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2 October 2020

Attention: Willie Botha
Technical Director
IAASB
529 5th Avenue
New York, New York 10017

Via online submission: www.iaasb.org

Dear Willie

Submission on IAASB 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.

CPA Australia represents the diverse interests of more than 166,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia welcomes the IAASB's work in revising ISA 600 and supports the risk-based approach adopted in the IAASB Proposed International Standard on Auditing 600 (Revised) – *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (the ED) and its alignment with revised ISA 315 and the suite of new Quality Management standards, approved but not yet released. We consider that the standard has the capacity to improve audit quality as long as the approach is effectively implemented by group engagement teams.

We note that the ED places a greater onus on the group engagement team in the conduct the group audit, with less reliance on audits of component financial statements in their entirety. This will present a potentially significant challenge for group engagement teams when the group includes many components, is geographically spread and/or comprises a complex structure. The approach, if managed well, should result in a more targeted approach as it will be driven by the risk assessment, which is intended to improve audit quality, and may also result in some efficiency gains. However, there are also risks which arise from potentially less involvement of component auditors. If the component auditors' involvement is diminished in circumstances where they hold specific knowledge and understanding of the components, which is not fully appreciated or leveraged by the group engagement team, audit quality may be compromised. Therefore, we recommend strengthening the requirement to consider the appropriate involvement of the component auditor and the measures to integrate the component auditor into the engagement team. For example, this can be done by the group engagement team sharing its risk assessment with component auditors and inviting input on that assessment and the planned responses to assessed risk. This would ensure that component auditors are not operating in isolation of the overall audit approach.

We note that ED-600 was released prior to the outbreak of COVID-19 and, therefore, does not take into consideration the changing circumstances currently experienced by the auditing profession, in particular the world-wide shift to remote working and the technological solutions which have enabled the rapid implementation of new ways of working. These new ways of working are likely to endure to some degree into the foreseeable future. Whilst the shift to technology-enabled audits had been gaining momentum prior to the pandemic, there has been a significant acceleration in this shift. Audit firms of all sizes are exposed to increased pressure to adopt digital

transformation strategies and to implement technological tools. Looking forward, we expect increasing levels of remote auditing and automated, or at least technologically enabled, audits. Therefore, we encourage the IAASB to provide more application material addressing the undertaking of remote auditing in the context of group audits.

Finally, we recommend that the final standard be effective 24 months after approval, rather than the usual 18 months. This will enable the implementation of all of the other standards which will become effective in the intervening period, namely ISA 315 and the suite of quality management standards, ISQM1, ISQM2 and ISA 220, to be staggered rather than concurrent. Also, it will allow firms time to adjust their methodologies and address issues arising from implementation of the new risk-based approach, before applying that approach to group audits. Once this proposed standard is effective, given the significant shift in approach to group audits, we recommend that the post-implementation review not be delayed beyond the usual three-year period, so that any unintended consequences can be identified and addressed in a timely fashion.

Our detailed comments with respect to the questions raised are provided in the Attachment to this letter.

If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser Audit and Assurance at claire.grayston@cpaaustralia.com.au.

Your sincerely



Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Enc: Attachment

Responses to Questions in IAASB Consultation Paper – Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

Overall Questions

Q 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?

Response:

- (a) CPA Australia agrees that ED-600 has appropriate linkages to other ISAs and the proposed ISQMs, with the exception of some additional references suggested below. We are especially supportive of the footnotes provided throughout ED-600 with exact paragraph references. We suggest referencing ISA 250 in paragraphs 44(b) and A111 in relation to non-compliance with laws and regulations.
- (b) We believe that ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs (e.g. ISA 315 and ISA 330), including proposed ISA 220 (Revised), although we recommend that the application material in ISA 220 (revised) paragraph A1 is also covered in ISA 600 as explained further in answer to question 4. We are not aware of any other special considerations for a group audit which should be addressed in ED-600.

Q 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?

Response:

We support the placement of sub-sections that highlight the requirements when component auditors are involved. More precisely, we believe that it is helpful to show those sub-sections separately. This makes it easier to identify the requirements and procedures when component auditors are involved.

