



October 2, 2020

Mr. Willie Botha, Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, New York 10017

Re: Exposure Draft: Proposed International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (including the Work of Components Auditors)*

Dear Mr. Botha,

Mazars USA LLP (Mazars USA) welcomes the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or the Board) Exposure Draft, International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (including the Work of Components Auditors)* (ED-600 or the Exposure Draft).

Currently, Mazars USA has over 100 partners and 800 professionals across the United States (U.S.) and is an independent member firm of the Mazars Group, an organization with 1,000 partners and 24,400 professionals in 91 countries around the world, and a member of Praxity, a global alliance of independent firms. As a member of an international network, we strive for continuous improvement by collaborating with our other member firms to set high standards for audit quality throughout the Mazars Group and tailoring these standards to meet U.S. Generally Accepted Auditing Standards established by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and the auditing and related professional practice standards established by the Public Company Accounting Oversight Board (PCAOB).

Our views on the Exposure Draft are driven by our position in the U.S. marketplace as a medium sized public accounting firm servicing mostly small to mid-size public and private businesses in a variety of industries and as a member firm in a global network. Thus, we find ourselves subject to the standards for audits promulgated by the AICPA as well as the PCAOB. We encourage the IAASB to continue to collaborate with these other standard setters to enhance the consistency and quality of multi-location audits in the U.S and internationally.

We recognize and generally support the IAASB's extensive efforts to revise extant ISA 600 and the related conforming amendments to other standards to enhance the auditor's approach to planning and executing group audits. Overall, as a principle and risk-based proposed standard, ED-600 will serve to improve the quality of multi-location audit engagements.

### 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?

Response: ED-600 does have appropriate linkages to the other ISAs and with the Proposed International Standard on Quality Management (ISQM), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1) and Proposed ISQM 2, *Engagement Quality Reviews* (ISQM 2), except as noted in our answer to (b) below.

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- (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: ED-600 generally addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

The new definition of the engagement team included in the Proposed International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements* (ISA 220 (Revised)), does not reference a component auditor outside of the firm's network, and the consequences implied in ISQM 1 and 2, raise certain practical challenges for using auditors who do not belong to the same network/firm as the Group engagement team. The definition of a "component auditor" in paragraph 9(c) of ED-600 uses the term "engagement team" which is referenced to the definition in ISA 220 (Revised) paragraph 10(d).

ISA 220 (Revised) defines the engagement team as follows:

*"Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm. The engagement team excludes an auditor's external expert engaged by the firm or a network firm,<sup>13</sup> and also excludes individuals within the client's internal audit function who provide direct assistance on an engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013)."*

Such definition does not specifically address the use of partners or staff from non-network firms. ED-600 paragraph A13 appropriately includes "a firm that is not a network firm" in its explanation of the component auditor definition. We believe that the inclusion of the footnote reference in paragraph 9(c) of ED-600 could lead to a misunderstanding as to who may serve as a component auditor and thus, we recommend that the footnote reference be deleted. We believe that the implications from the new definition of the engagement team, as presently drafted, and the requirements of ISQM 1 will create, in practice, an impediment to using firms that are not from the same network/firm.

Reference is also made in this response to our comment letter dated July 1, 2019 to the Board in response to ISQM 1, 2 and ISA 220 (Revised) and other specific comments related to ISA 220 (Revised), in particular as it relates to this response and the need expressed for transitional guidance in the circumstance where ED-600 as adopted will lag the effective date of ISA 220 (Revised).

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 throughout ED-600 however, we recommend an appendix that collects all the sub-sections and related application material for the "Considerations When Component Auditors are Involved".

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?

Response: The requirements of ED-600, and its application and other explanatory material, intend to foster professional skepticism, including reference in some cases to other ISA standards. Despite the different paragraphs noted in the background section that address professional skepticism, including 49-51 and A9-A10, we are left wanting in the context of a group audit for more application material with respect to the interaction between group and component auditors and how the group engagement team leverages the

professional skepticism of 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).

