

International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017

R. Trent Gazzaway
Grant Thornton LLP, National Managing
Partner of Quality and Innovation, Audit
Grant Thornton International Ltd, Global Head
– Quality (effective November 1, 2020)
Grant Thornton International Ltd
20 Fenchurch Street
Level 25
London EC3M 3BY
United Kingdom
T + 1 704 632 6834

www.GTI.org

October 2, 2020

Via IAASB website at www.iaasb.org

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Exposure Draft Proposed International Standard on Auditing 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors* and Proposed Conforming and Consequential Amendments to Other ISAs (ED-600).

Overall, we are supportive of the efforts to revise extant ISA 600 in response to the issues identified through the IAASB's Invitation to Comment: Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits (the ITC).

In particular, we are supportive of the intent to provide increased flexibility in scoping a group audit through the introduction of a different risk-based approach (a "horizontal approach") to scoping. In comparison to the approach in extant ISA 600, which primarily focuses on scoping by component (a "vertical approach"), we are of the view that this horizontal approach has the potential to enhance audit quality through an improved focus on the risk of material misstatement at the group level taking into account the requirements of ISA 315 (Revised)¹ related to classes of transactions, account balances and disclosures that comprise the group. For firms that are currently not applying a horizontal as well as a vertical approach, this may promote an appropriate risk assessment and related response to obtain sufficient appropriate audit evidence to express an opinion on the group financial statements.

However, we are of the view that, as drafted, ED-600 doesn't convey the intent to allow the level of flexibility necessary to scope and perform the most effective and efficient group audit (that is, the ability to scope group audit engagements in both a horizontal and a vertical manner is not evident in the current proposals). A combined approach not only takes into account both the risk associated with the financial statement line item and the component in which that risk resides, but also allows for the group engagement team to modify the approach to the group engagement based on the source of that

¹ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment*

evidence. The lack of emphasis on the vertical approach (that is, considering the significance of components as well as statutory or local audit requirements) may result in a loss of a more holistic group audit approach, which may, in turn, have a detrimental effect on obtaining sufficient appropriate audit evidence as well as the ability to conduct the group audit within a reasonable period of time and at a reasonable cost. In addition, we are not clear how the proposals in ED-600 are intended to change a firm's current use of a combined approach and if there will be benefits to such a change.

We have highlighted below several concerns with the proposals in ED-600, on which we further elaborate in our detailed response in Appendix A.

We are concerned by the extent of alignment of ED-600 with ISA 315 (Revised 2019). Whilst we agree that the risk-based concepts in ISA 315 (Revised 2019) should apply to a group audit, we believe that this should not be to the exclusion of concepts in ISA 500², including the types of audit evidence available and how that audit evidence is collected. In particular, in this respect, we highlight the requirements restricting the use of audit opinions provided by component auditors on subsidiaries of the group for statutory or other purposes to circumstances where the local audit has been completed. In a group audit engagement across many jurisdictions, it is common for local audits to be performed at various times; to coordinate such audits simultaneously through to completion would likely be impossible. As such, the proposed restriction may unnecessarily increase both the time to perform the group audit engagement and the costs of doing so. We recommend that, consistent with existing guidance, the group engagement team has the ability to make the determination of whether the work performed is sufficient for the purposes of the group audit engagement, irrespective of whether the local audit is 'complete', taking into account the requirements and guidance in both ISA 315 (Revised) and ISA 500.

We are also concerned with the clarity of the documentation required to be retained in the group engagement team's audit file. In particular, it is not clear whether, or in what circumstances, the working papers of the component auditors are retained in the group engagement team's audit file. Further, the extent of the documentation required to evidence the group engagement team's direction and supervision of the component auditor and review of their working papers is not clear.

We also reiterate the concerns highlighted in relation to the recently approved ISA 220 (Revised)³ in relation to:

- The definition of 'engagement team' and the incorporation of component auditors into that definition. We have concerns in respect of the following:
 - There may be unintended consequences with the ability to use component auditors from firms that are not within the same network;
 - There may be unintended consequences with how relevant ethical requirements, including independence may be extended to component auditors in group audits; albeit acknowledging that the International Ethics Standards Board for Accountants (IESBA) has a project, *Engagement Team – Group Audit Independence*, which has the objectives of aligning the definition of engagement team with ISA 220 (Revised) and revising the International Independence Standards and their application in group audit engagements
 - The legal implications of bringing the component auditor into the definition of engagement team have not been fully considered across the different jurisdictions (that is laws and regulations will likely differ between different jurisdictions and across different countries). For example, component auditors used from a firm that is not part of the group engagement team's network is now considered to be part of the engagement team. If legal proceedings were brought against the group auditor, it is not clear whether those component auditors

² ISA 500, *Audit Evidence*

³ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial statements*

would now be brought into that litigation because they are a member of the engagement team.

