



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

October 2, 2020

Mr. Willie Botha
Technical Director
The International Auditing and Assurance Standards Board
529 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Mr. Botha:

Re: PROPOSED INTERNATIONAL STANDARDS 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 – APRIL 2020

Thank you for providing us with the opportunity to comment.

We support the IAASB's initiative to revise the guidance on group audits. We found that the revised definitions of group financial statements and components added clarity to the scope of the standard and better aligns the planning and performance of group audits with the overall assessed risk of material misstatement.

More needs to be done to ensure there is effective two-way communication between the group auditor and the component auditor. While the guidance in ISA 600 clearly identifies the group auditor's responsibility to communicate effectively and on a timely basis, there is no explicit requirement for the component auditor to provide a timely, accurate and complete response. Delays or inaccuracies in the component auditor response can undermine the group audit process. This is not in the public interest, nor is it in the best interest of the accounting profession as a whole. Nor is it feasible to place the entire responsibility for two-way communication on one party. We encourage the IAASB to explore solutions that will address this deficiency and strengthen the overall audit process.

The IAASB should consider other instances where two-way communication between accountants is addressed. For example, the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*¹ clearly addresses the responsibility of the predecessor accountant to respond to the inquiry of the successor accountant:

R320.7 When an existing or predecessor accountant is asked to respond to a communication from a proposed accountant, the existing or predecessor accountant shall:

(a) Comply with relevant laws and regulations governing the request; and

¹The requirement for the predecessor accountant to provide an appropriate response is not unique to the IESBA code. Similar guidance is found in the Code of Professional Code in Ontario (Rule 302 and 303), with equivalent provisions in Alberta, British Columbia and other provinces within Canada.

(b) Provide any information honestly and unambiguously.

Responses to Requests for Specific Comments

Our responses to the matters on which you specifically requested comments are set out below.

Question 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?**

Please see our introductory comments regarding the responsibilities of the component auditor. Also, there is a need for additional guidance on the calculation of component materiality, as detailed in our response to Question 10.

Question 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, we support this approach.

Question 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.

Question 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)?

Yes, we support this revised definition. Currently, group financial statements are defined as financial statements that “include the financial information of more than one component” (paragraph 9(j)). However, the definition of a component in paragraph 9(a) describes a component as an entity

“that should be included in the group financial statements”. The proposal to define group financial statements in the context of a consolidation process adds clarity and allows the definition of group financial statements to stand on its own.

Question 5

Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?

We have no concerns with the scalability of this standard.

Question 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. This approach provides the auditors with the flexibility to align their group audit procedures with their overall assessed risk of material misstatement rather than focus strictly on quantitative assessments, which may or may not be reflective of the audit risk.

Question 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 agree that the auditor should perform an assessment of possible restriction on access at the acceptance and continuance stage of the audit. However, the guidance should clearly state that this assessment does not diminish the component auditor’s professional obligation to provide a timely and accurate response. See our introductory comments.

Question 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?**

We agree the risk-based approach is appropriate. However, we noted that the guidance clearly lays out the group engagement team's responsibilities but does not explicitly state the component auditor's responsibilities to provide a timely and accurate response. See our introductory comments.

Question 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.

Question 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?

We encourage the IAASB to provide implementation guidance to assist auditors in calculating the appropriate level of component materiality. As proposed, auditors must set component materiality at a level lower than materiality for the group financial statements as a whole, but component materiality may be set such that the aggregate of component materiality exceeds group materiality. This guidance allows for a wide range of possible solutions and in and of itself, does not take into account that the risk of undetected misstatement increases as the number of components increase. As component materiality is a key consideration in establishing the overall audit strategy and addressing the risk of material misstatement in the group audit, implementation guidance would be a valuable tool in addressing the requirement of ISA 600.

Question 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.

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- (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. However, it should be emphasized that this guidance does not relieve the component auditor of their professional obligation to provide timely and complete information, including access to audit documentation. See our introductory comments.

Question 12

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

No.

Question 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.**

We have no comments on possible translation issues.

- (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 have no concerns with the proposed transition date.

Thank you for the opportunity to comment.

Yours truly,



Bonnie Lysyk
Auditor General of Ontario