



## PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED)

Issued 2 October 2020

ICAEW welcomes the opportunity to comment on the Proposed International Standard on Auditing 600 (Revised) published by IAASB on 27 April 2020, a copy of which is available from this [link](#).

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**KEY POINTS****OVERALL OBSERVATIONS**

1. We welcome the opportunity to comment on ED-600. In our response in 2016 to the IAASB's Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits (ITC) we noted that ISA 600 was not fundamentally broken but that there were a number of areas in which firms and regulators alike have identified inconsistencies and challenges in practice. Since then, we have also seen the evolution of other auditing standards, such as ISA 315 (Revised) and the Quality Management standards and regulatory inspection reports are consistently noting quality issues on group audits. Some of the problems in the conduct of group audits are logistical and not easy for auditing standards to address, but they need to be addressed to the extent possible, for the quality of group audits to improve.
2. We believe that the proposals have identified relevant areas relating to the audit of group financial statements where there have been challenges and inconsistencies. The structure of ED-600 is helpful, including the separate sub-sections for considerations where component auditors are involved with the group audit. This will help the standard be more scalable to group audits where component auditors are not involved by clearly signposting the requirements that are not applicable in these circumstances.
3. We note the move away from the classification of 'significant' components, the revised definition of a component and the top-down risk-based approach proposed in ED-600. We do not object to these changes in principle but in practice they are likely to result in increased audit effort and cost through the performance of additional procedures and there will be practical implementation challenges. Respondents to our enquiries have questioned the extent to which such an approach will improve audit quality outcomes. In particular, there are concerns that the approach might discourage or change the nature of the involvement of component auditors in group audits, impacting the relationship between the group engagement team and component auditors such that risks of material misstatement relevant to the group financial statements may be missed.
4. While we are pleased to see greater emphasis on the importance of two-way communication between the group engagement team and component auditors in ED-600, this is still largely focused on the group engagement team communicating instructions or requesting information from component auditors rather than a two-way flow of information and, given the concerns expressed above about the impact of the risk based approach on the nature and extent of component auditor involvement in group audits, there is inevitably a concern too that the quality and usefulness of these communications may deteriorate, at the expense of the quality of both the group and component audits.
5. We support the focus on component performance materiality taken in ED-600. We expect the application of the requirements in ED-600 in this area will prove challenging for group engagement teams, particularly given the change in definition of a component. The practical challenges relate more to how ISA 320 is applied in these circumstances as opposed to the requirements in ED-600 and we would encourage IAASB to consider whether these issues could be addressed through the development of worked examples or other additional resources to help support implementation.

**ISA 220 (REVISED): DEFINITION OF ENGAGEMENT TEAM**

6. We are concerned about the linkages with ISA 220, specifically with how ISA 220 defines 'engagement team' and the implications this has for group audits. While the 'group engagement team' as defined in ED-600 excludes component auditors, the definition of 'engagement team' in ISA 220 includes component auditors as part of the engagement team. Our outreach suggests that this will have practical consequences for the conduct of group audits. The concerns relate to the group engagement partner's responsibilities in relation to ethical requirements, engagement resources and direction, supervision and review, and how they might practically be achieved in circumstances where component auditors are involved in the group audit, particularly large audits.

7. Respondents to our enquiries are concerned that these challenges may affect the extent of component auditor involvement on group audits, and in particular, the use of component auditors from outside an audit firm's network which may lead, as a result, to inefficiencies in the market place. We urge the IAASB to re-visit their assessment and conclusions in this area and consider how specific group audit challenges related to ISA 220 might be addressed, either within ED-600 or through additional guidance.

