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**Exposure Draft: *Proposed International Standard on Auditing 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)***

Dear Mr. Botha

Ernst & Young Global Limited, the coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, *Proposed ISA 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600), issued by the International Auditing and Assurance Standards Board (IAASB).

We support the revision to this important International Standard on Auditing, because we believe practice, technology and groups have significantly evolved. Extant ISA 600 is in need of revision to remain fit for purpose, less rigid and enable enhancements to audit quality of group audits. We agree with the new structure of ED-600, which has better and enhanced linkages to key foundational standards such as ISQM 1, proposed ISA 220 (Revised) and ISA 315 (Revised 2019).

Overall the IAASB has kept ED-600 principles-based, recognizing that groups often operate with centralized activities under common control, which we agree with. We particularly support the updated definition of component, which modernizes the standard and will allow for more flexibility in how audits are structured.

We believe that the principles of ED-600 are moving in the right direction but that there are issues that need to be addressed for ED-600 to support the appropriate exercise of professional skepticism and consistency in application. Our primary concerns relate to the practicalities and feasibility of the risk-based approach as proposed. We do not believe ED-600 is currently operational for all groups, particularly larger groups. Our concerns are derived from our field testing activities.

We do have certain overall comments in respect of ED-600, which are set out below. Our responses to the overall and specific questions on which the IAASB is seeking feedback follow and include further clarifying details in respect of our overall comments, when applicable. We have also included a number of drafting and editorial suggestions for the IAASB's consideration in the Appendix of this letter.

## Overall comments

### *Risk-based approach, including scalability*

We support a more flexible risk-based approach to scoping a group audit and are supportive of the proposals to require additional focus on the group engagement team's considerations when understanding the group and its environment as well as when identifying the applicable risks of material misstatements of the group financial statements. We do however have significant concerns with the proposed approach in ED-600 and in particular for larger size and more complex groups. As currently drafted, ED-600 could lead to many different interpretations of the standard, it does not currently offer a strong framework for identifying components and allocating work that would allow auditors to apply the standard consistently and it is lacking practical solutions and examples on how the new requirements are to be implemented in different scenarios. Our response to Question 8 includes specific suggestions for a framework for determining components, involving component auditors, and determining the allocation of work to component auditors.

While we fully support an approach where the group engagement team is ultimately responsible for the group audit and has overall responsibility for the planning and execution of the group audit, we believe ED-600 does not provide a balanced perspective on the important role of component auditors. It is necessary for the group engagement team to leverage the knowledge and expertise from component auditors related to local laws and regulations, the control environment and internal control at the component, and any other risks that cannot be effectively addressed at the group level. In particular, we believe that component auditors are critical to identifying and addressing risks of fraud at the component level. Refer to our responses to Questions 3 and 8 for further details regarding our concerns, and potential unintended consequences, of ED-600 underplaying the role of component auditors.

### *Documentation of involvement in the component auditor's work*

While we do agree with a principles-based approach to documentation, we believe it is important that ED-600 gives auditors a clear framework on the level of documentation needed to evidence the nature, timing and extent of the group engagement team's direction and supervision of the component auditors and the review of their work. This is an area that presents significant challenges in practice and that is commonly challenged during regulatory inspections. Refer to our response to Question 11(b) for further details.

### *Equity investees*

We believe that practical guidance on how to apply ED-600 to equity investees is lacking, including related to matters such as the scope of ED-600, the definition of component, procedures performed, and component materiality. We do anticipate that this will continue to be an area of challenge in practice. Refer to our response to Question 12 for more detail.

### ***Liaising with other projects and standard-setters***

We recommend that the IAASB continues to liaise with various task forces working on other standards setting organizations and IAASB projects.

- ▶ We note that the guidance related to identifying and addressing fraud risks in group audits is quite limited. We therefore recommend that as part of the IAASB initiative that deals with the role of the auditor in relation to fraud, the IAASB focus on expanding special considerations for group audits. Similarly, we ask the IAASB to specifically consider going concern in the group audit context through the IAASB's initiative on the role of the auditor in relation to going concern.
- ▶ The IAASB should continue its coordination efforts with the representatives and Staff of the International Ethics Standards Board for Accountants (IESBA) to develop the relevant ethical requirements and international Independence Standards applicable to the component auditors participating in the group audit, as the International Code of Ethics for Professional Accountants (including International Independence Standards) does not currently address component auditors (except for NOCLAR).
- ▶ The Public Company Accounting Oversight Board (PCAOB) has an open project on proposed amendments relating to the supervision of audits involving other auditors and proposed auditing standard – Dividing Responsibility for the Audit with Another Accounting Firm (collectively, the Proposal). We believe it is important the IAASB monitors the direction of the PCAOB proposal given the impact the PCAOB proposal and diverging views could have globally on group audits.

### ***Effective date and the relationship to other foundational standards***

We have an overarching concern due to the earlier effective dates of the revised key foundational standards dates (i.e., ISA 315 (Revised 2019), the proposed ISA 220 (Revised) and the ISQM standards) than that of ED-600. Although we support staggered effective dates as noted in our response to Question 13 (b)), we believe that there is a risk of gaps and inconsistencies in the implementation of the revised foundational standards to group audits under extant ISA 600. We therefore recommend that the IAASB carefully considers the potential implications of the transition periods for group audits and provides implementation guidance as to the differences in application expected for those foundational standards in context of extant ISA 600 v. ED-600.

In light of the implementation timing of and efforts needed for the other foundational standards that the IAASB has recently revised, we believe that an effective date for ED-600 for audits of periods beginning on or after December 2023 (i.e., approximately 24 months after expected approval) will be necessary. See Question 13 (b) for more detail.

Our responses to the overall questions on which the IAASB is seeking feedback are set out below.

**Q1. 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?**

ED-600 generally has appropriate linkages with other standards, adequately addresses special considerations and focuses on incremental requirements that apply in a group audit environment.

We have the following specific suggestions and comments to further enhance the linkages with other standards:

- ▶ The term “engagement team” as defined in proposed ISA 220 (Revised) includes component auditors, which is an important linkage to how proposed ISA 220 (Revised) is intended to be applied to group audits (i.e., all requirements for the engagement team extend to component auditors). However, this linkage of “engagement team” to “group engagement team” and “component auditors” is not explained until paragraph A13 of ED-600. We recommend highlighting this linkage more visibly up front in the standard, perhaps in the Scope of this ISA section paragraph 3 along with a footnote that links to the definition in proposed ISA 220 (Revised). It would be useful to specifically explain that ED-600 provides special considerations on the application of the proposed ISA 220 (Revised) requirements by the group engagement partner, group engagement team and component auditors.
- ▶ Linkages to ISQM 1 could be enhanced by:
  - Further explaining in ED-600 paragraph A2 that the firm, as part of its system of quality management may set policies or procedures to address group engagement team responsibilities, including related to the involvement of component auditors.
  - Indicating in the introductory sentence of ED-600 paragraph A20 that the network requirements and network services concepts referred to in this paragraph are described in ISQM 1.
- ▶ Linkages to ISA 315 (Revised 2019) could be enhanced by:
  - Providing guidance on the linkage between significant classes of transactions, account balances and disclosures at the group level and the work performed at the components. ED-600 appears to be silent on this new concept introduced in ISA 315 (Revised 2019) and we believe that guidance is needed particularly on whether identifying risks of material misstatement by component auditors based on assigned component

performance materiality results in the identification of significant classes of transactions, account balances and disclosures at the component level. Refer to our response to Question 8 for further comments.