- The extent of the responsibilities that the engagement partner will now be required to personally perform. Whilst we acknowledge that ISA 220 (Revised) has bifurcated the engagement partner responsibilities between those that the engagement partner is personally required to perform and those that the engagement partner is required to take responsibility for (that is, can delegate the performance to other team members), our view continues to be that the extent of requirements that the engagement partner is required to personally perform is too extensive to be fulfilled by the engagement partner in a large multi-location group audit.
- Fulfilling the requirements of the proposed standard from outside of the network. We raised concerns that ISA 220 (Revised) does not include sufficient emphasis and guidance on the fulfilment of the requirements therein, when a firm that is not part of the same network is used to perform procedures in support of the audit opinion. This concern is increased for a group audit engagement, where the use of auditors from firms other than that of the group engagement team's network is more prevalent.

Application guidance on how to adapt and apply these requirements in ISA 220 (Revised) will be essential to the implementation of the proposals in ED-600. Two examples of the application guidance recommended would be guidance, including illustrative examples, around how the group engagement partner may fulfil the requirements of the proposed standard where the component auditor is from a firm other than the group engagement team's network; and guidance, including illustrative examples, of how the group engagement partner may select which of the component auditor's working papers would be subject to review. An illustrative example could indicate that the group engagement partner, based on a review of the component auditor's completion memorandum, uses professional judgment to select the component auditor's working papers to be reviewed in support of significant matters reported in the completion memorandum.

Overall, we are concerned with a number of the proposals in ED-600 that may create additional complexities for the performance of group audit engagements when all the components that comprise the group are not audited by the same network of firms. We do not believe that it is in the public interest to effectively reduce the number of firms that are able to perform group audits or that will be engaged to perform group audits, either because of the cost to the entity of doing so, or the perceived inefficiency. Quality will improve when a wider range of firms are involved and commercialization flourishes rather than is impeded and blocked to just a few groups of network firms. We also believe that it is contrary to the public interest to create requirements that further increases the time and the cost to the entity of performing a group audit through effectively preventing the group engagement team from using the work of a component auditor performed for other reasons, such as a local statutory audit, when that work is performed concurrently with the group audit.

We attach our detailed responses to ED-600, which elaborate on the points highlighted above and which draw on the practical experience of the member firms that performed field testing on the proposals. We would be pleased to discuss our comments with you. If you have any questions, please contact me or Sara Ashton at sara.hm.ashton@uk.gt.com or at +1 646 825 8468.

Sincerely,

A handwritten signature in black ink that reads "R. Trent Gazzaway". The signature is written in a cursive, flowing style.

R. Trent Gazzaway
Grant Thornton LLP, National Managing Partner of Quality and Innovation, Audit
Grant Thornton International, Global Head – Quality (effective November 1, 2020)
Grant Thornton International Limited

Enc: Appendix A: Responses to Exposure Draft Proposed International Standard on Auditing 600
(Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of
Component Auditors* and Proposed Conforming and Consequential Amendments to Other ISAs

The IAASB's Exposure Draft Proposed International Standard on Auditing 600 (Revised), Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors and Proposed Conforming and Consequential Amendments to Other ISAs

The following provides our detailed response to the IAASB's request for comments to Exposure Draft Proposed International Standard on Auditing 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors and Proposed Conforming and Consequential Amendments to Other ISAs*.

OVERALL QUESTIONS

- Q1. With respect to 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?**

In addition to the linkages to certain ISAs in ED-600, we are of the view that closer linkages to ISA 500 are needed in ED-600. We are also concerned with the potential impact on a group audit of the linkages created in ED-600 to the foundational standards in a number of circumstances, as follows:

ISA 220 (Revised)

ISA 220 (Revised) now incorporates the component auditor into the definition of the engagement team. We are of the view that there may be unintended consequences to this change particularly in relation to the application of relevant ethical requirements, the application of the firm's policies and procedures when the component auditor is not from the same firm as the group engagement team, and, perhaps most importantly, legal ramifications to such a change. For example, component auditors used from a firm that is not part of the group engagement team's network is now considered to be part of the engagement team. If legal proceedings were brought against the group auditor, it is not clear whether those component auditors, or the particular individual(s) from the component auditor's firm, would now be brought into that litigation because they are a member of the engagement team.

Further, whilst we agree that the group engagement partner should be required to take responsibility for the appropriate direction and supervision of the group engagement, we are of the view that the direction and supervision requirements in ISA 220, when applied in a group audit engagement, need to accommodate the differences in circumstances in a group engagement. That is, there should be the flexibility within ED-600 to allow the group engagement partner, where local audits are performed, to exercise professional judgment in determining the appropriate manner in which to use that work for the purposes of the group engagement. Absent appropriate coordination between the group engagement partner and the partner on the component audit, this may increase the cost of performing the audit without a corresponding increase to the quality of that audit.