#### **MORE GUIDANCE ON ENTRY-POINT TO ED-600 AND SHARED SERVICE CENTRES**

8. While the scope and applicability of ED-600 is generally clear and we are supportive of the definition of group financial statements and the linkage to a consolidation process, our outreach suggests that there will be a need for greater clarity, which may be by way of implementation support or other non-authoritative guidance, to help address entry point challenges that might arise in relation to ED-600.
9. There is, for example, a lack of clarity around the extent to which, and how, ED-600 applies for shared service centres. The concerns relate to what an aggregation process might mean in the context of shared service centres and the classification of shared service centres as components. This lack of clarity is likely to create challenges for group engagement teams and has implications for consistency of approach.
10. A potential unintended consequence might be that a 'one size fits all' approach becomes the norm for shared service centres, under the badging 'consistency' when in fact not all shared service centres are organised and operate in the same way. Alternatively, it could mean that group engagement teams adopt very different criteria to determine whether shared service centres are components and whether there is an aggregation process in the context of a group with shared service centres – leading to very different outcomes.
11. We would encourage IAASB to give thought to how, and in what manner, it could provide additional guidance here.

#### **EFFECTIVE DATE**

12. ED-600 will be a substantial revision and it will follow major revisions to a number of other standards, ISA 540, ISA 315, ISA 220, and two new standards ISQM 1 and 2. Given the effective dates for these other standards, it is vital that audit firms are given the time needed to implement these changes, to revise methodologies and audit tools to support effective implementation. This is particularly relevant for smaller firms who are reliant on off the shelf audit tools, methodologies or training packages.
13. Maintaining alignment of the implementation dates for ISA 220 and ISA 600 for December 2023 year-ends would potentially allow for just 12 months for practitioners to implement ISA 600, because it has only just been exposed, which would be, in our view, insufficient time to support effective implementation of such a fundamental standard. Based on more recent IAASB discussions a possible outcome for implementation of ISA 600 may be for audits of periods beginning on/after 15 June or December 2023, i.e. for June or December 2024 year-ends. We would support an effective date of no earlier than periods beginning on or after 15 December 2023 (ie. for calendar 2024 year-ends). Given the recent impact of Covid-19 pandemic on audit activities, and ongoing uncertainties, we would urge IAASB to keep the proposals for an effective date under review.
14. Where the revisions to ISA 220 will be effective before the revisions to ISA 600, the IAASB will need to publish timely guidance explaining how the revised requirements in ISA 220 will operate with extant ISA 600.

#### **EXAMPLES AND IMPLEMENTATION SUPPORT**

15. Our responses to the specific questions below identify a number of key areas which would benefit from greater clarity and/or additional guidance or examples to aid understanding of key requirements. We have made the point previously to IAASB about considering ways in which non-authoritative guidance, alongside standards, may be developed and encourage

IAASB to reflect further on how this might be achieved. We consider such guidance will be important to support effective implementation and consistent application of the requirements.

## ANSWERS TO SPECIFIC QUESTIONS

### OVERALL QUESTIONS

**Question 1. With respect to the linkages to other standards:**

**(a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?**

**(b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?**

16. We are concerned about the linkages with ISA 220 (Revised) in relation to how it defines 'engagement team' and the impact this has for group audits. While the 'group engagement team' as defined in ED-600 excludes component auditors, the definition of 'engagement team' in ISA 220 includes them as part of the engagement team and this has important consequences for the conduct of group audits where component auditors are involved in the group audit.
17. Our outreach suggests that there will be significant practical challenges for group engagement partners seeking to comply with their responsibilities as set out in ISA 220 in relation to ethical requirements, engagement resources and direction, supervision and review, particularly where component auditors are involved and where the group engagement partner cannot assign aspects of those responsibilities to others. This is a significant issue for very large group audits and has potential implications for the use of component auditors on group audits, particularly the use of component auditors outside an audit firm's network and might also lead, as a result, to inefficiencies in the market place. We therefore urge the IAASB to re-visit their conclusions in this area to address these concerns and consider how specific group audit challenges related to ISA 220 might be addressed, either within ED-600 or through additional guidance.

**Question 2. With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?**

18. Yes, this structure is helpful. The sub-sections in ED-600 help to clarify interactions and requirements where component auditors are involved for each phase of the audit. They will also help make the standard more scalable on group audits where component auditors are not involved by clearly signposting the requirements that are not applicable in these circumstances. However, as noted above, these sections are generally written from the viewpoint of the group engagement team rather than the component auditor.

**Question 3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements?**

19. While ED-600 is intended to address special considerations relating to group audits only and professional scepticism is reinforced through linkages to, and the requirements of, other ISAs, we are not convinced that the requirements referred to in the explanatory memorandum will significantly enhance professional scepticism on group audits. The stand back requirement is already in extant ISA 600.

