...

Paragraph A28

The listing in the application material doesn't align with the flow of the examples in the bulleted items in paragraph A29 of ED-600. This should be amended for consistency as follows:

A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by ~~component management~~, laws or regulations, **virtue of the group having a non-controlling interest in an entity that is accounted for by the equity method, component management**, or other conditions, for example, war, civil unrest or outbreaks of disease.

Paragraph A40

The use of “group audit strategy” and “group audit plan” should be used consistently throughout the proposed standard.

A40. The determination whether sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team may be more challenging in a group audit engagement. This may be because audit work is conducted across different locations with different characteristics (e.g., different languages, time zones or cultures) where collaboration **with component auditors** is more challenging. Also, working with component auditors that are not from the same firm may be different than working with individuals from the same firm, particularly when component auditors have different systems of quality management. These differences may pose challenges in the coordination of the overall **group** audit strategy and **group** audit plan between the group engagement team and component auditors. Adequate and timely involvement by the group engagement partner and group engagement team may address these challenges.

Paragraph A56

DTTL recommends that the third bullet in paragraph A56 of ED-600 related to the structure and complexity of the group's IT environment be enhanced to include a focus on the integrity of processing.

A56....

- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For

example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. **Further, an understanding of change management controls, automated application controls and interface controls may be obtained to understand the integrity of a complex IT environment.** A group may also use one or more external service providers for aspects of its IT environment.

Paragraph A62

DTTL believes the following changes in terminology are appropriate as it relates to IT applications:

A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT ~~infrastructures~~ **applications** or the implementation of the IT application differs across entities or business units, the group engagement team may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT ~~infrastructures~~ **applications** (e.g., whether the IT application is configured in the same manner across ~~different IT infrastructures~~ **components**, and whether there are effective general IT controls across different IT ~~infrastructures~~ **applications** ~~implementations of IT applications or different IT infrastructures~~).

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.
 - (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) DTTL has not presently identified any translation issues.
 - (b) See comments in the cover letter.