ISA 315 (Revised 2019) and ISA 500

We note that the proposals in ED-600 develop, to a large extent, the concepts in ISA 315 (Revised) for the purposes of a group audit. Whilst we acknowledge that these concepts apply to a group audit, we are of the view that the concepts have not been sufficiently adapted to the nature and circumstances of a group audit. In this respect, we highlight the following examples:

- As currently drafted, the proposals in ED-600 imply that all the documentation requirements in ISA 315 (Revised 2019) would equally apply in a group audit engagement conducted under ED-600. Following this through would lead us to the conclusion that the scoping and risk assessment documentation in the group audit engagement file would be required to include an understanding of every significant class of transaction, account balance and disclosure in every component that comprises the group.
- Paragraph 42 of ED-600 requires that the local audit be completed for the work performed in support of that local audit also to be used in support of the group audit opinion. In practice, local statutory audits are often finalised, and the auditor's report issued after the group audit opinion has been issued (that is, the audit work has been completed, but the local financial statements are still being prepared). As such this may result in duplication of many procedures at the component, which again increases the cost of performing the audits, but may not result in an improvement in quality.

Conversely, ED-600 is not clear with respect to the nature and extent of how to apply all the requirements in ISA 315 (Revised). For example, ISA 315 (Revised)⁴ requires the auditor to obtain an understanding of the entity's information system. In a group audit engagement, it is not clear whether this requirement extends to the information systems of the entire group, is limited to the group level information systems, is limited to components at which audit procedures are performed in support of the group audit opinion or only certain of those entities based on the extent of the audit procedures to be performed.

We recommend that ED-600 be amended to balance the concepts of ISA 315 (Revised) with those of ISA 500, such that a top-down risk-based approach may be followed for a group engagement that acknowledges and provides flexibility in the requirements based on the source of the audit evidence to be used in support of the group opinion and that allows for proportionate documentation based on both the risk assessment and the source of the evidence.

ISA 330⁵

In relation to the linkage to ISA 330, we note that paragraph 18 of that standard requires the auditor to design and perform substantive procedures for each material class of transactions, account balance and disclosure, irrespective of the assessed risk of material misstatement. The application of this requirement in a group audit is unclear, including whether the application of the requirement at the financial statement line item or a level below this. The introduction of ISA 315 (Revised) has further added to this uncertainty with the introduction of significant classes of transactions, account balances and disclosures. We are of the view that this requirement should be applied at the financial statement line item level, and that guidance is needed to indicate whether additional procedures are necessary due to the relative size of the amounts in comparison to the group (not necessarily amounts solely greater than materiality). Absent such clarification of the requirement, unnecessary audit procedures may be performed.

⁴ ISA 315 (Revised), paragraph 25

⁵ ISA 330, *The Auditor's Response to Assessed Risk*

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?

We support the placement of sub-sections throughout ED-600, highlighting the requirements when component auditors are involved. These sub-sections were supported by both the group engagement team and by component auditors within our network, both of whom indicated that this structure clarified the role of the component auditor in the various phases of the audit and as such, resulted in a standard that was easier to apply.

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?

The requirements in ED-600 in relation to the application of professional skepticism focus largely on the assessment of whether sufficient appropriate audit evidence has been obtained with which to support the group audit opinion, including audit evidence obtained from component auditors. The focus of the related application material, however, is largely on existing guidance, for example, that in ISA 220 (Revised), ISA 315 (Revised) and ISA 540 (Revised), by way of references to specific paragraphs in those standards. We are of the view that this will not significantly enhance the application of professional skepticism in a group audit. We recommend that instead of merely referencing back to other ISAs, additional application material is included, providing examples of the circumstances where professional skepticism may be relevant in group audit. These examples could include a group audit engagement where the consolidated entity is an overly complex structure, which in and of itself, may be an indicator of fraud, and which also may require an understanding of matters such as the cash flows between components or subsidiaries within the group and, where intergroup transactions occur, the related transfer pricing agreements. A contrasting example of a group audit engagement where the consolidated entity is a simple structure that comprises few components and minimal intra-group transactions could also be included.

Additionally, further guidance on how the application of professional skepticism can be evidenced in a group engagement team's audit file would be helpful.

SPECIFIC QUESTIONS

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).

Whilst we appreciate the intent of the revised definition of group financial statements and the linkage to a consolidation process, we find it causes more confusion than it eliminates in a number of areas.

The definition of group financial statements includes two terms that we find to be troublesome, highlighted in bold text below.

“Financial statements that include the **financial information** of more than one entity or business unit through a **consolidation process**.”