20. We would encourage IAASB to consider whether there is scope for further guidance highlighting potential trigger points in relation to scepticism on group audits, for example, unusual or complex group structures which might increase the potential for fraud.

## SPECIFIC QUESTIONS

**Question 4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).**

21. The scope and applicability of ED-600 is generally clear and we are supportive of the definition of group financial statements and the linkage to a consolidation process but respondents to our enquiries have suggested that more clarity, by way of implementation support, would be helpful to address entry point issues to ED-600. For example, this could include guidance covering scenarios such as letterbox audits.
22. Our outreach also suggests that there is a lack of clarity around the extent to which, and how, ED-600 applies for shared service centres which could create practical challenges for group engagement teams. Shared service centres are common, particularly in larger groups, and so clarity in how ED-600 applies to groups with shared service centres is important for ensuring consistency in approach. Without this, a potential unintended consequence might be that a 'one size fits all' approach becomes the norm for shared service centres, under the badging 'consistency' when in fact not all shared service centres are organised and operated in the same way. Alternatively, group engagement teams might adopt their own criteria to determine whether shared service centres are components and whether there is an aggregation process in the context of a group with shared service centres – leading to very different outcomes.
23. We encourage IAASB to give further thought to how, and in what manner, it could provide further guidance in terms of what an aggregation process might look like in the context of shared service centres and the factors that would be relevant in determining whether a shared service centre is a component.
24. It is not clear, for example, how group engagement teams might determine whether they have a group as defined in ED-600 in situations where there are only shared service centres operated by the business and no other components. There is also no guidance to help group engagement teams determine whether a shared service centre is a component, for example, whether a shared service centre might be a component in its own right when performing specific processing activities for another component in a group.
25. A6 refers to the use of shared service centres by groups that centralise activities or processes for more than one entity or business unit within the group and says that the group engagement team 'may determine' that a shared service centre is a component. It does not include the factors the group engagement team might take into account when making this determination, ie. the types of characteristics that might suggest that a shared service centre would be a component. For example, the group engagement team might want to look at control, ie. the extent of autonomy, nature of responsibilities and leadership. Also, the reference to 'relevant to the group's financial reporting process' is vague and to 'audit procedures are performed at that location' outdated – 'in respect of that location' would be more appropriate.
26. Our response to the exposure drafts of the Quality Management standards encouraged IAASB to think more creatively about how it could provide additional guidance and to consider developing a new category of non-authoritative guidance, which might include examples or FAQs, targeted at different types of firm or engagement to support the

application of standards and aid scalability. Additional guidance in relation to shared service centres is another example of where this could usefully be applied.

**Question 5. Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?**

27. Yes, overall, the proposed standard takes a proportionate approach and the revised definition of a component affords an element of flexibility for group engagement teams in how they approach the group audit. ED-600 is structured in a way that should enable the proposals to be scalable for smaller, less complex groups and where component auditors are not involved.
28. The standard is, however, significantly longer than the extant standard and some respondents to our enquiries have raised concerns that this might add more process – and work – particularly for larger groups, without necessarily enhancing audit quality. Appropriate field testing should shed further light on any challenges in relation to scalability and audit quality issues.

**Question 6. Do you support the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit?**

29. Our outreach suggests that the revised definition is unlikely to make a significant difference in terms of the approach to identifying components for many group audits where the group engagement team’s view of the structure of the business and that of management are unlikely to be widely different.
30. The revised definition does, however, afford auditors greater flexibility to use their judgement when aggregating components, considering sub-groups and dealing with shared service centres, though as noted in our response to question 4, there is a need for further guidance to provide greater clarity on how the standard applies to shared service centres and to cover entry-point challenges.
31. There will also be some practical implementation challenges with the new definition as part of a more focused risk-based approach to group audits and also in relation to determining component performance materiality – see our responses to questions 8 and 10.