Response: We generally support the Board's intention to clarify the scope of ED-600. However, we believe that Exposure Draft adds undue confusion when defining the term "group financial statements," which will lead to unintended consequences and diversity in practice in the application of the proposed standard. We recommend that the Board reconsider the definition of group financial statements to exclude the reference "...through a consolidation process". A "consolidation process" is generally understood to have a certain meaning in relation to financial reporting frameworks. The Board's use of the term with a different meaning, or intended interpretation, will lead to inconsistency in implementation. Further, we do not understand the Board's intent in the application and explanatory material in paragraph A17 related to branches and divisions. This language may result in differences in practice related to determining when branches and divisions are included in the scope of ED-600. We recommend paragraph A17 be deleted.

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 believe that the emphasis on auditor's professional judgement makes the proposed standard scalable to different sizes and complexities of groups. However, we are concerned that the lack of guidance on how to determine the extent of work to be performed on components will lead to diversity in practice. We recommend additional application material on scoping by component.

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 generally agree that the revised definition of a component in paragraph 9(b) allows for greater auditor's professional judgment in the scoping of a group audit. However, while the revised definition adds some flexibility, we believe it will only be used in limited circumstances. The revised definition also potentially increases the complexity of performing procedures for components that do not mirror "management's view of the business". The reporting and organizational structure of the business may not facilitate aggregation of accounting data at the component level, or provide a single management chain, to address inquiries. Given the significance of this change in methodology, we suggest that the Board provide additional clarification or application material as to how to address scenarios where the auditor's determination of components does not conform with managements reporting structure beyond what is presently included in paragraph A12.

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 generally support the requirements that are included in ED-600 with respect to acceptance and continuance of group audit engagements.

However, when there is limited or no access to financial or other information on a specific component, ED-

600 does not mention whether the materiality of the component would impact the decision to accept or continue the engagement at the group level. We believe that the potential challenges around access to information and people posed by a complex group audit warrants additional application material in this area.

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?

Response: As it relates to the documented responsibilities, the guidance is clear and appropriate. However, as noted in our responses to other questions, we believe there are clarifications and further guidance that should be included in ED-600.

- (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?

Response: We believe that the responsibilities of the component auditors should be more clearly presented in ED-600 to indicate that they are part of the engagement team and responsible for assisting with planning and risk assessment activities. See our earlier recommendation to collect all sub-sections and related application material for “Considerations When Component Auditors Are Involved” into one appendix.

ED-600 primarily promotes a top-down approach during the planning phase of the group audit, whereby the group engagement team assigns planning responsibilities to the component, when deemed appropriate. As proposed, ED-600 could lead to the group engagement team not identifying certain risks that, due to relative materiality to the component, would likely be identified at the component level, especially risks relating to income tax issues, going concern or even fraud. We believe that in order to most effectively plan the audit and manage risk, thus improving audit quality, the component auditors should be required to be more actively involved in the planning phase of the audit through two-way communication.

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

Response: In discussing the “risk based approach for a group audit engagement” in the explanatory memorandum, consideration is noted to be given to “what, how and by whom and where, work is to be performed”, in order to obtain the audit evidence required based on the group engagement team’s assessment of the risk of material misstatement. Implicit in that decision is the allocation of responsibilities between the group engagement team and the component auditors. Effective implementation of this ‘shared responsibility’ would be supported by more explicit guidance around the application of ISA 315 and ISA 330 to group audits. Such guidance should address the identification and determinations as to the involvement of component auditors. In addition, further guidance regarding the response to identified risks and significant classes of transactions or accounts should lead to more effective planning and ultimately improved audit quality. Guidance similar to the “multi-location engagements” guidance in PCAOB’s Auditing Standard 2101, *Audit Planning*, could assist auditors in scoping their engagements.

