

IAASB  
Attn. Mr. Thomas Seidenstein, Chairman  
529 fifth Avenue, 6th Floor  
10017 New York  
USA

P.O. Box 7984  
1008 AD Amsterdam  
Antonio Vivaldistraat 2-8  
1083 HP Amsterdam  
T +31 20 301 03 01  
nba@nba.nl  
www.nba.nl

Date	Re	Our ref	Attachment
October 2, 2020	ED ISA 600	KvH	-

Direct dial nr  
020 - 301 02 81

Dear Mr. Seidenstein,

The NBA welcomes the opportunity to respond to the Exposure Draft of the Revised ISA 600 *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* and Conforming Amendments (hereafter the 'ED').

## Executive summary

The main items we would like to expand respectively clarify in the ED are:

### 1 Intermediate holdings (letterbox companies) (see Q12 in this letter)

Although we understand that the ED is written in such a way that it offers the necessary flexibility and that not all structures can be described, we do miss the group audit of letterbox companies. This type of audit has its own specific characteristics and we would like to have some guidance included in the ED.

### 2 One-line consolidation (see Q4 in this letter)

We have concerns about the clarity of the definition of the consolidation process.

### 3 The role of the component auditor (see Q8 in this letter)

- The approach to risk identification and assessment, which aims to take a 'top-down' and more 'horizontal' view of the group. The group auditor has to undertake risk assessments of the components at a much more granular level, and with the change in approach to shift the accountability from the component auditor to the group auditor. We are of the opinion that the involvement of component auditors is critical. The changes seem to result in the component auditor involvement intended to be in a more piecemeal fashion;
- A significant de-emphasis on the performance of an audit over the component financial information. The requirement for an audit for a 'significant' component is proposed to be removed. While we support a risk-based approach, we are of the opinion that it is very important to emphasize conditions where an audit is likely to be beneficial for audit quality. We recommend to make clear what the responsibilities of the component auditor are, especially related to reporting (e.g. whether an opinion of the component auditor is expected for the figures of the component).

Royal Netherlands  
Institute of Chartered  
Accountants



## Request for Comments

### 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?*

The ED has appropriate linkages to other Standards, there is even some overlap with other Standards. For example there is a lot of attention for limited access, but the question is whether this is specific for group audits. It comes more to the surface in group audits, but can be encountered in other audits as well. It is difficult to judge whether the linkages to ISA 220 and ISQM 1 and 2 are appropriate as these Standards have not been finalized yet.

We question whether it is necessary to describe in paragraph A39 the level of fees including their allocation and also refer to ISQM1 and the Code of Ethics where this subject matter is described. We consider it sufficient that it is described there.

- 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?*

In paragraph 9(j) the responsibilities of the group engagement team are outlined. In the ED the group engagement team is stated as well as the engagement team (the latter includes the component auditors). We question whether the split is clearly outlined and what the effects might be for the degree of supervision, directing and reviewing component auditors. We understand that this will vary and depend upon the specific situation, but some guidance and/or concrete examples would be useful.

Various subject matters such as fraud, going concern and related parties are outlined in several paragraphs in the ED as these are considered in various phases of the audit. We recommend investigating whether these subject matters can be combined in one paragraph in the Standard. For example, subsequent events are only stated in one paragraph. We also question whether it is logical to describe communication with group management and those charged with governance of the group at the end of the ED. This is performed throughout the audit.

We recommend changing the wording in paragraph 28b relating to ISA 570. From this paragraph it is unclear to us whether information is received from the component auditor and then communicated back to him.

- 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 placement of sub-sections. If component auditors are not involved, these sections are not applicable which makes it easier to navigate through the ISA.