**Question 7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?**

32. We are generally supportive of the enhancements to the requirements and application material relating to acceptance and continuance of group audit engagements.
33. Restrictions on access are a perennial problem that cannot be solved by requirements and guidance in standards alone. Our outreach suggests that ED-600 provides sufficient guidance on how to address and overcome restrictions in relation to access to people or information at components.
34. In terms of the ability to be involved in the work of the component auditor, our response to the ITC recommended that IAASB explore the possibility of specific requirements for component auditors to ‘respond appropriately’ to group auditor requests for information; requiring component auditors to allow access unless there is a valid reason not to; and requiring component auditors to provide an explanation when access is denied, unless there

is a valid reason not to. Taking account of the revised approach and structure in ED-600, with responsibility for planning and execution of the group audit firmly placed on the group engagement team, there is, we believe, scope to strengthen the requirement for the group engagement team to secure agreement that component auditors will cooperate with the group engagement team.

**Question 8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:**

**(a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?**

**(b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?**

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

35. While we do not object to these changes in principle, in practice they are likely to result in increased audit process and practical implementation challenges for what may be questionable benefit.
36. While respondents to our enquiries agreed that a top-down approach, which focuses on the group engagement team's responsibility to identify and assess the risks of material misstatement of the group financial statements and to determine the work effort that is needed to respond to the assessed risks, is important, it is not without its own risks to audit quality, as outlined below.
37. Our outreach suggests that ED-600 is likely to make the audit process, particularly in relation to the risk assessment, more extensive for many audits but there was less agreement on the extent to which this might improve audit quality outcomes. Respondents to our enquiries also questioned whether the approach in ED-600, coupled with the lack of guidance on when, and the extent to which, the group engagement team should involve component auditors, might encourage group engagement teams to reduce or eliminate the involvement of component auditors. Some have concerns that ED-600's top-down approach and the identification of components using the auditor view might increase the risk of less work being done without appropriate justification for that reduction. This has potential implications for audit quality. While the expectation would be that group engagement teams would continue to do all that is needed, including full scope audits where necessary, excessive fee pressure by group management might lead to instances where this might not be the case.
38. There are concerns that the revised definition of component, a focus on account balances, transactions and disclosures across the group, as opposed to 'significant components', and a change in approach to using component auditors, could lead to risks being missed in the risk assessment, for example in relation to related parties, fraud and non-compliance with laws and regulations at a local level – or local risks identified but not appropriately assessed. This is less likely to be the case under the extant standard as it forces a minimum level of local risk assessment that isn't required under the ED proposals.
39. It would be helpful if additional guidance could be included in the application material which highlighted the types of circumstances where it is likely that the group engagement team would need to involve component auditors on the group audit and to emphasise that the group engagement team must ensure that their risk assessment is based on sufficient local knowledge.
40. Where component auditors are involved in the audit of the group financial statements, there will be practical implementation challenges for the group engagement team in implementing ED-600. These relate to how they approach the risk assessment and the extent, nature and timing of communications with component auditors and will affect all aspects of the audit

process. Significant effort will be needed at the planning stage of the audit and this needs to be clearly communicated in implementation support materials.

41. The responsibilities relating to client acceptance in ED-600 appear to be rather circular which might lead to confusion when trying to decide at what stage the group engagement team should involve component auditors. For instance, ED-600.13 requires the group engagement team to obtain sufficient understanding of the group to identify components and decide whether to involve component auditors. The related application guidance gives a number of ways this might be done. However, as A24 says, there may be cultural or translation issues in doing this for some parts of the group. The most logical way to resolve this might therefore be to talk to the component auditors at this stage, even if the group engagement team is not going to involve them in all of the subsequent audit.
42. ED-600 emphasises the importance of two-way communications between the group engagement team and component auditors which is helpful but it is focused on the group engagement team requesting information from or communicating instructions to component auditors, rather than encouraging a two-way information flow. Also, given the lack of clarity around the extent to which the group engagement team might need to involve component auditors, this might result in poorer quality communications.
43. When local statutory auditors have reduced involvement with the audit of the group financial statements because the group engagement team have taken a more centralised risk-based approach, there is a risk of duplicated or overlapping work with local statutory audits which may put pressure on the relationship between component management and local statutory auditors.