- Providing guidance on how material account balances and disclosures in the group financial statements that have not been determined to be significant accounts and disclosures may be addressed in group audits in accordance with ISA 330.18. An example of the use of automated tools and techniques may be particularly relevant.
  - Acknowledging in the application material that addresses understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control that some extent of relevant information may have been obtained through the procedures regarding acceptance or continuance of the client relationship or the group audit engagement. Furthermore, it could be explicitly acknowledged that ISA 315 (Revised 2019) requires such information to be considered (ISA 315 (Revised 2019) paragraph 15(a), A38 and A124).
  - Providing application material to ED-600 paragraph 24(c) (iii) that requires an understanding of the consolidation process used by the group. In the context of ISA 315 (Revised 2019), it would be helpful to clarify whether this is viewed to be part of the required understanding of the financial reporting process.
  - Enhancing the application material in ED-600 paragraph A60 that explains when tests of operating effectiveness of identified controls are planned, there is also a requirement to understand the design and implementation of those controls. While this paragraph is appropriately linked to ISA 315 (Revised 2019) paragraph 26(a), ED-600 seems to only refer to tests of the operating effectiveness of controls. ED-600 could also emphasize the other controls for which ISA 315 (Revised 2019) prescribes evaluation of design and implementation, such as controls that address a significant risk and controls over journal entries, including consolidation entries and other adjustments, which could also be common across the group.
- ▶ We note that there are no special considerations included in ED-600 related to the ISA 240 requirements that address the approach in a group audit to identifying, assessing and responding to risks of material misstatement due to fraud, other than a list of potential information sources in paragraph A80. As indicated in our response to Question 8, the relationship of ED-600 with ISA 240 is in need of further clarification.

**Q2. *With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?***

Yes, we support the placement of the requirements that address when component auditors are involved throughout ED-600 for the reasons highlighted by the IAASB in Section 2-C of the Explanatory Memorandum. Inclusion of these requirements aligns with the iterative nature of a group audit and emphasizes the two-way communication as relevant in the circumstances. However, we have an overall concern about the implication by the structure and wording of certain requirements

that the involvement of component auditors is a less preferable alternative to the group engagement team performing work centrally. See our response to Question 8(a) for further comments.

Despite our support of the placement of the requirements, we do not support the fact that a substantial amount of guidance about the involvement of component auditors has been relegated to Appendix 1. This furthers our impression that the use of component auditors is not preferred over the group engagement team performing work centrally (refer to Questions 3 and 8). Also, the division and relationship between the guidance in the application material regarding involvement of component auditors and Appendix 1 is not clear and in some cases appears redundant.

ED-600 Appendix 1 has useful guidance about the involvement of component auditors, explaining for example that involving component auditors often increases quality as the component auditor is more attuned to the local risks and work practice (Appendix 1, paragraph 7). We recommend that the guidance in Appendix 1 be brought into the application material directly as it would remove areas of duplication with the application material and, more importantly, it would help support ED-600 providing a more balanced view of the role of the component auditor in a group audit.

**Q3. 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?**

We have an overall concern that the top-down approach to risk assessment and response in ED-600, coupled with the enhanced group engagement partner responsibilities stemming from proposed ISA 220 (Revised), could have unintended consequences for the exercise of professional judgment and professional skepticism by both the group engagement team and component auditors. Specifically:

- ▶ We note that greater emphasis is placed on the group engagement partner's responsibilities in ED-600 consistent with the enhanced engagement partner responsibilities in proposed ISA 220 (Revised). In addition, responsibilities for the group engagement team have been strengthened. We strongly agree that all team members are accountable for the quality of their audit work. We are concerned that this shift in ED-600 to a heavily focused top-down approach to the group audit could be perceived as diminishing the responsibilities of component auditors for their work as compared to extant ISA 600. We are very concerned with any risk that component auditors will perceive they have a reduced responsibility for the exercise of professional judgment and professional skepticism because of the enhanced responsibilities of the group engagement partner and team.
- ▶ Another potential unintended consequence of the heavily focused top-down approach could be that audit work (risk assessment or response) is performed centrally when it would have been more appropriate to involve component auditors. Because component auditors typically have more in-depth knowledge of the local risks, including fraud risks, component auditors may be more informed and therefore better positioned to identify and assess the risks of material misstatements that are arising from the components and hence exercise professional skepticism more effectively. The component auditors may also be better placed in designing the response to these risks. Refer to Question 8(a) and (c) for further considerations specific to the importance of component auditors when addressing fraud risks.

As a recent illustration of the importance of the involvement of component auditors and maintaining their equal focus on quality, we have observed the changes in operations of group engagement teams over the past few months due to the COVID-19 pandemic. Some of our group engagement teams have adopted a more centralized approach to respond to the travel and access restrictions in place. The feedback received from those teams was that, even though a centralized approach was possible on certain areas of the group audit, to be reliable, the design and results of these procedures often had to be corroborated and supplemented by the component auditors' local knowledge (e.g., knowledge on whether any changes in the component's operations, such as its internal control processes; knowledge about relevant changes in the local environment, such as measures taken by government, including tax cuts, furlough schemes or rapid changes in legislation). We believe the balance between a top-down and bottom-up approach is a key factor in driving audit quality in a group audit. Further considerations on this matter are included in our response to Question 8.

**Our responses to the specific questions on which the IAASB is seeking feedback are set out below.**

***Q4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).***

We support the approach to the scope and applicability of ED-600. We however foresee that clarifications are needed in the following areas to avoid diversity in practice:

- ▶ The terms "consolidation process" and "group financial statements" in ED-600, which together comprise the auditor's point of entry to ED-600, are defined differently from certain financial reporting frameworks (e.g., IFRS 10). ED-600 should state more clearly under the Scope of this ISA section that the definitions of group financial statements and consolidation process are for the purposes of the scope and applicability of this ISA and that it is not intended that these definitions align to their equivalents in the applicable financial reporting framework.

In particular, under the revised scope of ED-600, it appears that an audit of an entity with only associates and/or joint ventures and no subsidiaries would be included in scope of ED-600. However, for such an entity, the equity method of accounting would be applicable under IFRS such that the financial statements would not be "consolidated financial statements". Nevertheless, it seems intentional by the IAASB that ED-600 would still apply because the equity method of accounting is included in the scope of the "consolidation process" for the purpose of the ISA. We believe this particular difference should be highlighted within ED-600 to drive consistency in application of ED-600.

- ▶ Paragraph 11 states that "consolidation process" is achieved "by way of (b) The aggregation of the financial information of branches or divisions". Yet, paragraph A17 seems to place a caveat on this definition such that the aggregation of branches or divisions does not fall under the scope of ED-600 when there is not separately prepared financial information for the branches or divisions. Hence, the IAASB should consider whether the meaning of "aggregation" in paragraph 11 should be clarified to include the caveat. Furthermore, paragraph A17 could more clearly

explain that the existence of a shared service center alone does not mean a consolidation process exists (i.e., a shared service center may be used by an entity to assist in its processing of transactions such that the shared service center is therefore part of that single entity's information system).

- ▶ The guidance to explain consolidation procedures in paragraph A18 seems incomplete and could benefit from further development. Alternatively, we believe this paragraph could be deleted.