The Standard offers the option to use component auditors. However, it seems that using component auditors is too open-ended. In many cases it is useful and even necessary to use component auditors. We recommend considering whether this could be adjusted in the wording. (See also Q5)



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?*

We are of the opinion that this question is difficult to answer as this is mainly elaborated in other ISAs. Although it is stated in paragraph A9 that group audits may pose additional challenges also due to biases and cultural influences, this will be difficult to overcome in practice. Especially, it will be difficult for the group engagement team to assess whether component auditors have exercised professional skepticism in practice. We suggest some concrete examples could be outlined as there are different kinds of biases (e.g. confirmation bias, anchoring bias, group thinking etc.).

In the explanatory memorandum paragraph 97 is stated that the new 'stand back' requirements in paragraphs 45-46 and 49-51 of the ED will support the exercise of professional skepticism by the group engagement team. We agree that 'stand back' is valuable. However, we question whether there is a direct link between 'stand back' and professional skepticism.

### **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 support the definition of group financial statements including the linkage to a consolidation process which is defined broadly. Nevertheless, we have concerns about the clarity of the definition of the consolidation process. For example the equity method does not include a complete consolidation process with eliminations and adjustments. Some practical examples might help to clarify this.

In paragraph A56 is stated that the legal group structure may be different from the operating structure for tax purposes. Group auditors should be careful with this. We recommend explaining this and adding that there should be a rationale for this kind of structures.

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?*

The ED seems to have sufficient flexibility. The scalability is mainly related to whether or not component auditors are involved. However, scalability is more comprehensive. We recommend considering special paragraphs for the audits of smaller groups/less complex entities.

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?*

This offers the necessary flexibility which is useful. However, we are concerned that the ED does not result in an effective and efficient audit if the group auditor uses a different structure than the entity itself. Legal structures cannot always be ignored. Then it might be difficult to determine how to organize the audit especially when component auditors are used (e.g. the sending of confirmation and representation letters: to which entities are they sent and by whom).

Some practical examples might help to clarify this.

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. As stated earlier (see Q1a), this does not relate to group audits only.

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?*

We have some remarks regarding the description of the respective responsibilities. Although two-way communication is mentioned, the descriptions and interactions are mainly top-down. On one hand, this seems obvious as the group auditor is ultimately responsible. On the other hand, component auditors have the best understanding of the component and bottom-up communication is valuable. In our opinion, two-way communication is insufficiently addressed in the ED. We recommend stressing the two-way communication and involving the component auditors early in the process of the group audit.

*Appendix 5 Required and additional matters included in the group engagement team's letter of instruction* in the current ISA 600 is useful. In the explanatory memorandum is stated that this is outlined in the Standard itself and is no longer necessary. However, we consider this appendix as still useful as this gives a summary and it is not stated in documentation requirements. We recommend reconsidering the removal of this appendix.

We also have some detailed remarks about the responsibilities which are described below in Q8c.

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 description of interactions and involvement might be further enhanced. We suggest to include a diagram to make this visible and a separate appendix to give some concrete examples. We recommend including going concern and related party issues also in paragraph 44 and not only in paragraph 41 or to remove them from paragraph 41. We are of the opinion that it is preferable to have all the requirements in one paragraph.

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

The following practical challenges might arise:

- As a starting point the group auditor might have a global picture, but in case the risk assessment changes during the audit, based on the work of component auditors will there be sufficient time and effort to respond to those changes and make adjustments to the group audit plan and procedures to be performed? For example for paragraph 38 it is unclear how this works in practice.
- Will the required information be received in time from the component auditor?
- Will the work of the component auditor be of sufficient and appropriate quality? We believe that addressing sufficient and appropriate work by the component auditor should be stated more in the requirements instead of being mainly included in the application material. Furthermore, paragraph A51 is not clear what type of supervision of component auditors by the group engagement team is required.



- It is unclear what the difference is between component auditors and statutory auditors and how the group audit is to be combined with a statutory audit as mentioned in paragraph A55?
- From paragraph 44h it is not clear how reporting and clearance between component auditor and group audit team is arranged for.
- Paragraphs 55 and A121: how will the component auditor be able to sign off if important information is not shared by the group?

