

**October 2, 2020**  
**Mr. Tom Seidenstein**  
**Chair, IAASB**  
**529 Fifth Avenue New York, NY 10017**

**Exposure Draft - International Standard on Auditing 600 (revised)**

**Comments on the Exposure Draft of the proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.**

Dear Chairman Seidenstein,

The Professional Accounting Organizations of the Europe and Central Asia Region (ECA PAOs Group—the provisional title of the group, not yet formalized) is pleased to have the opportunity to provide comments on the Exposure Draft of a proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. ECA PAOs Group is committed to the development of high-quality international standards on auditing (ISAs). The comments we provide in this letter are a product of many deliberations, reviews, and discussions among the members of the International Standards Working Group of the ECA PAOs Group. The views expressed reflect our considered, consensus opinions and perspectives of the leading PAOs in the region. As consensus views, they do not necessarily reflect all the comments that may be provided by individual members on behalf of their respective jurisdictions or individual experts.

Conclusion:

ECA PAOs Group is supportive of the work on ED-600 that the IAASB has undertaken. ECA PAOs Group believes that the comments articulated in this letter will assist the IAASB as it continues its deliberations. ECA PAOs Group's comments on ED-600 are addressed as follows:

- General comments on the ED ISA 600
- Appendix I. Response to requests for specific comments

ECA PAOs Group appreciates the opportunity to provide perspectives on ED-ISA 600 and would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email [dkoukhar@gmail.com](mailto:dkoukhar@gmail.com) or Ms. Tatiana Mikhailovich, the Deputy Chair of International Liaison Committee, member of the standing Committee on Standards and Methodology of the SRO AAS, the largest PAO of auditors in Europe at [mtn@abpconsultant.ru](mailto:mtn@abpconsultant.ru)

Sincerely yours,

Ms. Daria Kukhar

*The International Standards Working Group of the  
Professional Accounting Organizations of the Europe  
and Central Asia Region (ECA PAO Group)*

## General comments on the ED ISA 600

Below, please find an overview of our general comments on the proposed ISA 600:

### **Q.1 Clarity, understandability, and usability of requirements to the work performed by component auditors regarding classification of engagements and services provided by component auditors.**

ED-600 determines the component auditor as an auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. At the end of work performed the component auditor shall communicate their overall findings, conclusions, or opinions.

Shall the component auditor's report or memorandum express any degree of assurance? Does the reporting package, about which the component auditor expresses their opinion fall under the scope of ISA 800? Or shall the component auditor perform their work under ISA 805? Or is ISRS 4400 applicable here?

#### **Suggestion**

We suggest that the requirements and application material regarding classification of services provided by component auditors, as well as linkage to other standards, if appropriate, to be incorporated into ED-600.

#### **Definition of Component and Component management –**

The approach used by the engagement team to identify components needs further improvement. The new definition of component suggests that components identified by the engagement team may be different from the actual structure of the group. In such instances, group management is not responsible for preparing financial information for a component identified by the group auditor that is not included in the group's structure (see p. A5 of Draft 600). Consequently, the financial information of such a component will be disaggregated by the actual structural subdivisions of the group and it would thus be rather difficult to perform audit procedures on such a component. In addition, it would be difficult to identify management of the above component.

In the proposed ED 600, a component – a location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit. Component management – Management responsible for a component. We believe, that further clarification is required regarding the level of responsibility of component management.

#### **Suggestion**

We suggest indicating that the Component management is responsible for preparing the financial information of the component. Such definition will better correlate to the extant ISA 600.

## **Information sharing and documentation**

Establishing sustainable two-way communication and information sharing with component auditors during the audit is essential, as these are key elements in assuring audit quality. Therefore, it is also relevant to provide appropriate explanations and changes in this area, including the development of new recommendations regarding sharing information regarding going concern, related parties and subsequent events.

Information on the scope of component auditors' documents to be stored and/or reviewed by the group engagement team should include a description of factors governing the group engagement team's decision to retain/review these documents.

## **Cross reference to the IESBA Code of Ethics pertaining to the Component Auditors**

The IAASB should continue working with the IESBA to develop relevant ethical requirements and ensure the implementation of international independence standards applicable to component auditors involved in group audits, as we believe that the IESBA Code does not currently regulate the activities of component auditors (with the exception of the "Violation of Laws and Regulations" section).

## **Scope of ISA 600.**

### **There is no clear definition of a 'shared service centre' in ED-600.**

ED-600 allows the group engagement team to determine that the shared service centre is a component for purposes of the group audit, when the shared service centre is used by a group for centralizing activities or processes that are applicable to more than one entity or business unit within the group.

The question about the application of the Standard and determination of the shared service centre as a component for purposes of the group audit arises where the shared service centre is an outsourcing company and is not under the direct control of the group. Shall ISA 402 be applied to the shared service centre as a service organization in this case (ISA 402: service organization is a third-party organization (or segment of a third-party organization) that provides services to user entities that are part of those entities' information systems relevant to financial reporting)?