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: The explanatory material on the commonality of controls and centralized activities, as presented, is clear and appropriate. However, it does not address the communication of the results of procedures performed on common controls or centralized activities to components whose risk assessment or planned nature and extent of procedures may be impacted by the results. We recommend that the Board consider expanding the guidance to include communications by the group engagement team to component auditors.

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: We support the Board's intent in ED-600 to clarify how the concepts of materiality and aggregation risk apply in a group audit. We agree with the definition of aggregation risk in paragraph 9(a) of ED-600.

We support the Board's focus on component performance materiality. However, we note that the concept of component materiality is not included in the ED-600. Given the lack of a definition of component materiality, we have concern as to the ability of the component auditor to provide a conclusion or opinion, as suggested in paragraph 44(h), without having a materiality level to assess the potential for undiscovered audit differences in excess of known adjustments, that could aggregate up to or exceed component performance materiality. We believe that the concept of component materiality, which would be communicated to the component auditors, would be essential to the component auditors in determining their conclusion or opinion. We recommend that the Board consider further guidance be provided in the materiality application material section.

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?

Response: In addition to the matters discussed in paragraph 57 of ED-600, we believe that the documented communications from the group engagement team should include communication, to impacted component auditors, of the results of control testing or substantive testing performed by the group auditors or other component auditors which reasonable could be relied up on by the components auditors in assessing risk and the nature and extent of testing to be performed.

- (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; While paragraphs A129 and A130 are clear, we believe that it may be helpful to reference evolving technologies and remote access.

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

Other Matter 1 – Two-Way Communication: Paragraph 44(f) references a requirement for component auditors to communicate “other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component...” While the requirement in ISA 260 to communicate with those charged with governance of the reporting entity is clear, it is not clear why the proposed standard is adding a requirement to communicate with those charged with governance of components. We believe that the communications of governance matters should be made solely with those

charged with governance for the reporting entity, and that such governance body should determine whether and how to communicate with its component management and governance structures.

Paragraph 56(b) includes a requirement to communicate with those charged with governance of the Group “instances where the group engagement team’s review of the work of a component auditor gave rise to concern about the quality of that component auditor’s work, and how the group engagement team addressed the concern.” We do not believe this requirement is appropriate. As part of the group engagement team’s responsibility under ISA is to evaluate the sufficiency and appropriateness of the audit evidence obtained, the group engagement team would need to address the quality concern such that, at the date of reporting, the concern has been alleviated. As a result, no reporting to those charged with governance is deemed necessary.

Other Matter 2 – Two-Way Communication: Paragraphs 43-46 and the related application material address “two-way communication”. However, the guidance focuses primarily on communication from the component auditor to the group engagement team. For component auditors to properly assess risk and develop an audit plan, as contemplated in paragraphs 37 and A96-101, component auditors need a full understanding of the control environment impacting their component’s operations. ED-600 does not include, for example, a clear expectation for the group engagement team to communicate the results of internal control procedures that could impact the component auditors’ design and extent of audit procedures. Additionally, up-stream entities may perform substantive testing, for example impairment analyses or intercompany analysis, the results of which may impact judgments made by the component auditors.

Other Matter 3 – Engagement Resources: Paragraph 21(a) imposes a requirement for the group engagement partner to “determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component...”.

As it relates to “sufficient time”, we note that the ISQM 1 includes a requirement in paragraph 38(b) that “the firm assigns an engagement partner and other human resources to each engagement who have appropriate competence and capabilities, including being given sufficient time, to consistently perform quality engagements.” It is not clear how the group engagement partner could “determine” such information beyond inquiry of the component auditor. As such, we believe that it is more appropriate to rely on the proposed requirement in ISQM 1, with an expectation that component auditors will not accept an engagement for which they cannot dedicate sufficient time, and remove “...including sufficient time to perform...”.