**Q5. 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?**

No, we do not believe the risk-based approach is scalable to all groups of different sizes and complexities. Concerns were raised by the majority of the teams participating in our field testing activities that the approach to risk assessment and response in paragraphs 31-39 of ED-600 is not scalable upwards (i.e., that ED-600 would be particularly challenging for larger groups with many components, or complex structures with disaggregated operations in multiple jurisdictions). Please refer to our response to Question 8 for further details on the scalability of the risk-based approach and results from our field testing activities.

Other areas of ED-600 remain principles-based and seem to adequately address scalability to allow the standard to be applied to a wide range of group sizes, complexities and circumstances.

**Q6. Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?**

Yes, we strongly support the revised definition of a component. We believe this will support enhancing quality in group audits by giving the group engagement team more flexibility to appropriately plan and perform the group audit and by driving a better focus on alignment of the group audit scope to the risks of material misstatement. Further, although the IAASB refers to this scoping as the "auditor view", we strongly believe that this flexibility also allows the auditor to structure the audit more closely to the way in which management operates its business. This is because operating structures of today are evolving and can be very different from legal entity structures. There is an expectation from group management of large and complex groups that our group audits also evolve to be aligned to their way of operating rather than mirroring the audit to legal entities or consolidation structure.

We have the following specific observations in relation to the revised definition of a component:

- ▶ **Aggregation of locations, functions or activities** - We support this change in the definition of a component (i.e., allowing the combination of location, function or activity), but we do not believe the consequences of such aggregation are sufficiently addressed in the guidance. Specifically, we believe guidance is needed on the effect of aggregation on the determination of component management, on component materiality, and in terms of selecting samples from a combined population that includes financial information from an auditor-defined aggregated component.

- ▶ **Disaggregation of locations, functions or activities** - ED-600 focuses on the combination of locations, functions or activities (see Paragraphs A5, A12 and A15) in defining components. ED-600 should also recognize that the consideration of locations, functions or activities for components may also result in defining components at a level that is disaggregated from the group entity's legal structure. Effectively, a component could be a segment of an entity or business unit or may be a function or activity that may operate across business units or across jurisdictions.
- ▶ **Examples** - The revised definition would benefit from examples issued as implementation guidance to further assist auditors in understanding this change in the definition. These examples would help illustrate how this new definition could apply for different group audits of various structures and size.
- ▶ As expressed in our response to Question 12, we believe that when the auditor's view of components differs from "group management's view", the auditor's required communication with those charged with governance in paragraph 56 (a) should include a discussion about the auditor's view of components, including who the auditor views as "component management".

**Q7. *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?***

The nature and extent of requirements that appear under the bold heading of "acceptance and continuance" is confusing as it includes requirements of a nature that are not included as part of acceptance and continuance procedures in proposed ISA 220 (Revised). Specifically, the requirements that address relevant ethical requirements, engagement resources and engagement performance should not be included within acceptance and continuance. The table of contents and heading structure of ED-600 should be revised accordingly.

In addition, because paragraph 13 requires only a preliminary determination about whether to involve component auditors, we challenge whether the requirements within the "considerations when component auditors are involved" section (paragraphs 18-19) are properly placed. The paragraph 18 requirement is noted to be included in the execution of paragraph 13 of proposed ISA 220 (Revised), which is about leadership responsibilities for managing and achieving quality on audits (i.e., not a requirement for acceptance and continuance in proposed ISA 220 (Revised)).

With respect to the requirements and application material that are relevant for acceptance and continuance, we have the following comments:

- ▶ We believe the paragraph 13 requirement to obtain an understanding of the group "that is sufficient to identify components ..." is a far greater work effort than necessary or appropriate for acceptance and continuance decisions. The determination of components is greatly driven by the understanding of the group and its system of internal control in accordance with the requirements of ISA 315 (Revised 2019) - particularly, the determination of whether any aggregation or disaggregation of locations, functions, or activities is appropriate, which may require, for

example, an understanding of flows of transactions or further details about the structure of the IT environment. We recommend that the required understanding be amended to be “sufficient for a *preliminary* identification of components”.

- ▶ Paragraph A21 could include an understanding of where auditors have been engaged by the client across the group to perform statutory audits. This would assist the group engagement team in identifying component auditors and in planning the group audit.
- ▶ Paragraph A26 includes the term “important communications” in the second item of the bulleted list. This is not a defined term and would therefore benefit from further guidance on the criteria the component auditor is expected to use to make this determination. In the third item of the bulleted list, “Communications between regulatory authorities and components related to financial reporting matters...” would benefit by being narrowed. We suggest: “Communications between regulatory authorities and components related to financial reporting matters **that may be relevant to the group audit** should be communicated to the group engagement team”.
- ▶ Other examples of how the group engagement team may be able to access relevant documentation that would be useful to include in paragraph A29 are:
  - Attending calls or video conferences throughout the audit for key component auditor meetings, including meetings involving component management
  - Setting regular touchpoint calls with the component auditors, on a timely basis, as required by the circumstances
- ▶ Also, in relation to paragraph A29:
  - The bullet starting “When the group has a non-controlling interest in an entity that is accounted for by the equity method, the group engagement team may be able to overcome restrictions by...”, the extent of the work suggested to be performed by the group engagement team when the group engagement team is unable to obtain the equity investee’s financial information is unclear. Because this is a challenging area in practice, implementation guidance would be very useful to further assist in determining when the example actions provided within this guidance would be sufficient and how the risk-based approach would apply in this context.
  - We also ask the IAASB to consider the appropriateness of the example in the sentence starting “Considering other sources of information...” because members on the executive board of a non-controlled entity may be bound by confidentiality or insider trading laws that would prohibit disclosing information to external parties. See our response to Question 10 for additional comments on equity investees.
  - The guidance in the bullet starting with “When war, civil unrest,...” is focused on physical meetings, which may not be an option in many circumstances and therefore we suggest this is updated to also consider virtual meetings.

With respect to other requirements and application material currently misplaced within the acceptance and continuance section of ED-600, we have the following comments in addition to the overall comment to re-position these paragraphs in a manner that is aligned with the structure of proposed ISA 220 (Revised):

### Considerations when component auditors are involved

- ▶ In paragraph A34, we suggest rephrasing “understanding of whether the group engagement team will have unrestricted access to the component auditor” to “understanding of whether the component auditor is subject to any restrictions that limit communication with the group engagement team, including with regard to sharing audit documentation with the group engagement team”.

### Relevant ethical requirements, including those related to independence

- ▶ The application material in paragraph A39 seems to focus on the appropriateness of audit fees, which is more a risk to quality rather than a matter that directly relevant to independence. As drafted, it is misleading as it implies that the IESBA Code primarily addresses fees and other remuneration arrangements. We suggest that the last sentence of paragraph A39 is updated to not focus on audit fees but rather focus on the IESBA Code requirements more holistically.

### Engagement resources

#### *Results from the monitoring and remediation process*

- ▶ We believe that paragraph 21(b) sets unrealistic expectations regarding the availability of information about the results of the monitoring and remediation process of a component auditor’s firm, as well as about the extent of usefulness of any such information to the evaluation of the competence and capabilities of the individuals assigned to the engagement team. We also believe the extent of effort to obtain this information is unclear and could be subject to different interpretations in practice. To be capable of consistent implementation, we believe that it is necessary to update this requirement to refer to publicly available information, as this is likely to be the only source of information for non-network component auditors. For component auditors from firms within the auditor’s network, the information that is required by ISQM 1 to be distributed by the network is “the overall results of the network’s monitoring activities across the network firms”. This information may not include specific information/deficiencies for any network firm (unless that information is also publicly available).

