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Dear Mr Seidenstein,

Proposed International Standard on Auditing 600 (Revised): Special Considerations -- Audits of Group Financial Statements (Including the Work of Component Auditors)

RSM International Limited, a worldwide network of independent audit, tax, and consulting firms, appreciates the opportunity to comment on the IAASB's Exposure Draft, Proposed International Standard on Auditing 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors) ('ED-600').

We support the Exposure Draft and consider that it updates, strengthens, and clarifies the approach to group audits. We thank the drafting team for their accomplished work on ED-600 and the helpful webinars that were delivered during the consultation period.

Overall, ED-600 is clear in its requirements, scalable and responsive to the increasing complexity of groups, and hence group audits. The linkages between the other extant ISAs and ED-600 better articulate the existing requirement to apply the other ISAs to group audits.

We consider that the risk-based approach in ED-600 will result in more focussed risk assessments, and therefore responses, which, in turn, will improve audit quality. We welcome the fact that the responsibilities of the group engagement partner and group engagement team are clearly set out and that the component auditor is part of the engagement team.

Our responses to the specific questions posed in the Explanatory Memorandum are attached.

We would be pleased to discuss our views further with your staff. If you have any questions regarding our comments, please contact Steve Whitcher (steve.whitcher@rsm.global) or me at (marion.hannon@rsm.global).

Yours faithfully,



Marion Hannon
Global Leader, Quality and Risk

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Overall Questions

1) With respect to linkages to other standards:

a) Does the ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?

Yes, in our view ED-600 has appropriate links to the other ISAs and proposed ISQMs. We believe ED-600 successfully articulates the unique aspects of a group audit engagement and sufficiently builds on the foundational standards, in particular ISA 315 (Revised), ISA 330, and proposed ISA 220 (Revised).

We welcome the links to ISA 240, in particular, the application material in paragraph A80, which clarifies the responsibilities of the group engagement team in this area. We suggest that a further link to paragraph 16 of ISA 240 could be considered in paragraph A70 to reinforce the application of professional scepticism during the group engagement team discussion on fraud.

We particularly welcome the clarity in paragraphs 27 and 28 on the responsibilities of the group engagement team regarding related parties and going concern under ISA 550 and ISA 570 when communicating with component auditors. In addition, we welcome application paragraph A72 which reinforces the need for professional scepticism with respect to related parties.

The links to the ISQMs are appropriate, particularly the paragraphs relating to ethics and independence and resourcing (A39 and A40). However, stronger links could be considered between ISQMs and engagement acceptance, in particular where access restrictions are imposed.

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?

Yes, 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. We particularly welcome the alignment to proposed ISA 220 (Revised) and ISA 315 (Revised).

We welcome the clarification that, consistent with the definition in proposed ISA 220 (Revised), the component auditor is specifically included in the engagement team. In addition, we are supportive of the emphasis on the responsibilities of the group engagement partner in ED-600 which reflect the requirements in proposed ISA 220 (Revised).

ED-600 is based on the proposed ISA 220 (Revised) and as such, we expect that a further comparison will be completed once ISA 220 is finalised to ensure that the expectations of the group engagement partner are consistent between the two standards.

The alignment with ISA 315 (Revised) increases the focus on the group engagement team's responsibility for the identification and assessment of the risk of material misstatement in the group financial statements. In this regard we welcome the proposed risk based approach, which we believe will enhance the use of professional scepticism by requiring group audit engagement teams to exercise increased judgment in scoping the approach to a group audit.

However, we suggest that the linkage to ISA 315 (Revised) would be further emphasised by the addition of an extra application paragraph referencing to the spectrum of inherent risk when assessing components.

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 the proposed structure of the standard.

The sub-sections highlighting the requirements when component auditors are involved are logical and intuitive. They reinforce the concept that ED-600 applies even when component auditors are not involved. We also believe that the structure clarifies the level of interaction needed between the group engagement team and component auditors, as well as the extent of the use of component auditors in the various phases of the audit.

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?

Yes, we believe that professional scepticism is appropriately reinforced in ED-600.

Whilst paragraph 5 makes explicit reference to the use of professional scepticism, ED-600 emphasises the role that judgment plays in scoping, performing and concluding on a group audit, e.g. in paragraphs 23, 44-46 and 49-51. This will, in our opinion, lead to group auditors exercising increased professional scepticism in their work.