As it relates to “appropriate competence and capabilities”, we broadly agree with requiring the group engagement partner to evaluate component auditors to assess if they have the ability to perform the requested procedures. We believe that the matters to consider in paragraph A42 are a good representation of information sources to make the assessment.

Paragraph A43 addresses procedures to determine the competency and capabilities of the component auditor. It includes in the first bullet examples of information that may be obtained from the group engagement team’s firm. The second sub-bullet then discusses component auditors from the same network. It is not clear why the group engagement team’s firm would necessarily have information on monitoring activities of other network firms.

In addition, both the group engagement team’s firm and other network firms may be able to provide information beyond monitoring and remediation. For example, detail information on the experience, current or past clients, training, evaluations, areas of expertise, licensure, etc. of the senior component auditor team may also be obtainable which could be supportive of the required assessment. We would recommend including such information in the example procedures.

Paragraph 22 requires the group engagement partner to come to a summary conclusion on, among other things, the competence and capabilities of the component auditor. It indicates that if the “group engagement

partner has significant concerns...the group engagement team shall obtain sufficient appropriate audit evidence relating to the work of the component without involving that component auditor". We believe that the term "significant" is open to interpretation and therefore will result in disparity in practice. Additionally, we believe that the group engagement team should be able to determine if acceptable safeguards can be implemented to mitigate the concerns. For example, if the group engagement partner of the audit of a bank determined that the component auditor did not have sufficient banking industry experience, the group engagement partner may decide to supplement the component audit team with a group engagement team member to address this concern. It is unclear from the proposed standard as written whether such concerns represent a "serious concern" as described in paragraph 22 and whether it can be mitigated such that the group engagement team would be able to continue to use the component auditor to support the group.

As a result, we recommend that paragraph 22 only refer to the matters in paragraphs 18 -20". Additionally, we recommend deleting the word "serious" from paragraph 22.

Other Matter 4 – Access Limitations: Paragraph A113(d) acknowledges there may be limitations on the nature, timing and extent of the group engagement team's review of the component auditor's audit documentation. Strict access limitations can be often imposed by country regulation. Additional guidance on acceptable procedures to address regulatory limitations would aid the auditor in determining the approach for components in such jurisdictions.

In our experience, communications of the results of such procedures impacting the component auditors are frequently not provided. As the results of these procedures can impact the component auditor's judgement of the nature and extent of procedures to perform in order to comply with the group instructions, we believe that complete and transparent communication of such matters should be required,

### **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.

Response: No comment as this will not be an issue in the United States.

- (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: The effective date should be for calendar year end engagements, not mid-year. Further, transitional guidance may be needed due to the earlier effective date of ISQM 1, 2 and ISA 220 (Revised).



Overall, we support the proposed standard and believe it will result in higher quality group audits.

We firmly believe that the quality of a group audit is supported by timely, thorough and relevant communications between the group engagement team and the component auditors. Enhancing two-way communication will improve the effectiveness of engagement performance leading to improvements in planning, risk identification, determination of the nature, timing and extent of procedures performed to address risk and the ultimate conclusions on the sufficiency of the audit evidence obtained.

We are challenged by the language used in ED-600 around the selection and use of component auditors and believe it could lead to decreased use of firms outside of the group engagement team's network. We strongly believe that effective group engagements can effectively utilize non-network component auditors. The proposed requirements for vetting component auditors proscribe analysis that may not be measurable for network firms, and which will invariably be more challenging for non-network firms. We recommend that the Board reconsider the language used in ED-600 around the selection and use of component auditors.

Finally, we recognize ED-600 will result in significant changes and require appropriate time to establish firm approaches. We also recognize that there is significant inter-relation with ISA 220 (Revised) which will likely have an earlier implementation date. We would recommend transition guidance be issued to assist auditors in the implementation of these two revised standards.

We would be pleased to discuss our comments with you at your convenience.

Please direct any questions to:

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Very truly yours,

*Mazars USALLP*

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cc:

IAASB

Mr. Thomas Seidenstein, Chairman