At a minimum, we suggest the following edits “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 **is publicly available**, determine the relevance of such information to the group audit and determine its effect on the group audit”.

- ▶ Consistent with our concerns about paragraph 21(b), we also believe that the phrase “or from the component auditor” should be removed from paragraph A46. Further, we do not believe that the information that is available to the group engagement team about a component auditor’s firm *always* influences the nature, timing and extent of the engagement partner’s direction and supervision of the component auditor because such information is not specific to the engagement. We suggest that “*always*” be edited to “**may influence**”.

*Competence and capabilities of the component auditors*

- ▶ In paragraph A43, we do not understand the following examples in the application material and ask the IAASB for clarification:
  - “Discussing the component auditor’s competency and capabilities with colleagues in the group engagement partner’s firm.” Is this intended to be colleagues that have worked directly with the members of the component auditor’s team?
  - “Obtaining confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.” Is this at the firm level or at an individual level? Many jurisdictions have restrictions in place on information that can be made available about individuals due to data privacy laws and regulation.
- ▶ We ask the IAASB to consider revising the language used in paragraph 22. As written, this paragraph is inconsistent with the IESBA Code with regard to breaches. The wording of “if a component auditor does not meet the independence requirements” suggests that when a breach is identified, regardless of the breach and whether the component auditor is within a network firm or not, the component auditor will not be allowed to be involved in the group audit work. This goes beyond the IESBA Code provisions on breaches to evaluate the significance of the breach and possible actions to be taken to address the consequences of the breach.
- ▶ In the last item of the bulleted list in paragraph A51, the focus in this example is on in-person visits. We suggest that this example instead emphasizes more discussions and communications with the component auditor about the work performed (which do not necessarily need to be in-person meetings and are often performed virtually).

**Q8. *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) *SEE BELOW***
- (c) *What practical challenges may arise in implementing the risk-based approach?***

As commented in our response to the IAASB Invitation to Comment on Group Audits, we are supportive of a risk-based approach to planning and performing group audits focused on the risks of material misstatement of the group financial statements. We believe that under such an approach the auditor will be able to better demonstrate how the group audit is responsive to the risks of material misstatement identified in the group financial statements, which will in turn better facilitate and support the auditor’s conclusion that sufficient appropriate audit evidence has been obtained. We

therefore believe it would result in improving the quality in group audits by the engagement team spending time and effort where it matters the most. However, we do not think the current draft of the risk-based approach in ED-600 will be successful in achieving the desired outcome of enhancing quality in group audits because of many practical challenges we see in its implementation.

Our views are informed by our field testing activities that focused on ED-600 paragraphs 31 to 39. Feedback was collected from a wide range of population around the world, from teams auditing medium to very large groups; approximately 20 audit teams that represented 12 Regions or countries were involved.

Significant concerns and questions have been raised through our field testing activities, which are explained in detail by themes below. We therefore think it is critical that the IAASB responds to these points in its revisions to ED-600, so that the risk-based approach can be scalable - particularly up - and operationalizable for all groups.

We recommend the IAASB particularly take into account that component auditors may be from a different firm, or network, from the group engagement team and therefore not subject to the same interpretative guidance issued by the group engagement team's firm. It is therefore important that ED-600 provides a foundation for consistent operation across all firms.

***Our main observations and recommendations are as follows:***

We support the overall premise that the group engagement team takes responsibility for the risk assessment procedures and work performed to support the group audit opinion. We also strongly believe and agree with the IAASB that sufficient and appropriate involvement of the group engagement team in the work of the component auditors is critical. As indicated in Question 2, we agree and, for the most part, support the enhanced considerations when component auditors are involved. Informed by our field testing activities, we are challenging what appears to be a presumption in ED-600 that the group engagement team should directly perform or take over much of what component teams are doing today in operationalizing the scope options in extant ISA 600.

The strong focus on the group engagement team responsibility and a top-down approach to the group audit is negatively affecting perceptions about the important role of the component auditor and the scalability of the standard. It was observed during our field testing activities that the requirements appear to be more capable of application to non-complex group structures, groups with centralized operations, or smaller-size groups with no, or limited to few, cross-border locations.

More work being performed centrally by the group engagement team may be desirable for the reasons noted in ED-600 and explanatory material; however, ED-600 does not sufficiently recognize and promote the fact that, for groups that are complex and large, high levels of involvement by component auditors are of critical importance to audit quality. In particular, significant challenges were highlighted in applying the risk-based approach for groups where there is not a high degree of centralization or a sufficient degree of homogeneity across business lines. Overall, the feedback was that the new approach could lead to:

- ▶ Under-auditing certain areas due to the group engagement team potentially not identifying risks of material misstatement to the group that are less obvious or specific to individual components and that would only be identified by adequate involvement of the component auditors.
- ▶ A wide diversity in practices across teams and firms due to highly iterative nature of the requirements and significantly reduced structure in the approach to determining components and scoping the work; both of which will result in the need for a significantly increased extent of interpretative guidance for teams to be capable of implementing the proposed risk-based approach at an appropriate level of consistency.

Despite our concerns about ED-600 underplaying the importance of the involvement of component auditors, we agree that where homogeneity exists in the group, and due to advances in groups' IT infrastructure and operations coupled with advances in technology used by auditors, including for data capture, there are greater opportunities to perform work centrally (in relation to this comment, we also refer to Question 12 *Automated tools and techniques*). We support the removal of the rigid scoping options in extant ISA 600 to accommodate increasing flexibility for the auditor to apply centralized procedures and to further tailor the audit approach when commonality of controls exists.

In summary, we strongly agree it is appropriate for the group engagement team to be ultimately responsible for the group audit opinion. Only the group engagement team can have an overall perspective on the consolidated financial statements resulting from a combination of information, including the discussions with group and component management, the understanding of the group, and information about the components resulting from interactions with the component auditors. What is critical however is a flexible approach to the involvement of component auditors, and allocation of work, which results in a cooperative effort to the audit focused on the appropriate risks with sufficient involvement of the group engagement team in the component auditors' work. Although the approach needs to be flexible, it also needs to be capable of consistency in application. We do not believe that ED-600 includes an approach that meets these objectives.

Our recommendations for enhancements to address our concerns include:

- ▶ Balancing the current top-heavy approach to risk assessment with a bottom-up approach that explicitly recognizes the important role of the component auditor
- ▶ Providing a framework for determining components, involving component auditors and determining the allocation of risk assessment procedures to component auditors
- ▶ Providing a framework for the approach to responding to the assessed risks, including the scope of work assigned to components and factoring in the concepts of centralized activities and commonality of controls

### **Balance the top-down approach with a bottom-up approach to recognize the important role of the component auditor**

As indicated in Question 3, the current structure of ED-600 places increased focus on the group engagement team's ultimate responsibility to perform procedures centrally and what seems to be only an alternative, allows for the involvement of component auditors (see ED-600 paragraph A87 for a

clear example). Although ED-600 acknowledges that the involvement of component auditors is often needed, this is portrayed in ED-600 as a less desirable approach compared to the group engagement team performing procedures centrally. We are very supportive of performing work centrally (refer to Question 9); however, this can only be done under certain circumstances and where appropriate and is not always a possible option. Many groups have business units and entities operating in different industries and geographical locations with different risks of material misstatement (e.g., differences in local risks, laws and regulations, work practices, accounts, processes or reporting requirements) for which the group engagement team will not have an in-depth understanding and cannot practically acquire such understanding at the desired level of detail as the number of components in the group increases.

