



International Auditing and Assurance Standards Board

529 Fifth Avenue,

6th Floor,

New York

NY 10017

USA

8th October 2020

Dear Sir/Madam,

PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED): SPECIAL CONSIDERATIONS -- AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

We welcome this opportunity to respond to the consultation regarding the proposal to revise ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).

Many auditors from small and medium sized firms (SMPs) act in a capacity as component auditors within large groups or act as a group auditor for smaller groups. In this regard we strongly support the “think small first” approach to the development of standards and in particular the focus of the IAASB’s project, “Audits of Less Complex Entities”. It is essential that in considering the development of standards that scalability is achieved, and in particular for the audits of less complex groups.

We have some concerns with the potential impact on component auditors and particularly those within SMPs. The potential shift of some responsibilities, for example in the area of risk assessment, to the group auditor we believe may have a detrimental impact on audit quality. We note the revised definition of Group Engagement Team (GET) and in particular the shift in the responsibilities for the direction and supervision of component auditors. We would request that such a development be closely monitored in terms of any impact that it may have on the ability of the component auditor to assess risk and design audit procedures. It is essential that the audit process allow for diversification of opinion and experience on the audit, both of which we believe deliver enhancements to audit quality.

We welcome many of the proposals in this consultation. In particular, we welcome the enhanced approach to the use of professional scepticism throughout the group audit and the focus placed on identifying and assessing the risks of material misstatement of the group financial statements.

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We also welcome the approach and the enhanced application material included to strengthen the communication between component auditors and the group engagement team.

We have set out below our response to the questions posed by the consultation;

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?

We believe that ED-600 has appropriate links 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?

We have already raised the matter of the role of component auditors. We have not identified any further areas for special consideration.

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?

On balance we support the proposed structure used throughout ED-600. It ensures that the consideration of the work of the component auditor is considered at each important stage of the audit process.

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 welcome the application material relating to the exercise of professional scepticism.

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 consider that the scope and applicability of ED-600 is clear, and we support the definition of group financial statements.

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?

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We believe that in the main scalability has been achieved.

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?

We support the revised definition of a component.

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?

No issues identified 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:

We would welcome more involvement by the component auditor in the assessment of risks. There may be benefits to be gained for more involvement in risk assessment by the component auditor, which ultimately should improve audit quality.

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, we support this and the application material is appropriately clear.

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 consider this to be appropriate. Further guidance on this area in time would be welcome.

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.

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

We have not identified any further matters for comment.

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.

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No comment

(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.

Given the substantial changes that will be required to the audit methodologies of firms and the current impact of the COVID-19 Pandemic on the work practices of firms, we would respectfully request a longer implementation period. We believe that a time period of 24 months after the approval of the final ISA to be more appropriate.

If you have any queries on any aspect of our response, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink that reads 'Emer Kelly'.

Emer Kelly
Secretary – Audit Practices Sub Committee