Absent further clarification, the term ‘financial information’ encompasses too many scenarios and could result in the inconsistent interpretation of the entry point into the standard.

Consolidation process is described in the proposed standard as:

“recognition, measurement, presentation, and disclosure...of financial information of entities or business units in the group financial statements by way of:

- (a) Consolidation, proportionate consolidation, or equity methods of accounting;
- (b) The aggregation of financial information of branches or divisions, or
- (c) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.”

Whilst we acknowledge that the description of the consolidation process incorporates the concept of combined financial statements, we recommend that specifically including a reference to combined financial statements in the definition of group financial statements would clarify that group financial statements also encompass combined, as well as consolidated, financial statements.

We believe there are a number of scenarios where this definition could lead to inappropriate application of ED-600 or is unclear as to whether, or how, ED-600 applies. Examples of such scenarios include where the entity:

- Uses a shared service centre and has no other ‘components’;
- Is a multi-location entity but does not necessarily require consolidation;
- Is a ‘funds of funds,’ is a pension fund, is a private equity enterprise or is an asset manager; or
- Where the financial reporting framework does not require the consolidation of certain component information, but which does require the disclosure of component information.

Our field testing has indicated that paragraph A17 of the proposed standard has created more confusion, than clarification, of when the standard should apply to the audit of financial statements; and in particular, it is not sufficiently clear when a multi-location audit would be excluded from the scope of ED-600. As such, we would recommend that this paragraph is removed.

Further, we note that one of the issues identified in response to the ITC was the application of extant ISA 600 to equity method investments. We note that the proposals in ED-600, which continue to treat equity method investments as a component, do not fully address the complexities in practice of applying extant ISA 600. It remains unclear why an equity method investment is treated differently from other types of investments and is considered a component in its own right, especially when it effectively only affects two financial statement line items in the consolidated financial statements. Equity method investments also present unique challenges to the determination of materiality, especially when the equity method investee is significantly larger than the group itself. The proposals in ED-600 do not address this issue or provide guidance on the allocation of component [performance] materiality in such circumstances.

We recommend that further consideration is given as to whether equity method investments should continue to be incorporated into ED-600 and to adopting the concepts applied by Public Company Accounting Oversight Board (PCAOB) in Appendix B of Auditing Standard (AS) 1105, *Audit Evidence*.

We are also of the view that paragraph 2 from extant ISA 600 continues to be helpful in acknowledging that some of the concepts in ED-600 could be applied to certain circumstances in a single entity audit where other auditors are involved. As such, we recommend that this paragraph is retained in ED-600.

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?

We are concerned with the application of the proposals in ED-600 to larger group audits. Overall, our field testing identified that the proposals will be challenging to operationalise. Scoping at a group level may require many layers of disaggregation to clearly align the risk factors and differentiate significant risks to certain components. This method of scoping is likely to result in additional effort being required in a group engagement, which may not necessarily be needed to perform an efficient and effective group audit or result in a higher quality engagement.

Further, a significant number of the requirements in ED-600 require that the group engagement partner personally perform the actions to satisfy the requirement and not delegate such actions to other members of the engagement team. We agree that the group engagement partner should be appropriately involved in the group audit engagement and should accordingly, be responsible for the sufficiency and appropriateness of the audit evidence obtained in support of the group audit engagement. However, in a large multi-location group audit, we do not believe that it would be practically possible for the group engagement partner to fulfil all of these requirements.

We recommend that further guidance is provided as to the level of disaggregation necessary when performing a horizontal scoping and that the proposals be amended to make it clear that there is flexibility in scoping the group audit engagement, such that a group engagement team may still determine that a component is financially significant and request that full scope audit procedures be performed at that component. We further recommend that additional consideration is given to the requirements that the group engagement partner is required to personally perform to identify those procedures that the group engagement partner could realistically delegate whilst retaining responsibility.

In many group audits, there may be many components for which an audit opinion is separately issued for local jurisdictional or other purposes. ED-600 as drafted may drive additional unnecessary audit work for the following reasons:

- The proposals in ED-600 suggest that to be able to use the work of a component auditor in circumstances where a separate component audit opinion is issued, the group engagement team needs to be directly involved in that component auditor's work. We agree that the group engagement partner is responsible for determining whether there is sufficient appropriate audit evidence to support the group opinion, but we are of the view that this can be achieved through communications with the component auditor and other related procedures.
- Paragraph 42 requires an audit performed on the financial information of a component to be completed and a report issued for the group engagement team to use the work performed at that component in support of the group audit opinion. As noted above, in practice, local statutory, or other audits, are usually performed at the same time as the audit of the group financial statements. This therefore has the impact of limiting the use of local statutory audits in a group audit.