The key to the ability for the group engagement team to take a risk-based approach is in the effective performance of identifying and assessing risks of material misstatement to the group financial statements. We do not believe the ED-600 approach to risk assessment is effective because it does not set a clear expectation that for a majority of groups (particularly those that are large and complex) risk assessment procedures at the component level, with the involvement of component auditors, are likely a necessity for audit quality. And, involvement of component auditors in responding to the assessed risks is also likely a necessity. However, the nature and extent of involvement will of course vary across groups and components.

Although possible for some groups, it is unlikely for most groups that the group engagement team will have the required in-depth understanding of the business and risks relevant to the components, even on recurring audits. Although the group may have a very good understanding, the differences in culture, people, environment and other circumstances related to the component are an important lens to risk assessment. In practice, we often see an approach where the understanding of the group entity and its environment, including the control environment, is initially performed centrally but also supplemented (sometimes extensively) at the component level to incorporate the knowledge of the component auditors. Similarly, when centralized procedures are performed, validation of results can often occur with component auditors.

As indicated in Question 4, we see a significant unintended consequence to downplaying the role of the component auditor and the value of their knowledge, which is a risk to the appropriate exercise of professional judgment and professional skepticism by both the group engagement team and component auditors. There is also the risk of inappropriate or incomplete risk assessment and response, which of course may lead to issues in obtaining sufficient appropriate audit evidence.

Related, we disagree with the wording used in paragraphs 25 and 32 that the group engagement team only needs to "*consider*" the results of risk assessment procedures performed by the component auditors. This is one of the requirements where we believe the role of component auditors is discounted. We believe there should be a clear decision by the group engagement team as to when component auditors are involved in risk assessment and that, based on that decision, their work should be evaluated and taken into account in the risk assessment to the group financial statements. Paragraph A96 is positive in recognizing that component auditors may have more in-depth knowledge, but this paragraph is only positioned in context of designing and performing further audit procedures, and not risk assessment. At a minimum, we propose editing the requirement as follow "*the group engagement team shall evaluate the results*".

To enhance scalability, ED-600 could include additional application guidance in relation to paragraph 32, to indicate that the group engagement team may assign risk assessment procedures to component auditors managing sub-groups of components that have common characteristics. This would be a step forward to operationalize the requirements, particularly for large or more complex groups.

#### *Group audit considerations for identifying and responding to fraud risks*

The guidance in paragraph A80 related to fraud is quite limited as it only addresses a list of possible information sources for the group engagement team to execute the requirements of ISA 240. Consistent with our view that component auditor involvement is important to understanding the component and the control environment, we expect the same principles apply for identifying fraud risk factors and related risks of fraud, in addition to designing responses. Incentives, opportunities and pressures at the component level may differ and may not be easily visible to the group engagement team.

We also suggest ED-600 include guidance regarding the extent of the procedures to be performed on fraud across the group and the impact thereon on the group audit scope. It is also unclear how the auditor should apply required procedures in a group audit, such as management inquiries, as well as procedures in relation to management override, including in context of the required procedures on the consolidation process.

#### ***Framework for determining components and approach to risk assessment***

We understand the iterative and dynamic nature of the risk-based approach; however, to be operational, there must be a starting point coupled with enough guidance to drive consistency in the process for determination of components and the approach to risk assessment.

The current draft implies that components would be identified at the acceptance and continuance stage, which we do not believe is a practical expectation as expressed in our response to Question 4. The risk-based approach in ED-600 does not set a clear expectation for the approach to determining components or the performance of risk assessment procedures at the component level. In extant 600, the concept of significant components and the related required risk assessment requirements provide a clear starting point. Although we understand and agree with removing the concept of significant component, we believe that there is a gap to be filled for the purposes of the group engagement team's determination of components, which will also affect the approach to risk assessment.

Despite our agreement with removing the concept of "significant component", we believe that a concept of significance remains relevant and would help to more practically operationalize the risk-based approach. Beyond significance, the considerations and elements in A56 through A65 also are relevant to the determination of components and the approach to involving component auditors in risk assessment, but this guidance is not placed in that context.

A clear starting point, as well as further qualitative considerations about the nature and circumstances of the components, would be the key elements of a framework for determining group audit structure and a risk assessment approach. A framework is needed to sufficiently develop the

preliminary group audit scoping expectations and to commence identification and involvement of component auditors.

Without a framework, there is a risk of an overly iterative process of identification and assessment of risks of material misstatement. This risk is due to the focus on the group engagement team performing risk assessment in what is perceived to be a central and isolated manner, which will inevitably need iterative refinements with involvement of component auditors. Performing risk assessment in this manner presents a logistical challenge to securing component auditors, including scheduling their involvement at the right points in time. This approach also has a risk of an imperfect, and likely inefficient, risk assessment. It was observed in our field testing activities that this approach would be particularly challenging on initial audits.

The framework also needs to address the level at which risk assessment procedures are performed. In particular, the following matters need to be addressed in order for the outcome of the risk assessment to be a clear foundation from which to design and perform further audit procedures:

- ▶ Although the requirement to identify and assess risks of material misstatement to the group financial statements in paragraph 32 is clear, how component performance materiality is applied in risk assessment is unclear. The revised definition of component performance materiality indicates it is applicable in planning and performing “audit procedures”, which presumably includes risk assessment procedures.
- ▶ Related, it is unclear how the concept of significant classes of transactions, account balances and disclosures, introduced in ISA 315 (Revised 2019), is implemented in group audits. Presumably, the risks of material misstatement in the group financial statements define the significant classes of transactions, account balances and disclosures at the group level. It is unclear whether significant classes of transactions, account balances and disclosures also are determined at the component level based on the risk assessment procedures performed by component auditors, assuming their use of component performance materiality.

### ***Framework for responding to the risks of material misstatement***

We support the change in ED-600 to move from a prescriptive approach to scoping the audit to a principles-based approach that allows for flexibility to tailor the approach to responding to the risks. However, consistent with our views on risk assessment, we do not believe that the guidance is sufficient to drive consistency in application.

Paragraphs A85-A90 set forth an approach that appears to drive a focus on performing as much work centrally as is feasible, with a statement that only when there is complexity and diversity in the group, there may be a need to involve component auditors. This is another example of where the role of component auditors is discounted. However, as expressed in our response to Question 9, we strongly support the enhanced guidance on centralized activities and commonality of controls and the fact that these concepts contribute to the ability to perform centralized procedures, so we support the emphasis being given to these concepts in the guidance.

Separately, in paragraphs A96-A101, the scoping options and guidance for the involvement in component auditors is also largely maintained intact from ISA 600 (i.e., audit procedures on the entire financial information of the component; audit procedures on or more classes of transactions,

account balances or disclosures, and specific audit procedures as identified by the group engagement team).

The result of the clear separation of the guidance for procedures performed centrally from the guidance for component scoping options creates a disconnect in understanding how these two approaches work together. To effectively scope a group audit, the group engagement team needs to design a tailored scoping approach that uses an appropriate combination of both of these approaches based on the nature and circumstances of the group and the risks of material misstatement. ED-600 is lacking in a framework or thought process to follow to develop the most effective scoping strategy for the group audit.