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

Response:

We generally agree that ED-600, particularly paragraph 5 as well as paragraphs A9 and A10 appropriately reinforces the exercise of professional scepticism. However, there are some areas where further application material may be helpful. We are concerned that, as the risk-based approach will result in component auditors being engaged in many instances to conduct work on discrete systems, controls, accounts or assertions rather than conducting an audit of the component's entire financial statements, that this potentially will limit their effective exercise of professional scepticism. To address this, we suggest that the need to communicate relevant aspects of the group engagement team's risk assessment should be required. The ED emphasises the group engagement team's responsibility for the identification and assessment of the risks of material misstatement with the assistance of component auditors, as needed, and the group engagement team's communication of work they require the component auditor to undertake. However, the ED does not raise the benefits of sharing relevant aspects of the risk assessment with the component auditor, particularly when the component auditor is not involved in the risk assessment, to enable more effective exercise of professional scepticism. Paragraph 26 could be broadened to cover communication of identified risks with component auditors when they are not engaged in the risk assessment process. Whilst paragraph 44 details information which the component auditor should communicate to the group engagement team, the ED does not provide the same level of detail in paragraph 43 regarding what the Group

engagement team should communicate, nor does it explicitly require communication of risks of material misstatement.

Furthermore, we believe that ED-600 should take into consideration that the increasing shift to remote audit may create challenges for auditors in exerting professional scepticism when they have either no, or restricted, access to information and people within the group. We elaborate on this concern in our detailed response to question 7.

Specific Questions

Q 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).

Response:

We consider that the scope and applicability of ED-600 only becomes clear when you drill down into the definitions, requirements and application material. This explanation of what a group encompasses could be made much clearer in the introduction. We suggest that the entry point to the standard needs to more succinctly articulate, in the initial paragraphs, matters such as exactly the types of engagements to which it applies and the types of engagements for which it may provide useful guidance.

Specifically, whilst we support the “consolidation process” as a basis to delineate a group audit rather than solely the legal structure, as we agree that it better reflects the audit process, this term is not limited to consolidation as defined under International Financial Reporting Standards (IFRS) or in common use in other accounting frameworks. The “consolidation process” as defined in ED-600 (paragraph 11) encompasses consolidation, proportionate consolidation, the equity method of accounting, aggregation of branches or divisions’ financial information and combined financial information of entities or business units under common control. Likewise, whilst ED-600 applies to “group financial statements”, as indicated by the title, the definition of a group is also much broader than that in the IFRS or in common use in other accounting frameworks. Group (defined in paragraph 9(f)) is a reporting entity for which group financial statements are prepared, which include the financial information of more than one entity or business unit (within a single entity) through a consolidation process (paragraph 9(k)).

Clarification of the scope of the standard could be addressed by amendments to paragraph 2 so that it is not necessary to drill down into the standard to determine if the standard is applicable. For example, this paragraph could be amended as underlined

2. This ISA applies when the auditor has been engaged to audit group financial statements. Group financial statements, as defined in this standard, are not limited to the legal structure but include the financial information of more than one entity, whether due to a group structure, equity interests or under common control, or a single entity with more than one business unit, including branches or divisions. A key factor in determining whether financial statements are group financial statements is whether financial information is prepared through a “consolidation process” as described in paragraph 11, which includes consolidation, proportionate consolidation, the equity method of accounting, aggregation of branches or divisions’ financial information and combined financial information of entities or business units under common control.

ISA 220 (revised) paragraph A1 notes that “ISA 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm”. However, this guidance is not reflected in ISA 600 where it would be most useful in providing the scope or relevance of the standard. Consequently, we recommend inclusion of similar wording in paragraph 2 of ED-600, in addition to the suggested amendments above.

We note that paragraph 3 and application material in paragraph A16-A18 provide further clarity, which is helpful. However, the definition of component does not link with the more fulsome description of group in paragraph 3, the definitions of group financial statements (paragraph 9(k)) and consolidation process (paragraph 11) or to the related application material (paragraph A16-A18). Component includes “a location, function or activity”, whereas group financial statements and consolidation definitions both refer to “entities or business units”, including “branches or divisions”. Whilst we acknowledge that the group engagement team may want to align the procedures with “locations, functions or activities”, which may not mirror the legal entities within a group or business units within

a single entity, alternatively, they may want to align the components with the “entities or business units” in the group. Therefore, we suggest the definition of component also incorporate the terms “entities or business units” which may well be used to define the component in many instances.

We suggest that paragraph 11 is corrected by amending “the equity methods of accounting” to singular “the equity method of accounting”, as there is only one equity method.

Q 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?

Response:

We agree that the standard is scalable for audits of smaller and less complex groups. In fact, we consider that it is likely that the standard will be more easily scalable for audits of those groups than for audits of larger and more complex groups. Whilst the risk assessment provides the main mechanism for scaling the audit response, it will be critical to make an appropriate assessment so that the audit effort is targeted, but still adequate to obtain sufficient and appropriate evidence. The scalability challenges in applying the standard are likely to increase as the complexity of the group increases, rather than the reverse, which is reflected in ED paragraph A87. Increases in diversity and geographic spread of a group’s operations increase the challenges for the group engagement team in conducting the risk assessment effectively and identifying which components require audit procedures to be conducted by a component auditor.