To address these concerns, we recommend that ED-600 allow the group engagement team, where appropriate, to be able to use the results of audit procedures performed at that component in support of the group audit opinion, irrespective of whether that local audit has been completed, for example in circumstances where a statutory audit is performed concurrently with the group audit. We further recommend that ED-600 provides for flexibility in how the group engagement team uses the separate audit opinion issued by the component

auditor and the additional procedures that may be required in that regard. As noted above, we recommend consideration is given to the PCAOB standard, AS 1105.

We also find the proposed guidance concerning sub-groups problematic, particularly in situations where the auditor of that sub-group is not part of the group engagement team. The level of involvement of the group engagement team in that sub-group is not clear. For example, it is not clear whether the group engagement team is required to be involved in scoping at the sub-group level, scoping of each of the components that comprise that sub-group or something in between. Similarly, for supervision and review of the work performed, clarity is recommended on whether the expectation is that this is performed at the sub-group level, the individual component level or something in between. In this respect, we also reiterate our previous comments in relation to the application of ISA 315 (Revised) to the scoping of a group audit and the expected documentation to be retained in the group engagement team's audit file.

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?

We support proposals that allow for greater flexibility in the auditor's determination of what constitutes a component in a group audit engagement, and we believe that this flexibility could be helpful in facilitating some level of aggregation of components. However, it is not clear how this proposed amendment responds to the issues identified in the ITC. Further, we don't believe that it will make a significant difference to scoping a group engagement in practice for the following reasons:

- The auditor's determination of components is naturally constrained by the information that management prepares or is able to prepare.
- Performing the horizontal scoping across the components may require a level of disaggregation which is in direct contradiction to the ability to aggregate.
- Determination, or aggregation, of components that is different to how management views the group, may make audit procedures, such as risk assessment or substantive analytical procedures difficult to perform where explanation and corroboration of variances is required from management.

We therefore recommend that consideration be given to the provision of implementation material that provides examples of situations where the auditor's definition of a component may differ from management's view of the business.

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?

We generally support the enhancements to the requirements and application material in determining whether it is appropriate to accept or to continue an engagement to audit the financial statements of a group. However, it is important to recognise that there are restrictions on access to information and people that cannot be addressed by means of enhancements to auditing standards.

We also note that paragraph 19 of ED-600 requires that the group engagement team request confirmation from component auditors that they will cooperate with the group engagement team. We are of the view that this requirement may be difficult to comply with at the acceptance or continuance stage of an audit. In many instances, the component auditor may not have been identified or engaged to perform the audit of the component at this stage. As such we

recommend that this requirement be amended to require the group engagement team to 'consider' whether the component auditor will cooperate with the group engagement team.

Paragraph 21(b) of ED-600 requires the engagement partner to determine the relevance to the group audit of information provided about the results of external inspections with respect to the component auditor's firm. We are of the view that further clarity is required as to what is intended by 'information provided.' For example, it is not clear whether this is imposing a duty on the group engagement partner to actively seek such information or whether it only requires the engagement partner to use such information if the engagement partner 'becomes aware' of its existence through other means. This could be achieved either through an amendment to the requirement itself or application material to explain the intent of 'information provided.'

Further, as noted in our comment below, clarity is needed in relation to what is required to be retained in the group engagement team's engagement documentation with respect to the component auditor. Such requirements could have a direct impact on the ability to use a component auditor, especially in certain jurisdictions where restrictions in access to working papers are common. We are of the view that a quality audit can be achieved, and that appropriate direction, supervision and review of working paper can be demonstrated through establishing appropriate minimum documentation retention requirements. We recommend that consideration is given to the requirements in the PCAOB standard on documentation⁶ in this respect.

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:

Overall, we are of the view that the proposed risk-based approach can result in an appropriate assessment of the risks of material misstatement of the group financial statements. Our concern lies with the apparent lack of flexibility in the proposals and with whether the proposals allow for sufficient use of the component auditor, which is both effective and efficient, in the proposed approach. A number of the practical challenges posed by ED-600 highlighted in our response to part (c) of the question, either arise when, or are exacerbated by, a firm using another firm outside of its network as a component auditor in a group audit engagement. This is of particular concern for smaller firms that specialise in providing component auditor support to larger firms because of jurisdictional or cultural differences. As we indicated in our overall comments, we do not believe that creating requirements that may create competitive disadvantages is in the public interest.

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

We find ED-600 unclear as to the role of the component auditor and of the group engagement team in the risk assessment process, as it relates to a specific component. We are of the view that there are two different and distinct roles for the component auditor in a group engagement. The first scenario is where the group engagement team takes responsibility for the risk assessment at the component level and accordingly for the proper execution of the audit procedures to be performed by the component auditor. The second scenario is where the component auditor performs an audit for statutory or other local purposes, in which case, the group engagement team would be responsible for the

⁶ AS 1215, *Audit Documentation*, paragraphs 18 and 19

direction, supervision and review of the component auditor's work in order to be able to use that work in support of the group audit opinion.

