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International Auditing and Assurance Standards Board
529 5th Avenue
New York, NY 10017

Dear IAASB:

The Institute of Internal Auditors welcomes the opportunity to provide input to the International Auditing and Assurance Standards Board Exposure Draft, ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements.

The IIA's more than 200,000 members worldwide provide independent and objective insight and assurance on all facets of an organization's activities, performance, and position. The IIA advocates for the role of internal audit and its relevance to the work of external auditors, as together the two functions can better foster transparency and organizational success.

Overall, ISA 600 meets the goals set out by the task force and working groups that worked closely to improve the IAASB's standard on group audits. ISA 600 is aligned with other updated standards, and the more robust requirements and enhanced guidance are welcome improvements. The addition of stronger language regarding information, communication, risk assessment, and monitoring makes ISA 600 more comprehensive.

The IIA supports IAASB's effort to have group-level auditors rely less heavily on group-level controls. When financial information is consolidated, group controls can end up badly designed, inoperable, or inaccurate. Putting more emphasis on individual unit controls is a good step.

The ISA 600 enhanced language regarding disclosure, documentation, and supervision is consistent with The IIA's *International Standards for the Professional Practice of Internal Auditing*. The IIA supports, for example, documentation of the nature, timing, and extent of the work performed by component auditors and that such documentation may

reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.

The IIA also supports the changes to strengthen the latitude holding companies have had regarding materiality and how they decide what is and isn't important to audit in terms of business units, classes of transactions, etc. The changes take away the ability of auditors to say errors are "clearly trivial."

Overall Questions

1. With respect to the linkages to other standards:
 - (a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs? *Yes.*
 - (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)? *Yes.*
Are there other special considerations for a group audit that you believe have not been addressed in ED-600? *No.*
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? *Yes.*
3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements? *Yes. The IIA, as part of the Anti-fraud Collaboration, recently released "Skepticism in Practice," a new report that explores the importance of more critically assessing the potential for fraud and examining some of the biases that can leave organizations blind to deceptive activities. A healthy dose of skepticism is key. The Anti-fraud Collaboration is a cooperative dedicated to enhancing the effectiveness of financial fraud risk management.*

Specific Questions

4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable). *The scope is clear.*
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? *This is clear and allows for better scalability than the previous standard, as it permits component auditors to work in various configurations (e.g., process or product audits instead of strict business unit audits) However, there is no mention of legacy systems, which is a big consideration in terms of structuring an audit.*
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? *Yes.*
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? *Yes, with a recommended addition that limitations that cannot be resolved should be communicated to the board/audit committee as a scope limitation in the final report.*

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? *Yes.*

(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? *There are practical limits on how much work one human can supervise at any given time. Consideration about timing (e.g., staggering engagements) might add value.*

(c) What practical challenges may arise in implementing the risk-based approach? *Any changes in standards related to risk-based approaches may be misinterpreted and result in unintended consequences, including more risks being identified as high and, thus, increasing the cost of an audit engagement.*

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

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? *Yes, although more specific guidance (and perhaps examples) of aggregating risk should be discussed. For financial services firms, BCBS 239 helps with understanding how to aggregate risk information, but this generally is something all companies struggle to do correctly.*

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? *No. It is a good list.*

(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, keeping in mind comments above regarding scope limitations.*

12. Are there any other matters you would like to raise in relation to ED-600? *Yes. Extant ISA 600 on page 21, paragraph 64, requires the group engagement team, or a component auditor on its behalf, to perform an audit of the financial information of the component in certain circumstances. "When an audit of the financial information of a component is performed by a component auditor, the component auditor is responsible for the identification, assessment and **response** to risks of material misstatement at the component, including with respect to fraud, going concern, and related parties."*

The IIA recommends editing this section to remove the word "response" or change to "documenting the response" to risks of material misstatement. The component auditor is not responsible for the action to be taken.

The IIA expresses its support for the IAASB and this effort to strengthen the auditor's approach to planning and performing a group audit, and to clarify the interaction between ISA 600 and the other ISAs. Please do not hesitate to contact The IIA's Vice President of Global Relations, Mr. Francis Nicholson, at francis.nicholson@theiaa.org for questions or comments.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and Chief Executive Officer
The Institute of Internal Auditors