The complexity, which arises from a group with diverse and geographically spread operations, may include multiple industries, markets and/or jurisdictions with different legislative, business and cultural environments, which may use different languages and reporting standards. In such a complex engagement it may be inappropriate for the group engagement team to conduct the risk assessment and planning of the work to be conducted at the components, without reference to the component auditors. Indeed, for a new engagement, that will include a decision regarding whether to engage component auditors based on the group engagement team’s risk assessment. When a component auditor is not engaged with respect to certain components or is engaged to conduct procedures with respect to a discrete matter at a component, the capacity for the group engagement team to obtain insights regarding the risks at that component may be non-existent or limited. Whilst paragraph 4 recognises that component auditors may need to be involved in all phases of the group audit, the requirements in paragraphs 31 and 32 state that the group engagement team needs to take responsibility for the risk assessment, although they may involve the component auditor in that assessment. However, a more fulsome requirement may be needed to clarify when a component auditor should be engaged and involved in the risk assessment. For example, a component auditor may need to be engaged for material components operating in jurisdictions different from where the group engagement team is based and which have different legislation and reporting frameworks, or different or specialised industries to that of the entity or business unit which heads the group. Some of these factors are raised in paragraph A71 but would benefit from elevation to a requirement to clarify when these factors would necessitate the engagement of a component auditor.

Q 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?

Response:

We support the definition of component focussing on the auditor’s view, which will reflect the practicalities of managing the audit process. However, as explained in answer to question 4, we consider that the definition is too narrow. We agree that the auditor’s view of what is a component does not need to be aligned with legal, geographic or business lines used by the group or entity, but instead may be determined by “locations, function or activities”. The application material also notes that components may be determined based on commonality of information systems or internal controls. However, in seeking to provide flexibility in the definition of component the ED omits the possibility of aligning with “entities or business units”, which may themselves be based on legal, geographic or business lines, or aligning with “commonality of information systems or internal controls”. We think

this may discourage the auditor from considering the legal form or other basis. Therefore, we suggest that these also be included in the definition as an alternative basis which may be used to identify the components.

We note that paragraph 57(b) requires documentation of the determination of components. This documentation will be particularly important when first implementing the standard, as the components identified may contrast markedly from components defined in the extant standard, and the components at which procedures are conducted may be quite different. Differences may also occur between years as the basis which the group engagement team can use to determine the components is much more flexible than under the extant standard. Further application material on documenting the determination of components would be useful.

Q 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?

Response:

We support the IAASB's proposals made in relation to ways to overcome restrictions on access to information and people. Although, given that overcoming restrictions which may arise in relation to groups with non-controlling interests can be challenging, we suggest that further guidance is provided in relation to the adequacy of evidence which may be obtained by the means suggested in paragraph A29 in meeting the requirements of paragraph 42. In particular, expanding on the circumstances in which "considering publicly available information" may be sufficient.

In addition, we suggest the IAASB includes guidance on how to address restrictions on access to people and information through technological tools and techniques. While technological tools may not be a way of overcoming restrictions imposed by law and regulation, those tools may prove to be useful in overcoming restricted access to information due to "war, civil unrest or outbreak of disease" (paragraph A28) and in reviewing relevant audit documentation remotely (paragraph A29). We also suggest that paragraph A28 is expanded to include "natural disaster" which can be an important factor in limiting access (as evidenced in recent years in Australia with large scale, devastating bushfires), especially as it is expected that such events are likely to increase in frequency in the future. Technological tools have proven to be of particular importance in conducting audits during the COVID-19 pandemic and we expect that the audit profession will continue to conduct significantly more audit work remotely after the pandemic subsides, as new and more efficient ways of working become embedded.

We suggest that additional application material on technological tools as a way of overcoming access restrictions, outlines how and to what extent they can be used to document the audit process and the component auditor's work, including what data is captured by audit tools, how it is analysed and who has access to the data. See also our response to question 11 regarding the use of technological tools for audit documentation purposes. We note that the IAASB's publication *Non-Authoritative Support Materials: Using Automated Tools & Techniques in Performing Audit Procedures* (published on 28 September 2020) provides assistance in performing audit procedures using automated tools and techniques. However, it does not address these specific access issues for group audits.

Q 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?**

Response:

- (a) We understand that the group engagement team bears ultimate responsibility for the audit. However, we believe audit quality will be enhanced by the involvement of component auditors as an integral part of the engagement team. It is critical that the component auditor's role is acknowledged, valued and that their unique contribution, though their understanding of the component, is recognised to foster enhanced quality of the overall audit.

