

October, 2, 2020  
Ref.: SEC/026/2020 - DN

**International Assurance and Auditing Standards Board for Accountants (IAASB)**

545 Fifth Avenue, 14th Floor  
New York, NY 10017  
USA

Dear Sirs,

We, Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the 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. See our comments below.

**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. However, there are some key areas of ISA 315 (Revised) that need more linkage, particularly:

- The extent to which a group auditor needs to develop an understanding of the entity and its environment at a component level
- Significant classes of transactions, account balances and disclosures at the group level and the work performed at the component level
- How material account balances and disclosures in the group financial statements that are not significant may be addressed in group audits in accordance with ISA 330.18

**(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?**

Considering that the quality management standards (ISA 220 (Revised), ISQM 1 and ISQM 2) are still in process of final approval, we recognize that are some points that need further alignment to be considered by the IAASB in the next revision. Regarding the new definition of engagement team in ISA 220 (Revised), we believe that meeting the requirements related to the determination of appropriate competence, capabilities and time of the component auditors, and the direction, supervision and review of the component auditors' work will be hard for group engagement teams in practice, particularly for component auditors in different countries or networks firm.

**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?**

We support the inclusion of the sub-sections to highlight the specific requirements that need to be fulfilled by the group auditor when component auditors are involved and also addresses the scalability issue for consistent application.

**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 emphasis on professional skepticism is a useful reminder for group audits. However, as mentioned in the response of question 8 below, we believe that the heavy focus on the top down approach can have an unintended consequence of diminishing the professional skepticism by the component auditors.

**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).**

We recommend that ED-600 be amended to include additional guidance, besides A16-A18, to clarify the 'consolidation process' set in paragraph 11. Further, ED-600 allows the auditor's determination in identifying components, which can be different from the Management's definition, and therefore it is important to include the situation whereby the group auditor determines that there is more than one component (see also response to question 6 below).

In addition, ISA 220 (Revised) in paragraph A1 states that ISA 600 may provide useful guidance in addressing circumstances that involve more than one auditor that do not meet the definition of an audit of group financial statements. However, we feel further guidance may be needed.

**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?**

We believe further clarity needs to be included in ED-600 for more complex or larger groups, with multiple components auditors (of even different networks and jurisdictions). Considering the group auditor is the ultimate responsible for the group financial statements audit, the determination of risk assessment procedures to component auditors is particularly important and additional guidance is helpful to proper address this issue (see also response of question 8 below).

**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?**

We support the flexibility for the 'auditor view' in determining the components to perform the audit. However, we note that there may be a lack of clarity as to when it would be appropriate to apply an auditor view that differs from management's. We suggest further information about how to apply the requirements in this scenario, and whether a group auditor should consider if there is recognizable component management as one of the factors in determining the components for the audit.

**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?**

We support the enhancements made in ED-600, but we understand that including a clear differentiation whether the restriction is imposed by management and those that are outside of management's control

is helpful. However, even with the enhancements, we acknowledge that there will be continued challenges arising from restrictions on access to information particularly for equity-accounted investments. So, additional guidance and examples regarding this would be very helpful.

**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?**

As already said in question 2, the inclusion of the sub-sections when component auditors are involved helped to understand the respective responsibilities. However, especially in adopting the risk-based approach of ISA 315 (Revised) for ED-600, and considering there is a possibility of some of the risk assessment procedures being identified by component auditors, it is not clear the role of the component auditors and their respective responsibilities in identifying, responding and reporting Risks of Material Misstatements (RMMs) to the group auditor.

In addition and as noted in response to item 8.c below, the heavy focus on a top-down risk approach brings additional challenges to the application of ED-600 in comparison with the extant since the responsibilities of component auditors seem to have been lessened while the group engagement team responsibilities appear to have been enhanced, which could lead to an unintended consequence of more centralized work, which is not always be the best option to bring quality to the audits.

As a result, we suggest that the application material expand on the current content, regarding the component auditor's knowledge and experience, to clearly explain the reasons as to why it may be ideal, from an audit quality perspective, to perform an audit over component financial information in certain scenarios and why, in such circumstances, it may create a risk to audit quality when a component auditor is not appropriately involved.

**(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?**

The two-way communication was highlighted throughout the standard and we agree with the enhancements done in application material. Our concern is the level of documentation required as set out in question 11, which can lead to a significant increase of work to be performed by the group auditor. We also believe that additional guidance should be included regarding review of component auditor's documentation, especially since this review may be significantly impacted by local regulations and interpretations, depending on the location of the component auditor.

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

Main issue is the emphasis on group engagement team as being responsible for directing all audit activity, which creates an expectation that they will be able to manage engagements at the component level, regardless the existence of some barriers as language or jurisdiction. This also can lead to less reliance on other audit firms by the group auditor, due to these increased responsibilities (also in connection with the changes proposed by ISA 220 (Revised)). Other practical impediment that could result in ED-600 not having the desired outcome is how the concept of spectrum of risk applies in a group scenario, particularly when identified in the component level.

**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, we support the additional application material on the commonality of controls and centralized activities and believe the material is clear and appropriate.

**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, we support the focus on component performance materiality and the additional application material including guidance on aggregation risk and factors to consider in determining component performance materiality. However, we believe that the application material could be improved by providing more details and clarity around component performance materiality particularly around the example about disaggregation in paragraph A75, which is not defined as aggregation risk.

In addition, ED-600 does not address performance materiality for communicating misstatements for equity investees. Thus, we would welcome further guidance on acceptable audit practice for such investments.

**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?**

The documentation regarding the scoping of group audit seems to be key documentation for the scope of ED-600, however it does not appear as a documentation requirement in paragraph 57. We believe requirement for documentation about scoping should also be included in this paragraph.

**(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?**

Considering the fact that component auditors are part of the engagement team, the expectation could be that all component auditor documentation should be in the group audit file, which is not practical. So, clarifying the exercise of professional judgment in evaluating factors to consider the appropriate level of documentation would be appreciated.

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

No.

**Request for General Comments**

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

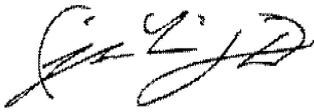
**(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.**

Nothing identified at this stage.

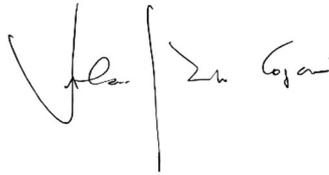
**(b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval 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.**

Agree.

Best Regards,



**Francisco A.M. Sant'Anna**  
President



**Valdir Renato Coscodai**  
Technical Director