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 practicable).

Yes, we believe the scope and applicability are clear and support the definition of group financial statements linking to the consolidation process. The application paragraphs A16-A18 provide guidance on the different types of consolidation process. We believe that the use of language in paragraph A17, referring to 'in these circumstances', is ambiguous regarding precisely which circumstances are intended to be included, and may lead to confusion in applying paragraph 11.

We also suggest expanding A17, to include multiple legal entities for which there is no separately prepared financial information or financial statements and where all accounting is performed centrally.

We agree with paragraph 3 which recognises that the planning and performing of a group audit may not necessarily follow the same structure and organisation of the group. However, we believe more clarification is required on how to apply the standard when the group auditor designates components differently to the way in which the entity defines its business units or operations. We acknowledge a reference to this in A15 but believe further application or implementation guidance will be helpful.

The acknowledgment of different structures that comprise a group appropriately modernises extant ISA 600.

5) Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognising 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, we believe that the proposed standard is scalable due to the following:

- the acknowledgment of the various group structures in the definition of a group;
- the clarified definition of a component so that it is determined by the group engagement team;
- the inclusion of the subsections which describe the extent of the use of component auditors including the nature, timing, extent of direction, supervision, and review of component auditor's work, particularly paragraphs A51-A52;
- the linkage of assessed risks of material misstatement to appropriate responses.

We believe that the scalability of the standard would be further enhanced by adding a reference to the spectrum of inherent risk in the assessment of the components, consistent with ISA 315 (Revised). We believe that further application or implementation guidance would be useful for applying the standard to small and less complex group audits.

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, we support the revised definition.

The focus on significant components in extant ISA 600 can lead to an approach whereby risks of material misstatements in non-significant components remain unaddressed. We believe that the revised definition of a component to focus on the 'auditor view' enables the group engagement team to apply professional judgment in the identification of risks of material misstatements and the related responses.

This will enhance the group engagement team's understanding of the group and its environment and, in our opinion, lead to more focussed risk assessment and improved audit quality.

While we are fully supportive of this revised definition, we do believe that differences in the 'auditor view' and 'management view' of the structure of the components may cause confusion and recommend additional implementation guidance be provided for when the 'auditor view' and 'management view' of the structure of the components are not the same. This may be particularly challenging as auditors transition from extant ISA 600, with its focus on significant components, to the new risk based standard.

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 support the enhancements.

We particularly welcome paragraph A27 which reinforces responsibilities of the group engagement team to obtain sufficient, appropriate audit evidence. Paragraph A29 provides useful and practical guidance for overcoming restrictions on access to information or people, however we believe that further application guidance on the extent of information required for equity accounted investments would be useful.

8) Will the risk-based approach result in 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?

Yes, we believe the respective responsibilities of the group engagement team and component auditors are generally clear. However, it would be useful to provide further clarity in paragraph 21 about how or what the group auditor would need to obtain or document to comply with the assessment of whether the component auditor has 'sufficient time.'

With respect to paragraph 22, further clarification on the definition of a "serious concern", other than independence issues which cannot be overcome, would be helpful. We note the application guidance in paragraph A48 regarding concerns that are not considered serious, but we would value additional guidance on other situations where the concern is considered serious.

The links to ISQMs and ISA 220 (Revised) provide appropriate clarity regarding the group engagement team's responsibilities and its involvement in the work of component auditors.

We particularly welcome the enhancements to Extant ISA 600, which place an increased focus on the group engagement team's responsibility for obtaining an understanding of the group and its environment in order to better identify, assess and respond to the risks of material misstatement.

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?

Yes, we welcome the paragraphs which set out the interactions between the group engagement team and the component auditor.

Two-way communication will increase in importance under ED-600 and we welcome paragraphs 4 and 43-46 and Appendix 1 which provide clarity regarding these interactions. However, we believe guidance on component auditors' reporting to the group auditor on the component financial information would help determine whether such reports are expected to comply with ISA 700, 705, and 706 or whether other formats of reporting are appropriate.