Further, the responsibilities of the group engagement team in relation to documentation and evidence that is expected to be retained in the group audit team's engagement file where a component auditor is used to perform the risk assessment process is unclear. We recommend further clarification of the respective responsibilities that allow for flexibility in relation to the group engagement team's involvement of the component auditor, which we believe is essential to a robust risk assessment.

We recommend that further guidance is provided in ED-600 on the circumstances and extent to which the component auditor may be used in performing risk assessment procedures in support of the group audit and how this may differ when the component auditor is from a different firm to the group engagement team and therefore subject to different firm policies and procedures. Also, guidance on how this involvement may differ in a number of circumstances is needed, including when:

- The component auditor is from a firm that is not part of the group engagement team's network;
- The procedures to be performed at the component only comprise audits of specific financial statement line items or specified procedures; or
- The group consists of sub-groups.

Absent such guidance, there may be less of an incentive for group engagement teams to involve component auditors, whether from the firm's own network or not, or to reduce the extent to which they are involved without an appropriate reason for that reduction.

ED-600, paragraph 4 (supported by paragraph A7) indicates that the component auditor is involved in the group audit to 'assist the group engagement team in identifying, assessing and responding to the risks of material misstatement of the group financial statements.' We see this statement, in addition to the reduction of representations required from the component auditor and the incorporation of the component auditor into the engagement team, as a significant shift in the perceived responsibilities of the component auditor. In our view, this may infer that component auditors are able to relinquish responsibility for their work. We also view this as being problematic from a legal standpoint, especially in circumstances where the component auditor is not from the same network of firms as the group engagement team.

We also recommend that, if the intent of ED-600 is not to reduce the responsibilities of and assumed by the component auditor, the role and responsibilities of the component auditor are clarified to that effect in the final standard.

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?

We are of the view that the following clarifications in relation to the interactions of the group engagement team and the component auditors are necessary:

- Direction of the component auditor – when the component auditor is performing risk assessment procedures in support of the group audit engagement, further guidance would be helpful on how the group engagement team fulfils the requirement to direct the component auditor, especially when that component auditor is from a firm that is not part of the group engagement team's network and may employ different methodologies or risk ratings.

- Communication of matters related to the financial information of components – further guidance would be helpful on the types of matters that would be expected to be communicated as part of satisfying this requirement.
- Communications regarding the group’s ability to continue as a going concern – further clarification of the difference in communication required by parts (a) and (b) of this requirement would be helpful. We believe that part (a) would be communications from the group engagement team to the component auditor of the matters of which the group engagement team is aware and that part (b) is communication by the component auditors to the group engagement team of the matters of which the component auditor is aware.
- Engagement documentation – further guidance is needed on the level of documentation that is required to be included in the group engagement team’s engagement documentation as it pertains to the component auditor’s work. This includes guidance in relation to:
 - The review of the component auditor’s work performed by the group engagement team;
 - The retention of the actual working papers of the component auditors; and
 - The review and retention of component auditor working papers when the audit is performed for a purpose other than that of the group audit.

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

We have identified the following practical challenges in applying the proposals in ED-600:

- Use of component auditors – the nature, timing and extent of involvement of the component auditor in the risk assessment process and the communications to the component auditor in that respect. Increased effort will be required at the planning stage of the audit, which may not always reap the benefit of a higher-quality audit.
- Use of component auditors from a different network firm to that of the group engagement team – in circumstances where the group engagement team is using a firm from outside its network of firms, the new risk-based approach makes it increasingly more difficult to perform an effective and efficient audit due to differences between the audit methodologies of the respective firms.
- Risk assessment process – achieving the appropriate level of disaggregation of the financial statement line items to identify and assess the risks, as they pertain to the components, may often require the involvement of the component auditor, the manner in which ED-600 is currently drafted makes the manner in, and extent to, which the component auditor is used in the risk assessment process unclear. In this respect, we refer you to our comment above relating to the use of firms outside of the group engagement team’s network and the respective audit methodologies.
- Risk assessment process – achieving the appropriate level of ‘coverage’ across the financial statement line items requires the application of professional judgment to determine when sufficient appropriate audit evidence has been obtained in totality to support the group audit opinion. Whilst engagement teams are familiar with how to exercise this judgment under extant ISA 600, guidance or a framework of how to make this judgment under ED-600 would be helpful. In this respect, we refer you to our comment above on the application of paragraph 18 of ISA 330 in a group audit engagement.
- Duplicative work effort – where the component auditor is engaged to perform an audit for local purposes, but the work is not used in support of the group audit opinion or is

precluded from being used by the proposed standard, audit procedures that are duplicative will be performed. This, in turn, increases the overall cost of the audit for the group and its subsidiaries without an associated improvement in quality.