In creating a framework for responding to risks of material misstatement to the group, we have the following specific considerations:

- ▶ As noted in the discussion related to the risk assessment framework, clarity is needed in the foundation from which responses are designed - in relation to risks of material misstatement, and significant classes of transactions and account balances, at the group and component levels. The framework for responding to risks of material misstatement should start from this clarified foundation.
- ▶ The component scoping options would benefit from expanded guidance to explain how the performance of centralized procedures, or commonality of controls, may affect the implementation of any option. As a simple example, if there is any extent of centralized procedures that affects a component, that would normally be expected to perform audit procedures on the entire financial information, the scope would need to be adapted to exclude those audit procedures performed centrally to avoid redundancy. Further examples and considerations related to the effect of commonality of controls and centralized activities would be very useful.
- ▶ When there are numerous individual subsidiaries in a group that are not individually financially significant but may be financially significant to the group in the aggregate, there are specific challenges to determining the audit scoping strategy. We ask the IAASB to consider expanding guidance to clarify how a risk of material misstatement relevant to multiple business units or entities across the group may be addressed. Although paragraph A89 discusses this issue, further guidance would be useful for the group engagement team to determine the sufficiency of the procedures performed centrally, or by the component auditors.

In current practice, the assignment of review scope to components under extant ISA 600 typically helped the group engagement team to “top-up” the procedures performed on those components that were not individually significant. It may be difficult to isolate risks of material misstatement for these entities to justify assigning further audit procedures on a specific account balance that represent a small portion of the related group account balance. Guidance on whether substantive analytical procedures may provide sufficient appropriate evidence would also be helpful (also see our response to Question 12 related to *Automated tools and techniques* for further considerations).

- ▶ We note that aggregation risk is currently not explained in the context of the risk-based approach (refer to Question 10), we recommend that the IAASB considers application material to better

explain how aggregation risk may impact the scoping of the group audit, and the work assigned to the components.

- ▶ It would be helpful if Appendix 4 could be expanded to further explain the group engagement team's scoping considerations related to the examples provided in order to adequately respond to related risks of material misstatement.
- ▶ Paragraph 38 requires that when the group engagement team assigns the design and performance of audit procedures to component auditors, the group engagement team evaluates the appropriateness of these further procedures for areas of higher assessed risks of material misstatement, including significant risks. It would be helpful to clarify whether this evaluation is over the design of these further procedures or both the design and performance of these further procedures, including the level of granularity at which this evaluation should occur.
- ▶ As noted in our response to Question 10, we also believe guidance is needed on applying the risk-based approach to equity investees.

***(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?***

In addition to the concerns expressed in our response to parts (a) and (c) to Question 8 that have implications for interactions between the group engagement and component auditors, we have the following observations specific to the requirements and application material that address two-way communication between the group engagement team and component auditors.

*Paragraph 43 - Communications with component auditors*

ED-600 paragraph A108 states: "The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed". This seems to imply that a single memorandum could satisfy the requirement in paragraph 43 for communication to occur *at the appropriate point in time*, which in practice goes against the principle that the group engagement team is involved in the component auditor's work throughout the group audit and likely more communication than a single memorandum will be required.

*Paragraph 44 -Matters communicated by component auditors to group engagement team*

ED-600 paragraph 44 focuses on communications made by the component auditors at the conclusion stage of the audit. We recommend that ED-600 clarify that some communications are expected to be made by the component auditors to the group engagement team on a timely basis during the audit, such as:

- ▶ Information on instances of non-compliance with laws or regulations (paragraph 44 (b))
- ▶ Indicators of possible management bias (paragraph 44 (d))
- ▶ Non-compliance with independence and other ethical requirements

- ▶ Not previously identified or new significant risks of material misstatement, including risks of fraud, identified at the component and the component auditor's response to such risks
- ▶ Access restrictions to people or information imposed by component management
- ▶ Access restrictions to people or information that were not identified during the client acceptance and continuance process and that impacts the component auditor's planned procedures
- ▶ Unusual material events and significant unusual transactions

ED-600 paragraph 44(f) discusses matters that the component auditor communicated or expects to communicate to those charged with governance of the component. It may be helpful to clarify under the *Communication with group management and those charged with governance of the group* section, how these requirements apply for the component auditors.

We strongly support the requirement in paragraph 44(h); the conclusion from the component auditor is an important mechanism that serves as formal acknowledgement of the responsibility of the component auditor for the quality of their work. This mechanism is even more important when working with a component auditor from firms outside of the group engagement team's network. We however wanted to share with the IAASB an important observation from our field testing activities. Several teams questioned whether interoffice conclusions would still exist under ED-600. These teams felt that the iterative nature of the standard and increased responsibilities of the group engagement team made those conclusions from the component auditor less relevant. This serves as another example of the potential unforeseen consequence of ED-600. We do however believe that this concern will be resolved by addressing the recommendations made in our response to Question 8 (a) and (c).

#### *Paragraph 45(b) - Review of component auditor's documentation*

While appropriate in principle, we are concerned that paragraphs 45(b) and A113 of ED-600 leave room for many different interpretations of the extent to which it is necessary for the group engagement team to review parts of the component auditor's audit documentation. This is an area where regulators today have different local interpretations, and the extent of the review expected may largely differ by jurisdiction, or even by group audit. Paragraph A113 would benefit from further enhancement and examples that would assist in facilitating greater consistency in application when determining the nature, timing and extent of the review. It would also help to include factors to consider when making this judgment and narrow the review to ordinarily include areas of higher assessed risks of material misstatement unless specific concerns exist. Finally, A113 (a) refers to the "*identification and assessment of those risks*". Should this also include the evaluation of the design of the further audit procedures?

#### *Paragraph 45(c) - Adequacy of component auditor's communications*

ED-600 paragraph 45(c) states that the group engagement team evaluates whether the communications with component auditors are adequate for the group engagement team's purpose. It would be helpful if this requirement could clarify whether these communications are those in paragraph 44, or more generally, all communications.

**Q9. Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?**

Yes, we do find the new application material on the commonality of controls and centralized activities very helpful. We strongly support the application material in paragraph A63 regarding commonality of controls and the ability to test as a single population.

We are satisfied to see that ED-600 better addresses shared service centers. The revised definition of a component recognizes a shared service center may be determined as a component (even when no financial information is prepared at the shared service center). We also support the enhanced application material throughout ED-600 on centralized activities. This will help align group audits with today's more sophisticated and complex group structures. For example, paragraph A88 explains that several components can be considered as one population, which would be very helpful guidance for a group that has multiple shared service centers that process transactions for a significant class of transaction in an identical manner. It would be helpful if the focus of paragraph A88 was not only placed on the financial information but also recognized the homogeneity in activities and in information processing. Such revisions would better apply to shared service center situations where no financial information is prepared.

When centralized activities exist, including shared service centers, it would also be helpful to clarify the population for substantive testing and how to apply component materiality to test this population.

In situations where management's structure differs from the way the audit is structured it is unclear whether this would impact our ability to test several components as a single population (i.e., can the population be truly recognized as homogeneous?). Further considerations on the factors to consider in making the determination that a single population exists may be helpful (e.g., when IT applications and controls are identical and the components are operating under identical policies and procedures).

**Q10. Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?**

Yes, with some suggested clarifications.

- ▶ Paragraph 29 of ED-600 states that component materiality "*shall be lower than group performance materiality*". We suggest that this is changed to "*Shall not be greater than group performance materiality*". When a group has a component that represents almost 100% of the group, it would seem reasonable to use the group performance materiality to audit this component.
- ▶ ED-600 paragraphs 29 and A75 introduce the term "*disaggregation*". Given this term is not defined and the term "*aggregation*" is used elsewhere in ED-600, the concepts described in application material A75 could be difficult to understand. We agree with this application material and particularly with the concept of relative significance to the group, as the size element may have (and often has) a bearing on the materiality of misstatements to the group financial statements and therefore also a bearing on the risk of material misstatement.