With regards to the appropriate assessment of the risks of material misstatement in a group audit, ED-600 makes clear that the group engagement team has to have a thorough understanding of the inherent risks and internal controls of the business. We believe that in larger and complex group audits this can become especially challenging. We are concerned that insufficient involvement of component auditors may lead to incomplete and/or inaccurate risk assessments by the group engagement team. By not requiring component auditors to undertake full-scope audits of "significant components", as defined in the extant standard, this may lead to component auditors not being able to adopt a holistic audit approach to a component. For complex audits with many components, it will be particularly challenging for the group engagement team to be able to identify all of the risks arising from the group's components and operations.

In CPA Australia's outreach to its members, views were expressed that component auditors performing the entire audit, are likely to take full responsibility and ownership of the audit. In other words, they may feel more accountable if conducting the audit in full. Nevertheless, we do not suggest that the ED should revert to group engagement teams always requiring entire audits of components. Instead, we believe that the ED should provide the means by which the benefits of the component auditor's knowledge of the component may be best leveraged and their commitment to the group audit outcome best be achieved.

Therefore, we recommend the IAASB give more consideration to the involvement of component auditors in assessing risks of material misstatement, when considered appropriate, by the group engagement team as recommended in answer to question 3; as well as encouraging two-way communication so that they are an integral part of the audit team.

- (b) We generally agree, however, see our comments in (a) and (c) and our answer to question 3 regarding further communications; that is, the group engagement team communicating assessed risks to component auditors, even if they have not been engaged in the risk assessment procedures.
- (c) Whilst we support the risk-based approach reflected in the ED, it places a high degree of emphasis on the group engagement team, which given the challenges of reverse scalability (as explained in answer to question 5), the group engagement team's risk assessment may need to be shared with component auditors to a greater degree as the group increases in complexity and scale. We suggest that leveraging component auditors' knowledge and insights will be critical to maintaining audit quality, particularly in large, diverse, geographically spread or complex groups. Consequently, the ED could be enhanced by highlighting the need for consideration of component auditor involvement by the group engagement team in planning and conducting the engagement, as well as effective communications with the component auditors.

Paragraph A45 proposes that the group engagement partner, when assessing and determining whether the group engagement team has appropriate competence, considers component auditors' ability to use automated tools or techniques. Further, the ED states that when component auditors are required to use "specific automated tools and techniques", the group engagement team shall underline when

communicating with the component auditors, that the use of such tools and techniques needs to be compliant with the group engagement team's instructions. Such proposals may suggest that the group engagement team would prioritise engagement of those audit firms within their network to perform component auditor work, as they will be familiar with and have access to those "specific automated tools and techniques" particularly if those tools are built in-house. To prevent the intentional exclusion of non-network auditors by network firms, the IAASB may wish to consider clarifying that 'specific automated tools and techniques' may encompass technological tools compatible with the specific tool or technique used by the group engagement team (including tools provided by third-party vendors), and does not necessarily need to be restricted to in-house tools of the firm of the group engagement team unless they can be made available to the component auditors.

Results from outreach to our members and other key stakeholders indicate the increasing availability of third-party technological tools, which can be used in place of a group engagement team firm's in-house IT tools, can facilitate the engagement of non-network audit firms. Thus, audit firms performing component auditor tasks, whether as network or non-network firms, should be able to meet the group engagement team's expectations if the technological tools are provided by third-party vendors or if in-house tools are made available. See also our comments in (a) above.

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

Response:

Yes, we consider that the application material on both the commonality of controls and centralised activities is clear and appropriate.

Q 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?

Response:

Yes, we are supportive of the approach to component performance materiality and related application material in the ED. The removal of the term "significant component" creates the potential for risks relevant to those previously defined significant components to be overlooked or not properly understood, as the risk assessment is likely to be more centralised, at least until the components are identified and component auditors are engaged. This may be particularly relevant where the decision is made not to engage a component auditor in relation to what would have been a significant component, as the group engagement team may have insufficient understanding of the risks relating to that component. We suggest that the impact on audit quality of no longer identifying significant components be closely monitored to inform the post-implementation review.

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

- (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?**
- (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?**

Response:

- (a) We agree with the IAASB's proposals and believe that paragraph 57 appropriately outlines what should be documented. However, we recommend that a linkage be identified between paragraph 57 and paragraphs 49-51 on sufficiency and appropriateness of audit evidence. This could be achieved by requiring documentation in paragraph 57 of the evaluation and considerations required in paragraphs 49-51.**

Documentation requirements could also include evidence required to be obtained under paragraphs 34-36, in relation to the consolidation process.