- Loss of local knowledge – If the group risk assessment is performed entirely, or largely, by the group engagement team, local knowledge of the component auditor that may not be known by the group engagement team may be lost and not taken into account in assessing the risks of material misstatement to the group; resulting in an inappropriate or incorrect risk assessment and inappropriate or inadequate audit procedures being performed in response.

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

We note that the interpretation and application of ‘group-wide controls’ in extant ISA 600 is, in practice, inconsistent and, as such, we are supportive of the change to commonality of controls and centralised activities. Similarly, we are supportive of the application material added on the commonality of controls and centralised activities. The results of our field testing indicate that the proposals in ED-600 improve the ease of designing the audit strategy for centralised classes of transaction, account balances and disclosures, which is a common approach for the audit of financial statement line items such as income taxes and goodwill.

We note that in practice, common controls and substantive audit procedures performed by the group engagement team can provide audit evidence for both the group audit and for a component auditor in situations where a separate local opinion is being provided. As such, we recommend that additional application material be added to explain the extent to which a component auditor may use the work performed in relation to common controls for the group audit and the substantive audit procedures performed by the group engagement team in forming an audit opinion on the component’s financial statements. Additionally, an example of this situation may be helpful to demonstrate this concept.

Q10. Do you support the focus of 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?

We are supportive of the introduction and definition of aggregation risk into ED-600. We are of the view that this is particularly helpful when dealing with audits of the financial statements of groups where the group comprises very few components. In such circumstances, the introduction of aggregation risk allows for greater use of professional judgment in determining what would be an appropriate component performance materiality.

We note that one of the issues with extant ISA 600 was identified as being the determination of component [performance] materiality itself. We are not convinced that the proposals in ED-600 have solved this issue. We recommend that application material, or at a minimum, implementation guidance be included to provide guidance on the application of performance materiality in certain situations such as:

- Determining component performance materiality when, as a result of the risk-based scoping, the group engagement team requests that audit procedures are only performed on one or a few financial statement line items at a component, where the nature, timing and extent of the procedures performed are determined by the component auditor.
- Determining performance materiality, if any, when specified procedures only, as determined by the group engagement team, are performed at a component.

- In relation to the increased judgment introduced by aggregation risk, a 'framework' of factors to consider in exercising that judgment. This may also reduce inconsistencies that may be experienced due to differences in the tolerance for risk across different firms.
- In circumstances where audit procedures are being conducted on aggregated component financial information, the appropriate level of materiality to be used, including whether the use of group materiality remains permissible when performing analytical procedures.

We also recommend incorporating into paragraph A73 that the determination of component performance materiality takes into account both quantitative and qualitative factors; and that there may be circumstances where components within the group have been identified but for which a component performance materiality is not required.

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?

We are of the view that further clarification of certain of the requirements would be warranted. For example:

- Paragraph 57(d) requires documentation of the extent of the group engagement team's direction and supervision of the component auditors and review of their work. We are of the view that further guidance is needed in relation to extent of documentation required and how that documentation may be tailored to each of the individual components. For example, in relation to direction and supervision; it does not seem reasonable to expect that every communication with the component auditor is recorded; where this is via email, that each email forms part of the audit documentation; or that the same extent of documentation is retained for each component irrespective of the type and extent of procedures being performed at that component. We also recommend that further guidance is provided on the level of documentation that is required to be included in the audit file of the group engagement team that pertains to the component auditor's work, including in relation to the review of the component auditor's work performed by the group engagement team and extending to the actual working papers of the component auditors. In this respect, as noted above, we recommend that consideration is given to the requirements in AS 1215, which address the component auditor's documentation to be reviewed by the group engagement team; for example, an engagement completion memorandum with a predetermined minimum content, details of the significant risks, responses and results of the component auditor's related procedures thereto, matters affecting the consolidation of the financial statements and so on.
- Paragraph 57(e) includes documentation requirements with respect to matters related to communication with the component auditors. Guidance on the formality, or otherwise, in relation to these communications would be helpful in circumstances where the component auditor is located in the same office as the group engagement team; and if less formal communications are permissible, the extent of documentation required to evidence appropriate direction supervision and review of the work of that component auditor

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?

We agree with the application material in paragraphs A129 and A130 of ED-600 that allow the group engagement team to include in the group engagement documentation a

description of the audit procedures performed by the component auditor on matters relevant to the group, the evidence obtained from performing those procedures and the findings and conclusions reached by the component auditor with respect to those matters. We recommend that this guidance be extended as an option to group engagement teams in all instances where a component auditor is used in support of the group opinion. This may prevent any unintended legal consequences of including a component auditor's working papers in the group engagement team's audit documentation.