We propose the IAASB considers revising the first bullet of paragraph A75 as follows: “The relative significance of the component to the group may affect aggregation risk (e.g., if a single component represents a large portion of the group, there likely may be less aggregation risk across the remaining components. While this scenario may reduce aggregation risk at the remaining components, this structure may increase the significance of misstatements in the component to the group financial statements when the component represents a large portion of the group).” We believe this wording helps better link the concept of aggregation risk with the scoping decisions made in the revised approach to scoping a group audit.

- ▶ Finally, we support the new definition of aggregation risk; however, while aggregation risk is increased in a group audit, this concept applies to all audits, as indicated in paragraph A11 of ED-600. We suggest the IAASB considers including conforming and consequential amendments to other foundational standards such as ISA 320 (to align the definition of performance materiality and include aggregation risk) and in ISA 450 (to introduce the concept of aggregation risk).

### *Equity investees*

ED-600 does not address performance materiality and threshold for communicating misstatements for equity investees. We suggest the IAASB considers including additional guidance in the application material or clarify how the considerations indicated in paragraphs A73-A77 apply to equity investees. While ED-600 includes the helpful clarification that equity investees are within the scope of the standard, we would welcome further guidance on acceptable audit practice for such investments. In some instances, associates’ financial information can be significantly larger than the group. In practice, when determining performance materiality and threshold for identifying misstatements, we consider the group’s percentage of ownership in the associate to avoid resulting in a component performance materiality that is disproportionately small for the equity investee entity. Also refer to Question 12.

**Q11. 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?**

ED-600 paragraph 57 does not include documentation of the scoping of the group audit. Although we agree with paragraph 57(b), which is the determination of components (under the new definition), the work assigned to those components seems to be missing. We understand that the IAASB has considered this as part of the updates made to ISA 300, *Planning an audit of financial statements*, where the engagement partner is now required to approve the overall strategy and audit plan and that the group audit scoping would fall under this requirement. However, this may not be intuitive to all and given the group audit scoping is specific to ISA 600, this seems to be an important element missing in the documentation requirement paragraph of ED-600.

The expected documentation of the risk assessment procedures could also be clarified. In particular, when the group engagement team involves component auditors, it is unclear what extent of evidence or workpapers the group engagement team needs to retain as evidence of its review when both the group engagement team and the component auditors are involved in identifying risks of material

misstatement in the group financial statements. Also refer to Question 8(b) on the review of the component auditor's documentation.

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

Yes, but further guidance would be useful.

ED-600 paragraph A130 states that "The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file". Similarly paragraph A124 states that "...the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file..." and that whether to include selected workpapers in the group engagement team's audit file is a matter of professional judgment. This is an area in which regulators are increasingly challenging auditors and which is subject to varying interpretations; it would therefore be helpful if the IAASB could provide further direction on this matter.

Paragraph A124 includes significant matters addressed by the component auditor as an example of documentation that may be determined to be kept in the group engagement team's audit file. While this is an example, significant matters cannot become the baseline of what is expected to be kept in the group engagement team's documentation. Assuming cross-border transfer of workpapers is permitted by laws and regulations, transferring all workpapers related to significant matters is not operable or practical, particularly in larger groups. It would be more helpful if the IAASB would add factors to consider by the group engagement team in determining whether any component auditor documentation should be included in the group audit file, such as the more complex areas that are reviewed by the group engagement team that would require more effort to document in a review memorandum, or because documenting the group engagement team's review would simply repeat what has already been documented in the component auditor's workpaper. Additional factors to consider could also be:

- ▶ Related to the engagement risk profile based on acceptance and continuance conclusions
- ▶ Related to concerns over the competency and capabilities of the component team performing the work for a higher risk area of the group audit
- ▶ Responses to specific risks of material misstatement due to fraud

**Q12. Are there any other matters you would like to raise in relation to ED-600?**

Yes, we do have the following other matters we would like to raise:

**Equity investee**

Throughout our responses to the IAASB Questions above, we raised recommendations in regard to equity investees in the context of our answers to the specific questions (see Questions 4, 7, 8 and 10). As a general observation, ED-600 does not sufficiently address situations when a group holds a non-controlling interest in an entity that is accounted for by the equity method. While we welcome the

new guidance in ED-600 that addresses access issues, many practical questions in this context remain unanswered. We believe that a number of requirements and considerations in ED-600 should be tailored to be more specific to equity investee situations. We would particularly welcome further guidance in terms of the nature and extent of the work to be performed on these entities given these are investments in entities that often have audited financial statements. Audited financial statements are however not always available on time for the audited reporting period of the group. It would also be helpful if the IAASB could provide further considerations on how the risk-based approach applies for such investments.

### **Communication with group management and those charged with governance of the group**

- ▶ The wording in ED-600 paragraph 56(a) “An overview of the work to be performed at the entities and business units comprising the group...” seems to be using extant ISA 600 language rather than referring to the risk-based approach.
- ▶ Should paragraph 56(b) state “serious concern” instead of “concern”? This sentence raises the question about whether a relatively minor question or concern would meet the threshold to be communicated. Note that this would also align with paragraph 22, which states “serious concerns”.
- ▶ Due to the revised definition of component, when the auditor’s view of components differs from management’s view, the group engagement team should communicate its determination of components with the rationale for why there is a difference in view. This communication will assist in clarifying communications are made to, and written representations are obtained from, the appropriate members of component management.
- ▶ Also refer to our response to Question 8(b).

### **Statutory audits and shared service centers**

We note that there is currently no guidance addressing situations where the component auditor, for its local statutory audit, relies on the work performed centrally, for example work performed by the shared service center team, or the group engagement team. We understand that in this scenario, proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330 would apply; however, we suggest this is made clearer in the context of ED-600 (i.e., stating that ED-600 does not address these situations). Finally, while proposed ISA 220 (Revised) addresses a number of matters, such as the supervision and review of the members of the engagement team, it does not necessarily focus on specific guidance on the nature and extent of the supervision and review that applies when a shared service center is in place, such as over the performance and documentation of the further substantive audit procedures.

We also encourage the IAASB to continue to coordinate efforts with national standard setters to help develop a more streamlined approach to audits and audit documentation when entities that issue statutory accounts also rely on work performed centrally (e.g., when the group has centralized activities such as shared service centers).

## Letterbox audits

Letterbox situations (i.e., when an engagement partner is not located where the majority of the work is performed) continue to be a concern in practice and people often turn to ISA 600 to find guidance on these audits. We therefore suggest that the IAASB clearly states within the Scope of this ISA section of ED-600 that ISA 600 does not have specific requirements for letterbox audits. Instead, ISA 220 should apply as having the appropriate principles for adequate supervision and review by the engagement partner. We also suggest that the IAASB updates the Staff Audit Practice Alert issued in August 2015 - *Responsibilities of the engagement partner in circumstances when the engagement partner is not located where the majority of the work is performed* to reflect changes made to the revised standards and in particular ISA 600 and ISA 220. We do believe that in letterbox audits it is critical that the engagement partner is involved in the work throughout the lifecycle of the audit. The current remote working environment has proved that technology and virtual meetings can enable more frequent and timely involvement.

