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International Auditing and Assurance Standards Board
[submitted through the IAASB website]

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Dear Sirs,

RE: PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED): SPECIAL CONSIDERATIONS - AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

Baker Tilly International is a network of independent accountancy and business advisory firms. Member firms of Baker Tilly International provide assurance, tax, consulting, and advisory services. Our 34,000 people, in nearly 800 offices, across 145 territories serve clients of every sector and size who look to us for the insights needed to accelerate their growth.

Member firms of Baker Tilly International conduct audits of all sizes across all sectors, as group auditor and as component auditor. The insights from those member firms inform the comments below. Our responses to the questions are in the Appendix.

ED-600 is comprehensive and largely clear. Having separate sections highlighting issues to consider when working with component auditors is helpful. There is more that could be done to highlight where ED-600 is scalable. We agree that ED-600 is scalable but working through the standard's requirements to identify where and how it is scalable is difficult. There are other opportunities for scalability aside from component auditors. We describe some immediate steps the IAASB could take to address scalability in our answer to question 5 in the Appendix.

The ED could have been written starting with the simplest consolidation and built out to include additional considerations in more complex scenarios. It will be interesting to see what the IAASB's project on Less Complex Entities does with ED-600 (and other standards). We advocate a drafting process which thinks "less complex first". In writing the standards in their current style (all in, highlighting elements that can be removed for audits of less complex entities) the IAASB is leaving it to the authors of audit methodologies to make their own decisions on where the standards are scalable and how scalability is brought into practical auditing. Appendix 4 in the ED is helpful in this regard and could be referenced at appropriate points in the main standard. One complexity that the standard could address is centralised data centres used by the audited entity, which might simplify group reporting but complicate component auditing.

It is not uncommon that group auditors work with component auditors from outside their own network and vice versa. Baker Tilly member firms are committed to the highest standards in conducting group audits, and they are ready to work alongside audit firms from other networks to deliver efficient high quality group audits, either in a group or component auditor capacity. Applicable standards must be the same regardless of the size of the audit firm. Where ISA 600 is scalable, that should only relate to the size and complexity of the audited group and not to the auditor itself. We are aware of concerns in some jurisdictions that certain paragraphs in the proposed ISA 600 could be taken by group management as inferring that utilising component auditors from a different network to the group auditor is inefficient and/or presents a risk to group audit quality. Appendix 1 is helpful in this regard. We understand that such inferences are not the IAASB's intention, and a clarification could be added to the introduction to the standard as follows: "It is not uncommon that group auditors work with component auditors from outside their own network and

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vice versa. ISA 600 should not be taken to discourage utilising component auditors from a different network to the group auditor, or to encourage utilising only component auditors from the same network as the group auditor.”

The planning process under ED-600 looks like it will take longer than under the extant standard, even though you may end up with the same audit plan. We may see fewer full component audits, and more specified procedures, so some “big picture” view at a component level may be lost. There is also no “minimum floor” of work required on significant components. These two things together may result in less audit work being undertaken on the group under ISA 600 revised than is currently the case. The main driver behind revising ISA 600 was to improve the quality of group audits. Loss of big picture view and insufficient involvement of component auditors may not help with that and might result in a drop in audit quality.

Whilst it is clearly a good idea to involve component auditors in obtaining an understanding of the component and the risk assessment process at group level, there is no requirement to do so. The communication requirements are focused on the group auditor to component auditor direction, which is a missed opportunity to highlight the benefits of local knowledge that a component auditor brings to the group audit.

We discuss in our responses to the relevant questions where we have concerns with how the new requirements deal with access to work papers of component auditors.

There are some helpful clarifications in ED-600 with respect to controls and audit testing particularly in the scenario where a group has no subsidiary audit reporting requirements.

If I can clarify any of the comments in this letter, then please contact me using the details below.

Yours faithfully,

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Director of Professional Standards

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APPENDIX

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?

(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?

Baker Tilly response: Yes. The linkages to other standards are consistent and coherent.

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?

Baker Tilly response: Yes. It is helpful to separate the requirements when component auditors are involved from the requirements of an individual firm conducting the entire group audit. This is especially so given the revision of the definition of a group to be one where there is a consolidation process.

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?

Baker Tilly response: ED-600 regularly reinforces professional scepticism. References to other relevant standards such as ISAs 200, 210, 315, 330, and 540 make it clear that professional scepticism is a core element of a group audit and of auditing.

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).

Baker Tilly response: Yes and yes. Paragraph 9(k) clearly defines group financial statements and consequently what is to be audited in a group audit.

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?

Baker Tilly response: Yes. The considerations and principles are sufficiently generic to address both larger more complex groups and smaller less complex groups. However, the size of the standard may be a prohibition to identifying what reductions are possible for smaller less complex groups. As drafted, other than component auditor requirements there is no clear identification of the scalable elements, and the component auditor elements only fall away if all components are audited by the group auditor. Otherwise the only other place where the standard is obviously scalable is where the group auditor has no external restrictions on access. So the IAASB is leaving it to the authors of audit methodologies to interpret the standard, and they will likely be thinking less complex first. That might be good for innovation, but it might be bad for consistent application or possibly give results which are inconsistent with the IAASB's intention. To address the risk of inconsistent application, the board might consider re-writing the following sections from a standpoint of "less complex first":

- Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control
- Materiality
- Responding to the Assessed Risks of Material Misstatement.