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

The new concepts are not clear. We recommend to add more guidance on how to effectively make use of the commonality of controls (e.g. by whom this needs to be tested and how). The same is applicable for centralized activities.

We are of the opinion that it is confusing that the term component is used for components of the group as well as for components of internal control and for entities under common control (this might be a translation issue).

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?*

On one hand the focus on component performance materiality and the flexibility for group audit teams to adapt this to their specific situation is helpful. On the other hand, more guidance might be useful. Some examples in or outside the Standard might help to make it concrete. Apart from the component performance materiality it is stated that there might also be a performance materiality for transaction classes etc. In our opinion this too complicated.

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?*

Paragraph 57 is difficult to read as in paragraph 57e (i) reference is made to paragraphs 27-28, 41 and 44. We recommend considering whether these requirements should be duplicated here.

In other paragraphs, there is some attention to instructions, memo's and reporting packages. However, there is not a single place where this is concentrated as Appendix 5 of the current ISA 600 has been removed (see also Q8a). We recommend investigating how this can be restored.

In paragraph A124 is stated that no replication is necessary. Nevertheless, audit oversight bodies and regulators might expect this. We recommend to add that this should be considered.

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?*

We agree.

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

Although we understand that the ED is written in such a way that it offers the necessary flexibility and that not all structures can be described, we do miss the group audit of letterbox companies. This type of audit has its own specific characteristics. Guidance on this type of audits would be appreciated.



Some suggestions of circumstances for which we would like to have some guidance (not limited):

- The audit of the (intermediate) holding companies with limited operational activities (hereinafter referred to as the holding company). In addition, there is an operational holding company that performs functions and activities such as accounting and group management (hereinafter referred to as operating holding company). The operational holding company is the holding company from which the operational activities are managed. The operating holding company is often located in a different location (at home or abroad) than the holding company. These two entities are audited by different auditors: the holding company's auditor and the operational holding company's auditor. The holding company's auditor would like to use the work of the operational holding company's auditor;
- In case of only one legal entity, then there is no holding company. This may occur in a situation where the registered office of an entity is established in country A (and therefore an entity of country A), while the activities and operations (including management) and financial administration etc. are located in country B, but where no separate legal entity was established in country B. No separate auditor's report will be issued if there is one team.
- In case of net equity investments in listed companies: 4 private equity funds each have a 20% investment in a company listed on the stock exchange. The other 20% is held by various smaller investors. The private equity funds account for the investment at net equity value in accordance with GAAP. The private equity funds are audited by 4 different audit firms. As local laws and regulations prevent information asymmetry, the auditors of the private equity funds do not have access to the information of the (component) auditor of the listed company.

Furthermore, little attention is paid to data-analytics. Only In paragraph A45 automated tools or techniques that could be used by the component auditor at request of the group engagement team are stated We recommend to give more attention to this important subject matter. Group engagement teams can also use this themselves to improve the effectiveness and efficiency of the group audit.

## 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.*

See Q9.

- 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.*

We consider this a sufficient period for translating and implementing the ISA. However, we recommend clear communication about further implementation support by the IAASB.



## Invitation for Field Testing

*The IAASB recognizes that many audits today are audits of group financial statements, ranging from audits of the world's largest and most complex entities to audits of smaller groups with only a few entities or business units. Therefore, ED-600 will likely be of particular interest for the audit practices of firms of all sizes. Accordingly, the IAASB encourages field testing<sup>18</sup> of the proposals by firms, and welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to this ED.*

N/A.

## Closing Remarks

For further information, please contact Jan Thijs Drupsteen (j.th.drupsteen@nba.nl).

Yours sincerely,

NBA, the Netherlands Institute of Chartered Accountants,



Anton Dieleman,  
Chair of the Dutch Assurance and Ethics Standards Board  
NBA