## Automated tools and techniques

Similar to the approach taken in ISA 315 (Revised 2019), we particularly support the introduction of guidance on the use of automated tools and techniques in the audit, including data analytics, as this represents a recognition by the IAASB of the importance of using digital techniques within the audit and helps future proof the standard. In a group audit, and particularly during the risk assessment procedures, performing analytics using automated tools and techniques may improve the quality of the audit and allow the group engagement team to improve its identification of the risks of material misstatement and group scoping earlier in the audit. These techniques may also help the auditor to reach a conclusion on whether sufficient appropriate evidence has been obtained for the group audit. For example, when a risk of material misstatement exists at many components that are not individually financially significant, performing audit procedures using automated tools and techniques may enable the auditor to perform these procedures centrally to obtain the evidence needed to conclude on the group financial statements.

Because of the specific applications of automated tools and techniques that can occur in a group audit, and the likelihood that these will continue to evolve and increase in the future, we would expect more considerations in the application material about how they may be used, and how the group engagement team can be adequately involved when component auditors are using automated tools and techniques. We strongly encourage the IAASB to increase the focus on automated tools and techniques in ED-600.

## Component auditor definition

In reference to ED-600 paragraph A14, we agree with this application material. However, we note that this guidance could be enhanced to indicate what triggers a difference between the group engagement team performing procedures on the financial information of a component and the group engagement team being identified as a component auditor. This paragraph seems to imply that when centralized testing is performed by the group engagement team, the group engagement team is never considered to be a component auditor. In practice, we could have situations where members of the group engagement team have a dual role - on the group engagement team and as component auditor. For example:

- ▶ Work performed on a component that is led by senior members of the group engagement team but utilizes staff members that are not otherwise part of the group engagement team
- ▶ When several components are based in the same location and the group engagement partner acts as the engagement partner on those components but there is dedicated staff performing the work on the components that are not part of the group engagement team.

## Request for General Comments

**Q13. 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.***

No comment.

- (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.***

The effective date of ED-600 should be closely considered with the future effective dates of other foundational standards recently revised, in particular ISA 315 (Revised 2019) and proposed ISA 220 (Revised). Significant changes to audit methodologies, enablement and work practices will have to be implemented over the coming years. Because of the linkages of these foundational standards with ED-600, we favor staggering the effective dates to allow focus on implementing ISA 315 (Revised 2019) first, followed by proposed ISA 220 (Revised) and then ED-600. This approach would mean that the standards effective earlier than ED-600 would need to operate with extant ISA 600 for a transition period. As we stated in our comment letter to ED-220, we strongly encourage the IAASB to develop transition guidance for group audits to support such staggered implementation.

Overall, implementation of ED-600 will require significant efforts and planning considerations, including potentially some discussions across networks, in particular to implement the risk-based approach. It will also require early communication and planning with group management and those charged with governance of the group. Implementing a risk-based approach will also be particularly challenging for initial audits.

Assuming staggering of effective dates would result in ED-600 being implemented for audits of periods beginning on or after December 2023 (i.e., resulting in an implementation period of approximately 24 months), we believe this would allow sufficient time for implementation.

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We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Jean-Yves Jegourel, Global Vice Chair, Professional Practice ([jean-yves.jegourel@fr.ey.com](mailto:jean-yves.jegourel@fr.ey.com)).

Yours sincerely,

*Ernst + Young Global Limited*

## Appendix: Editorial and typographical suggestions

Paragraph Reference	Suggested change
9(m), Footnote 7	Replace with ISA 320, paragraph 9, instead of paragraph 11.
19	We suggest the following edits: "As part of the evaluation in paragraph 18, the group engagement team shall request the component auditor to confirm that the component auditor will cooperate with the group engagement team <b><u>to the extent allowable under laws and regulations.</u></b> "
24 and A57	These paragraphs refer to the term "business lines", elsewhere in ED-600 the terms business activities or business units (which is explained in paragraph 3) are used. We suggest using the same terminology throughout ED-600.
25 and 26	In light of our comment raised in Question 8, we suggest that paragraph 25 is removed (as it is duplicative) and therefore replace in paragraph 26 "When paragraph 25 applies" with "When the group engagement team assigns the design and performance of the risk assessment procedures to the component auditors,...".
28(b)	We suggest revisiting the sentence structure of this paragraph as it reads as if the group engagement team makes the communications, when the requirement is directed at the component auditors to communicate events or conditions identified that may cast significant doubt on the group's ability to continue as a going concern.
43	"These communications shall take place at <u>the</u> appropriate points in time...". If there is an expectation on what the appropriate points in time are, it would be good to specify, otherwise, delete "the".
A6	We suggest the following edit: "A group may also centralize <b><u>at one location</u></b> activities or processes..."
A7	The example is repetitive to paragraph 4 and is not an example. Appendix 1 already covers examples of why component auditors are involved in a group audit. Paragraph A7 could be simplified and merged with paragraph A8. Also see Question 2 for comments raised on Appendix 1.
A9	Delete the word "large" in "...For example, when there are <del>a large number</del> of components across multiple jurisdictions...". As the group engagement team is expected to corroborate information regardless of the number of components within the group.

Paragraph Reference	Suggested change
A13	In the context of the execution of an audit, it is unclear what is meant with “an external service provider”, consider closer alignment with proposed ISA 220 (Revised), paragraph 12(d).
A19	This paragraph indicates that this guidance applies when the engagement team includes a “large number of component auditors in multiple locations”. The existence of any component auditor includes an extent of assignment of work, it does not need to be a large number. We suggest revising paragraph A19 accordingly.
A21	We suggest the following edit: “Whether the group engagement team... <ul style="list-style-type: none"> <li>○ Will be able to perform necessary work on the financial information of the components <b>when applicable</b>”.</li> </ul>
A22	We suggest the following edit: “Where applicable, communication with component management, <b>those charged with governance of the component</b> or the previous group engagement team.”
A46	We suggest the following sentence under this paragraph is edited given this information, in many cases, is not specific to the individuals assigned to perform work on the component: “This information <b>may</b> influences the nature, timing and extent of the <b>group</b> engagement partner’s direction and supervision of the component auditor and the review of their work.”
A49	The first sentence of this paragraph is a repeat of paragraph A19 and is therefore not needed.
A50	We recommend deleting the reference to proposed ISA 220 (Revised) (i.e., last sentence of this paragraph), as this linkage is not beneficial in the context of this application material.
A76	We suggest the following edit “...at the group level for <del>an entire a</del> <b>significant</b> class of transactions or account balance as a single population”.
A78	We suggest that footnote 49 also refers to ISA 315 (Revised 2019) paragraph A49.
A83	We suggest adding a reference to ISA 315 (Revised 2019) paragraphs 31 and 34.
A86	We suggest the following edits: “The group engagement team may design and perform further audit procedures centrally if the audit evidence to be

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	<p>obtained from performing further audit procedures on one or more <b>significant</b> classes of transactions, account balances or disclosures <del>in the aggregate</del> will respond to the assessed risks of material misstatement.”</p> <p>The meaning of “in the aggregate” in this sentence is confusing, we suggest deleting these words.</p>
A119	<p>...” all communications between a component auditor and component management.” We suggest this sentence to also include communications to those charged with governance of the component.</p>
Appendix 1, paragraph 5	<p>We suggest the following edit to the last sentence of this paragraph, to align this sentence with the preceding one: “... of the group financial statements when the group engagement team <b>does not</b> intends to assign the design and performance of further audit procedures to the component auditor.”</p>