## **Suggestion**

We suggest that the definition of a 'shared service center' as well as clear criteria for determining the shared service centre as a component should be added to ED-600 to improve transparency of the scope of ISA 600 and ISA 402 for purposes of the group audit.

In addition, amendments to ISA 402 could be made regarding its application for purposes of the group audit where the group uses a third-party organization as a shared service centre.

## **Reinforcement of the requirements to exercise professional scepticism in relation to an audit of group financial statements.**

ED-600 does not raise the question of appropriateness and sufficiency of audit evidence obtained by the group engagement team from the component management's experts where no component auditors are involved.

## **Suggestion**

We suggest that the requirements regarding the circumstances in which the group engagement team may use the work of component management's experts as audit evidence without involvement of component auditors' competence should be added. This will reinforce the requirements of ED-600 to exercise professional skepticism and set linkages to ISA 500. In addition, we suggest that the corresponding requirements to be added to ISA 500.

## **Restrictions on access not only to people and information but to location/premises as well.**

In accordance with ED-600 (Ref: Para. 16): 'If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group **engagement** partner shall consider the possible effects on the group audit. (Ref: Para. A27-A32)'. The circumstances, where not only access to information and people but to premises either is restricted, can occur.

## **Suggestion**

We suggest that additional guidance and application material regarding restrictions on access to location/premises outside the control of group management and ways in which the group engagement team can overcome such restrictions should be added to ED-600.

## **Separate clarifications should be provided regarding the following:**

How the standard applies to investments recorded under the equity method (i.e. the nature and scope of work performed as part of the audit of relevant entities, including the materiality of audit procedures).

## APPENDIX I

### RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

ECA PAO Group's responses to the detailed questions included in the IAASB's Explanatory Memorandum accompanying the proposed standard ED of ISA 600 are set forth in this appendix.

Our comments to the requested selected questions in the ED ISA 600 are as follows:

#### **ED of ISA 600 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, except for ISA 402, ISA 500 and classification of services rendered by component auditors. See corresponding comments pertaining to the highlighted ISAs. In addition, we believe it may be beneficial to include reference to ISA 701.*

*In addition, the Group debated about possible linkage to the ISA 800, ISA 805? Or ISRS 4400? (See General Comments section, Q1)*

- (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?

*Same as in (a)*

2. With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?

*Yes*

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

*Yes, except for ISA 500. See corresponding comments*

#### **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).

- (a) Yes, but few experts suggested to clarify further the definitions of “consolidation process” and “group financial statements”, as in practice these definitions could lead to misunderstandings.
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?

*Yes*

6. Do you support the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit?

*Yes, in general.*

Some experts had the following position:

*It would be beneficial to subdivide the question into two parts:*

- a) *The possibility for the auditor to define components for planning and performing the group audit – we support such a possibility*
- b) *The revised definition of a component in para.9b) – we do not support it. This definition is not linked with para.9k) and should be corrected in appropriate way (See comments on Question 12)*
7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

*Yes, we believe that the ED-600 addresses restrictions appropriately. However, some experts were of the view that that application material could be enhanced by supplementing information on the ways to overcome restrictions on access to location/premises (see the accompanying reference for additional comments).*

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?

*Comments*

- a) Yes, except for the issue about classification of services/engagements of component auditors (see additional comments).
  - b) Yes
  - c) There are no special considerations in this field different from the risk-based approach in any other audit. Some experts were of the view that when no component auditors are involved, lack of comprehensive understanding of the environment, in which components are functioning, by the group engagement team could lead to the understatement of the aggregation risk.
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, except for a linkage to ISA 402 (see above).**

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**

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

- (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?

**No**

- (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?

**Yes**

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

**Yes, there are. We would like to raise issues about appropriate linkages to ISA 402 and ISA 500, regarding evidence received from Management's experts, and the issue about classification of services rendered by component auditors (see above).**

***In addition, some experts in our Group expressed doubt about the appropriateness of using such category «Aggregation risk». It is a newly introduced category which does not carry any specific meaning and practically does not differ from the definition of audit risk. So, they suggested either removing it altogether from the text or making corresponding changes to other fundamental standards to include the aggregation risk in the risk-based approach (instead of including it only in the analysis of performance materiality).***

***Para. 9(a) - The term «probability» in the definition of aggregation risk seems inappropriate as risks could be defined not only by terms of probability theory.***

## **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.

**Comments:**

**24. a.** *The nature and extent of the measures used **internally and externally** to assess the entities or business units' financial performance-Internally and Externally may be interpreted differently (outside of the country or domestically, inside/outside the engagement team).*

*We believe it may be beneficial to explicitly state what is the underlying meaning of this phrase.*

**Para 28.** *Communicate with **component auditors** any events or conditions identified by the **component auditor** that may cast significant doubt on the group entity's ability to continue as a going concern.*

*This is unclear as it may be interpreted that we are informing component auditor about his own findings.*

*In addition, due to the introduction of several new concepts and terms into the proposed ISA 600, the experts suggested updating **the Glossary of the Key Terms***

*The terms **Component and Group performance materiality** would benefit from defining further to avoid ambiguities in translation into Russian language*

- (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.

***Yes. The period would be sufficient.***