We also recommend that further guidance is considered in relation to jurisdictions that are restricted from providing documentation outside of their respective jurisdictions and, as currently may be the case, travel to that jurisdiction by the group engagement team is prohibited.

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

We have identified the following additional matters in relation to ED-600:

- Definition of engagement team and group engagement team – we note that the definition of component auditor has been revised to reflect the amendment to the definition of engagement team in ISA 220 (Revised), which incorporates the component auditor into the definition of the engagement team. Whilst we appreciate that this change is driven by the foundational standard, we believe that it is important that ED-600 highlights this change and explains how this interacts with the definition of group engagement team earlier in the standard. We would suggest that this should be included in the introduction to the standard and as essential application material to the definition of group engagement team and not included in the application material itself, where it may easily be missed by users of the standard.
- Understanding of components – ED-600 is ambiguous with regard to the nature, timing and extent of understanding of the components that the group engagement team is required to obtain. For example, it is not clear whether the proposals require an understanding to be obtained for all components, for only those components at which procedures will be performed, or components as judgmentally determined by the group auditor on criteria such as the significance of the component, the location of the component or the nature of the component's operations. We recommend that application material is provided that clarifies this understanding and, if judgment is to be applied, the factors to consider when determining for which components an understanding is obtained.
- Relevant controls – Where the scoping of the group audit results in numerous significant risks related to the same financial statement caption or significant risks that apply across numerous components, the extent of the understanding of relevant controls necessary for such significant risks and the potential for use of common controls is unclear. We recommend that clarification is provided on how common controls may be used in such circumstances.
- Determining the nature, timing, and extent of further audit procedures - Paragraph 33 of ED-600 requires the group engagement team to take responsibility for the nature, timing and extent of further audit procedures to be performed. Further guidance on the application of this related to the determination of the nature, timing, and extent of further audit procedures to be performed (that is, clarifying this in the context of supervision and review) across the group would be helpful. Whilst we appreciate that the sufficiency of testing across numerous components for a given risk of material misstatement is a matter of professional judgment, it would be helpful if there was guidance on the factors to consider in making that determination.
- Concentration of firms able to perform group audits – As we have noted in a number of our responses above, certain of the proposals in ED-600 are making it increasingly difficult for

component auditors from a firm other than the group engagement team's network of firms to be used. The consequence of this will be that group audit engagement will increasingly be performed only by the larger firms and such a concentration of the market is not in the public interest.

- Legal implications of the retention of component auditor's working papers – We recommend that consideration is given to potential legal implications of retaining component auditor's working papers in the group engagement team's audit file. These may include for example:
 - Where a component auditor's working papers reference a working paper in the component auditor's audit file and that referenced working paper is not considered necessary by the group engagement team to support the group audit opinion and, accordingly, has not been reviewed by the group engagement team, the status of the specific working paper is unclear;
 - Where component auditor's working papers are included in the group engagement team's audit file, it is not clear how the entire component auditor's file would be considered from a legal perspective across various jurisdictions around the globe.
- Interfirm reporting – We note that a number of firms have developed a practice of requesting 'component auditor's reports' that are similar in nature to an auditor's report under ISA 700.⁷ This form of reporting is not additive in value to the engagement, and we would recommend that ED-600 include application material that specifically states that such a report is not required to fulfil the requirements of ED-600.
- PCAOB's project on supervision of audits involving other auditors – We note that the PCAOB is in the process of finalising its updated standards in relation to the supervision of audits involving other auditors. We would recommend that consideration is given to these proposals in finalising ED-600 such that global alignment is achieved to the extent possible.

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.**

We did not identify any specific translation issues.

- 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.**

We are of the view that any proposed effective date needs to take into consideration the number of foundational and other standards that have recently been, or are in the process of being, revised. Firms, and others in the financial reporting eco-system are currently devoting extensive resources to the understanding, implementation of, and training on, ISA

⁷ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

540 (Revised), ISA 315 (Revised), ISA 220 (Revised), ISQM 1⁸ and ISQM 2⁹. To maintain high quality audits, we are of the view that time is needed for the firms to properly embed these standards into their respective methodologies before ED-600 becomes effective. However, we also recognise that other difficulties may be presented in applying extant ISA 600 with ISA 220 (Revised) given the degree of interconnectivity of these standards. As such, we consider it vital that appropriate due diligence is performed to ensure that the approved amendments in ISA 220 (Revised) can be implemented in conjunction with extant ISA 600, and that if necessary, additional implementation guidance is issued in this respect. On balance, we propose an effective date for ED-600 of periods beginning on or after December 15, 2023. This would provide the necessary time for firms to implement all the recently revised standards without the potential detriment to audit quality.

⁸ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁹ ISQM 2, *Engagement Quality Reviews*