



2 October 2020

529 Fifth Avenue
New York
NY 10017
United States

Dear Sir/Madam,

Re: Proposed International Standard on Auditing 600 (revised): special considerations – Audits of group financial statements (including the work of component auditors)

The Corporate Reporting Users' Forum (hereinafter referred to as CRUF) welcomes the opportunity to provide the IAASB with our comments. The CRUF was established in December 2005 and we have been holding regular meetings since. CRUF Japan have prepared this comment letter based on discussions in CRUF meetings, and have reflected input from other CRUFs globally. We have highlighted any contrasting views in our response. Our comments are based on our professional experience.

With globalisation of companies and the increase in cross-border M&A, there have been some cases in recent years where misstatements of overseas subsidiaries have had a significant adverse effect on the management of the entire group. We are very concerned about such situation as users of consolidated financial statements. As users, under these circumstances, we support the IAASB in tightening global auditing standards. In particular, we would like to express strong support for the following points.

- This Exposure Draft (ED) strengthens the authority and responsibility of the group engagement team to ensure that group audits are conducted properly and consistently. Based on the concept of the revised ISA 315, it emphasises the identification and evaluation of misstatement risk, not only at the assertion level, but also at the group financial statement level as a whole. This is because material misstatements of the group financial statements, could occur at any hierarchy or location of the group, and the nature and complexity of the



component's business activities and group's organisational structure could result in a diversity of material misstatements. It emphasises the responsibility of the group audit team for obtaining an understanding of the group and its environment, including IT and internal controls, and obtaining an understanding of the ability of the component auditors, including IT. On the other hand, it allows a flexible risk-based approach based on the concept of the revised ISA 315.

- This ED clearly states that the responsibility of the group engagement team is not reduced, even if there are restrictions on access to key people and information. The group engagement team shall take this into consideration when deciding whether to accept or continue the audit engagement, and to document these restrictions.
- On the other hand, examples of how to deal with access restrictions have been increased, and examples of descriptions in auditor's reports are also shown in Appendix 2. This will encourage companies to take action.

We support the ED which emphasises the need for adequate communication within the engagement team, as well as two-way communication with the component auditors, the group management, those charged with governance, the component management and those charged with governance in the component.

We support the ED introducing factors the group engagement team may take into account in setting component performance materiality, but would like more detailed explanation and background as to why component overall materiality was eliminated from ISA 600. Regarding this point, some users expressed concern that it will increase the risk of undetected material misstatement at components, particularly those which were previously categorised as financially significant components.

It seems that it is challenging for the group engagement team not miss material misstatements of the group financial statements which could occur at any hierarchy or location of the group, however we believe that practitioners will conquer the difficulties through the introduction of appropriate initiatives at group audit practice. We reiterate that as users of consolidated financial statements, we strongly support the direction of this ED.



About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting and audit standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.



Signatures

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