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?

Baker Tilly response: Yes. The ED gives the group auditor greater freedom to identify the relevant risks and populations for testing, rather than being forced to follow a legalistic or numeric model. The removal of the concept of significant components (15% “rule”) and the related guidance on the work required versus insignificant components and the potentially lower bar for those components is a substantive shift and the impact may only be apparent once the ISA is implemented. There is scope for innovation here, but that also implies inconsistency in approach and nature of evidence gathered by different audit firms for similar fact patterns. In principle, we agree that there are different ways to conduct a high quality group audit but the reaction of audit regulators will be a key influence on whether ED-600 in practice fosters innovation while supporting audit quality.

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?

Baker Tilly response: Yes. Further clarification should be given, for example where a component auditor has “reasonable policies” not to transfer working papers outside of their jurisdiction or to provide electronic copies of working papers outside of their jurisdiction. This should not be viewed as a limitation of scope provided that the component auditor undertakes best efforts to make working papers available to the group auditor within their jurisdiction. Such reasonable policies might be needed to comply with local data protection rules, or other local law. To qualify as a “reasonable policy” it may be appropriate, for example, to set an expectation that these restrictions would apply equally whether the component auditor was a member of the group auditor’s network or not.

Where the group has a non-controlling interest in an entity but the auditor is not allowed access to audit documentation of that entity paragraph A29 as written could give the impression to group management that the group auditor should be satisfied just by performing some of the suggested procedures, such as considering publicly available information. This might lead to situations where the group auditor is pressured to accept a lower standard of evidence than would otherwise be acceptable. We recommend that the second bullet of paragraph A29 be revised with the bold text to read: “Where the group has a non-controlling interest in an entity that is accounted for by the equity method, the group engagement team may be able to overcome restrictions by **applying alternative procedures which might include some or all of the following:...**”

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?

Baker Tilly response: Yes. The division of responsibility for the risk assessment and responses are clear in the standard as is the ability to delegate the execution of the risk assessment and responses. Practically however, the removal of the significant component vs insignificant component guidance may mean that teams are less certain about which entities require audit procedures and which can be addressed with lesser procedures due to their size and nature.

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

Baker Tilly response: 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?

Baker Tilly response: Yes. The factors are consistent with the forthcoming ISA 315 Revised. However, for ease of implementation the application date of ED-600 should be no earlier than the application date of ISA 315 (Revised) and we would advise against early adoption of ISA 600 revised before adopting ISA 315 revised. There could be more guidance on aggregation risk and how practically to factor it in to the determination of performance materiality.

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?

Baker Tilly response: No.

(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?

Baker Tilly response: Yes. It would be helpful to clarify that these paragraphs apply in circumstances where there is a restriction in place whether or not the component auditor is from the same network as the group auditor.

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

Baker Tilly response: It would be helpful for some jurisdictions to explicitly clarify in the introduction to the standard that which is implicitly inferred in Appendix 1. Being that it is not the IAASB's intention to discourage the appointment of component auditors from a different network to the group auditor. Appendix 1 is helpful in tone and content.

Paragraph A42 refers to automated tools in a manner which could be interpreted to infer for example that if a parent entity auditor has a proprietary software which is not available to the component auditor then the component auditor is less competent or capable. Paragraph 42 could also be interpreted to mean that the component auditor cannot be appointed if they do not have or cannot access a particular tool. Using different systems does not mean they are not equivalent in the circumstances. Having common systems does not necessarily mean that firms are equivalently capable and competent. It should be made clear that mandating the use of a specific tool may be unnecessary when mandating the use of a technique is more appropriate. For example, specifying that "XYZ Data Analytic tool must be used for [a task]" is very different from specifying that "A data analytic tool should be used for [a task]". We recommend that the fourth bullet of paragraph A42 (and paragraph 3 of Appendix 1) is amended to replace "common" with "equivalent" throughout as follows (see strikethrough and **bold text**):

"A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as: [...] The degree to which the group engagement team and component auditor are subject to ~~common equivalent~~ systems of quality management, for example, whether the group engagement team and a component auditor:

- Use ~~common equivalent~~ resources to perform the work (e.g., audit methodologies or information technology (IT) applications)
- Share ~~common equivalent~~ policies or procedures affecting the engagement performance (e.g., direction and supervision and review of work or consultation);
- Are subject to ~~common equivalent~~ monitoring activities; or
- Have other ~~commonalities equivalencies~~, including ~~common equivalent~~ leadership or a ~~common equivalent~~ cultural environment."

Different firms are already working with and embedding different data analytical tools into their audit processes. To require a component auditor to use a specific automated tool is equivalent to requiring a component auditor to use a specific audit methodology. The second sentence of paragraph A45 should be amended as follows: "When the group

engagement team requires component auditors to use **specific equivalent** automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team’s instructions.”

Request for General Comments

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.

Baker Tilly response: We have no comments on translation.

(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.

Baker Tilly response: We would advise against applying ISA 600 revised before applying ISA 315 revised. It would not be practical to have a group audit conducted using ISA 315 extant, while ISA 600 revised was referencing ISA 315 revised. The changes to risk assessment in ISA 315 revised could make earlier adoption of ISA 600 revised problematic for regulators, existing audit methodologies and documentation tools. We recommend an effective date for the ISA no earlier than periods commencing on or after 15 December 2022.