- (b) We consider that paragraphs A129 and A130 sufficiently address documentation issues in situations where access to component auditor documentation is restricted. We also note that paragraph A128 mentions firms' audit tools that could be used to facilitate communications between the group engagement team and component auditors, as well as for audit documentation purposes. As remote audits are likely to become an increasingly integral part of a group audit, we believe that the use of audit tools for audit documentation purposes and the sharing of audit documentation between the component auditors and the group engagement team will be important, particularly when access to component auditor documentation is restricted (see also our responses to question 7). We recommend that the IAASB considers expanding the application material in paragraph A128 to emphasise that when audit (technological) tools are used, the auditor needs to ensure that such tools sufficiently document information to allow an experienced auditor to understand the nature, timing and extent of the work performed by the component auditor using such audit tools.

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

Response:

Paragraph 9: Paragraph 9 provides useful definitions of a range of terms. However, the interaction of certain terms could be aided by a definition of engagement team, as well as a diagrammatic representation. While we notice that the term 'group engagement team' is well-defined in paragraph 9 (j), paragraph 9 (c) mentions engagement team, a term that is not defined in this paragraph. Whilst proposed ISA 220 defines engagement team, it does not include group engagement team or component auditor. The Explanatory Memorandum notes "When ED-600 refers to the engagement team, it includes the group engagement team and all component auditors. Paragraphs 9(c) and 9(j) of ED-600 define component auditor and the group engagement team, respectively". We suggest that this clarification could be provided in paragraph 9 by including a definition of engagement team which is more expansive than ISA 220 or alternatively that ISA 220's definition include these terms. In the IAASB Roundtable webinar on 13 August 2020, a diagram was presented by IAASB staff that visualised the relationships between component auditors, the group engagement team and the engagement team. This diagram helped address the question of "what is the difference between the engagement team and the group engagement team". We recommend including this diagram (in amended form) in ED-600.

Paragraph A40: This paragraph states that "working with component auditors that are not from the same firm may be different than working with individuals from the same firm, particularly when component auditors have different systems of quality management." This application material does not recognise that even within the same network, there can be differences in the way that the system of quality management is implemented and suggests that the group engagement team can rely on systems of quality management within network without question. The group engagement team needs to be satisfied with the system of quality management at the component auditor whether or not they are from the same network. We suggest that the application material acknowledges this point.

Paragraph A45: While paragraph A45 refers to "automated tools or techniques", paragraph A128 mentions "electronic audit tool". We are unsure whether the IAASB intentionally chose different terms or whether those terms have the same meaning. If the latter is the case, we suggest using "automated tools and techniques" throughout the ED as this terminology is applied in the IAASB's *Non-Authoritative Support Materials: Using Automated Tools & Techniques in Performing Audit Procedures*.

Paragraph A99: This paragraph refers to "group auditor", however as this is not a defined term, we suggest replacing it with "group engagement team". Likewise, ISA 260 (Revised) paragraph A43(a) refers to group auditor and should be replaced with "group engagement team".

Paragraph A128: This paragraph states that "the firm may have developed an electronic audit tool that may be used for communication and documentation". Such tools need not be developed by the firm itself in-house, as such tools are available from third party software providers and their use is now commonplace. Therefore, we suggest changing the wording in paragraph A128 to "the firm may use" rather than "may have developed" which supports the practice of group engagement teams asking component auditors to use automated tools to facilitate communication and documentation within the group engagement team. This would also better accommodate non-network firms performing the component audit.

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.**
- (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.**

Response:

- (a) We have no comment on the potential translation issues for ED-600.
- (b) We are concerned about the appropriateness of the proposed effective date. Our concerns relate to the already significant work which will be required to change firm methodologies and implement new standards recently issued, or due to be issued soon, including ISA 315 and the suite of Quality Management standards (ISQM1, ISQM2 and ISA 220 (Revised)), which will be effective for audits of financial statements for periods beginning on or after December 15, 2021 and December, 15 2022 respectively. Whilst we acknowledge that ED-600 is interconnected and interrelated with these other standards, it would be pragmatic to allow ISA 315 and the suite of quality management standards to be implemented and bedded down before ISA 600 becomes effective, as they each impose significant changes to the audit methodologies implemented by firms. Consequently, the IAASB should consider allowing an implementation timeframe that is reflective of a holistic consideration of these circumstances. We suggest a 24-month period after approval of the final ISA, whilst still allowing early adoption to accommodate those firms which are able, and would prefer, to change their methodologies for all these new standards at one time.