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

44. While the term 'group-wide controls' is commonly used in practice we agree that the term is not clearly defined and is interpreted in different ways by auditors and others. However, the application material needs to make a clearer distinction between what is meant by commonality of controls and centralised activities. ED-600 currently only includes a few sentences of explanation of the two concepts and yet controls will be a key area of focus for regulators. More guidance on the factors to consider, and some examples, would be helpful.
45. In terms of commonality of controls, while the application material addresses the common controls operating across the group it does not clearly address the controls at the group level that might be applied across the group.
46. There is also a lack of guidance on the extent to which reliance may be placed on these controls and how much evidence is needed on the effectiveness of their operation, particularly in relation to management review controls.

***Question 10. Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?***

47. Yes, we support the focus on component performance materiality. We anticipate that the application of the requirements in ED-600 in this area could prove challenging for group engagement teams, particularly given the change in the definition of a component and where there is a requirement of local law or regulation to perform audits at an entity level. The practical challenges relate more to how ISA 320 is applied in these circumstances than to the requirements in ED-600 and IAASB should consider whether these issues could be addressed through the development of worked examples or other guidance to support implementation.
48. Worked examples could also usefully help to emphasise the importance of the group engagement team using their professional judgement when determining materiality, that

materiality is not solely a calculation but is determined by considering the specific circumstances of the group and user expectations.

**Question 11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:**

**(a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?**

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

49. We support the enhanced requirements and application material on documentation and anticipate that they will help to address some concerns from regulators over the extent and quality of audit documentation in recent years. We agree that the extent of component auditor documentation on the group engagement team’s file is a matter of judgement for the group engagement team, albeit the use of automated audit tools, and the extent to which they enable component auditor’s work to be on the group file is also likely to have an impact.

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

50. Paragraph 52 of ED-600 prohibits references to a component auditor in the auditor’s report unless required by laws or regulations. Our outreach suggests that some audit firms currently include references to the work of component auditors in relation to key audit matters in extended auditor reports. These are included to aid users’ understanding of audit work and reviews performed without any intention of detracting from the group engagement partner’s responsibility for the group audit opinion.

51. We consider there is a need for greater clarity and/or additional guidance or examples to support some of the key requirements in ED-600 – as outlined in a number of our responses to the questions posed. We consider this necessary to aid understanding of the requirements, to support effective implementation and ensure that the requirements are consistently applied. We encourage IAASB to reflect on ways in which this might be achieved.

## REQUEST FOR GENERAL COMMENTS

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

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

**(b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

52. ED-600 will be a substantive revision and it will follow major revisions to a number of other standards, ISA 540, ISA 315, ISA 220, and two new standards ISQM 1 and 2. Given the effective dates for these other standards, it is vital that audit firms – and commercial providers – are given time to get to grips with these changes, to revise methodologies and audit tools to support effective implementation. This is particularly relevant to smaller audit firms who are reliant on the development of off the shelf audit tool packages and methodologies.

53. Maintaining alignment of the implementation dates for ISA 220 and ISA 600 for December 2023 year-ends would potentially allow for just 12 months for practitioners to implement ISA 600, because it has only just been exposed, which would be, in our view, insufficient time for such a fundamental standard. This would also result in practical timing challenges for group engagement teams who send our referral instructions to component auditors, in some cases, significantly in advance of the group audit. Based on more recent IAASB discussions a possible outcome for implementation of ISA 600 may be for audits of periods beginning on/after 15 June or December 2023, i.e. for June/December 2024 year-ends. We would support an effective date of no earlier than periods beginning on or after 15 December 2023 (ie. for calendar 2024 year-ends). Given the recent impact of Covid-19 pandemic on audit activities, and ongoing uncertainties, we urge IAASB to keep the proposals for an effective date under review.
54. Where the revisions to ISA 220 will be effective before the revisions to ISA 600, the IAASB will need to publish timely guidance explaining how the revised requirements in ISA 220 will operate with extant ISA 600.
55. Given the linkages to ISA 315 we would also encourage IAASB to think about how it can communicate the need for firms, software and training providers to be already thinking about ED-600 when considering revisions to methodologies as a result of the revisions to ISA 315 and to highlight the need to take a more holistic approach here.