As noted in our response to Question 1a above, we support the addition in paragraph 28 to clarify the interaction between the group and component auditors related to going concern considerations. However, we believe an editorial change is needed to paragraph 28 (b) because the group engagement team cannot be directed to communicate to the component auditor information identified by the component auditor. We suggest a change such as the following addition included in bold font:

28. In applying ISA 570 (Revised), the group engagement team shall:

(a) *no change proposed*

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

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

We believe that the risk-based approach will strengthen the identification, assessment, and response to risks of material misstatement and improve audit quality. Group auditors will focus on the risks at the group level and audit procedures performed by component auditors will, in turn, also be more focussed on responding to those risks.

One significant challenge could be the inter-relationship between audit procedures performed by component auditors on instruction of the group auditor and the audit work required to support a local opinion by the component auditor. The group auditor may request the component auditor to perform work that, in the opinion of the component auditor is not required for the local audit opinion.

Examples could be:

- the request to perform tests of controls for the group auditor in a situation where the component auditor's approach is wholly substantive.
- Differing financial reporting frameworks causing differences in the approach to auditing a particular balance. For example, a group may revalue certain assets therefore there is no need to test for impairment whereas the component may carry the assets at depreciated historical cost with a consequent need for impairment testing.

A further challenge could be related to the removal of the concept of a "significant component". The risk management policies in some methodologies require concurring partner reviews or Engagement Quality Control Reviews of significant components of listed entities or PIEs. Under ED-600, networks will need to review this policy in conjunction with ISA 220 (Revised) and ISQM2 once they are finalised and determine how their risk management objectives are to be met.

Additional implementation guidance will be helpful as auditors update their methodologies and procedures from a 'significant component' focus to a risk-based approach. This may be particularly difficult when the 'auditor view' and 'management view' of the structure of the entity differs.

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

Yes, we support the concepts of the commonality of controls and centralised activities. More widely, we particularly appreciate Appendix 3 on Understanding the Group's System of Internal Control.

The application material in paragraph A59-A63, provides clear, useful guidance on the commonality of controls.

Centralised activities are increasingly common, and we welcome the inclusion of the application material in paragraphs A64-A65. However, we believe that the guidance could be expanded further to address the practical challenges that can arise when centralised audit work performed on centralised activities needs to be included in a component auditor's documentation. Furthermore, paragraph A6 states, 'the group engagement team may determine that a shared service centre is a component for purposes of the group audit. It would be useful to include factors to consider in making this determination.

We agree with the omission from ED-600 of the term "group-wide controls" as discussed in paragraphs 70-73 of the Explanatory Memorandum, because, in our view, it could cause confusion in practice and lead to inconsistent interpretations and approaches.

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, we support the focus on component performance materiality. We believe this reinforces professional judgment and the application of a risk-based approach to group audits. The links to ISA 320 and ISA 450 are clear.

The application material on aggregation risk is much clearer than in extant ISA 600 and is consistent with the risk-based approach in ED-600. However, we believe that implementation guidance that provides examples of the risk-based response to different scenarios related to aggregation risk would be helpful.

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

Yes, we support the enhanced requirements and application material. It is critical to audit quality that the group engagement file contains sufficient appropriate audit evidence to support the group audit opinion in accordance with 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?**

In some situations, there are inconsistencies of information identified by the group engagement team and the conclusions provided by the component auditor. We believe that additional guidance could be included in this area.

- 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, we support the application paragraphs A129 and A130. We agree that local restrictions on transferring audit working papers outside of the component auditor's jurisdiction do not reduce the requirement to comply with ISA 230.

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

We do not have any further comments on ED-600, but we do recognise the excellent work in updating, strengthening and clarifying the standard. The links with the other ISAs and ISQMs enhance the principles-based approach and we believe ED-600 is appropriately modernised, given the increasing complexity of Group Audits.

Request for General Comments

13) The IAASB is also seeking comments on the matters set out below:

- a) **Translation--Recognising that many respondents may intend to translate the final ISA for adoption in their environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.**

We do not see any particular issues with translation of the final ISA.

- b) **Effective Date--Recognising 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 the 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 believe that this is an appropriate period for implementation and provides sufficient time for firms to adapt their existing methodologies and develop and roll out update training. Given the significant inter-relationship between ED-600 and proposed ISA 220 (Revised), we believe the implementation date of ED-600 should be the same as or after ISA 220 (Revised).