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Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
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Dear Willie

SAICA COMMENT LETTER ON THE IAASB'S PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED), SPECIAL CONSIDERATIONS – AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa. We currently have approximately 47 000 members from various constituencies, including members in public practice, business, the public sector, education and other industries. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

In response to your *Proposed International Standard on Auditing 600 (Revised), Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600), please find included the comments prepared by SAICA.

A working group of SAICA studied and debated ED-600 and prepared initial thoughts and input pertaining to the questions that have been posed. The working group comprised representatives from the audit firms as well as consulting firms. We requested members of the working group to provide additional inputs to the comment letter. In addition, SAICA participated in the IRBA's ED-600 Task Group meetings where interested parties were invited to provide their views and comments in finalising the IRBA and SAICA comment letters. The IRBA ED-600 Task Group comprised representatives from the IRBA, SAICA, audit firms and consulting firms. The SAICA Assurance Guidance Committee (AGC) also provided additional inputs to the comment letter.

We thank you for the opportunity to provide comments on this exposure draft. Our comments have been provided under four sections:

- A. Overall comments;
- B. Responses to overall questions;
- C. Responses to specific questions;
- D. Responses to request for general comments.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za).

Yours sincerely

Signed electronically

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A. OVERALL COMMENTS

1. SAICA welcomes the efforts of the International Auditing and Assurance Standards Board (IAASB) in issuing ED-600, as the new requirements for group audits are designed to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other International Standards on Auditing (ISAs).
2. SAICA understands that changes were made to the extant standard so that ED-600:
 - a. Clarifies the scope and applicability of the standard.
 - b. Emphasises the importance of exercising professional skepticism throughout the group audit.
 - c. Clarifies and reinforces that all ISAs need to be applied in a group audit through establishing stronger linkages to the other ISAs, in particular to ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.
 - d. Reinforces the need for robust communication and interactions between the group engagement team, group engagement partner and component auditors.
 - e. Includes new guidance on testing common controls and controls related to centralised activities.
 - f. Includes enhanced guidance on how to address restrictions on access to people and information.
 - g. Enhances special considerations in other areas of a group audit, including materiality and documentation.
3. The business environment is evolving rapidly and such evolution poses a multitude of challenges on the performance of group audits. The efforts to improve the standard should lead to greater consistency in the application of the standard and should have a positive impact on audit quality. South Africa is considered to be the gateway to the rest of the African continent when it comes to business. As such, there are a number of companies whose headquarters are located in South Africa with business interests across the continent and the rest of the world. Performing group audits on these companies can be challenging and may give rise to a vast array of complexities. Such audits bring to the spotlight differences in culture and languages, as well as laws and regulations. Therefore, it is in this context that SAICA welcomes the revisions to the standard.
4. In South Africa, mandatory audit firm rotation (MAFR) will become effective on 1 April 2023. This will likely give rise to audit engagements where the group auditors and component auditors come from different auditing firms and the need becomes greater to ensure that the revised standard contains sufficient guidance to allow practitioners from different firms working on the same group engagement to perform consistent and high quality audits. If there were a lack of sufficient guidance in the standard it could possibly lead to a situation where audit firms develop audit methodologies that differ significantly and there could be a lack of consistency in how group audits are performed.
5. SAICA welcomes the manner in which the ED-600 has been drafted as ED-600 considers the complex manner in which businesses operate and generate consolidated financial information. The 'entry point' to ED-600 is the preparation of group financial statements and the existence of a consolidation process in preparing financial information as defined in paragraph 11 of ED-600. Therefore, ED-600 can be adapted to various scenarios, including group audits as well as those scenarios where financial information is consolidated into group financial reports. Examples include branches and divisional financial reports of single entities.
6. The introduction of the risk-based approach is aligned to the requirements of ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, and instead of a preoccupation with identifying significant components, the risk-based approach should lead to an appropriate assessment of risks at group level and eliminate scenarios where detailed procedures are performed at components that have limited significance to the audit group opinion. However, as this is a new approach, significant guidance needs to be provided to ensure that there is some level of consistency across all group audits and that firms do not develop audit methodologies that are too divergent or even contradictory. SAICA is of the view that there is room for improvement in this regard. Refer to our response in Question 8(a) to (c) below.

B. RESPONSES TO 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?

7. ED-600 is a special considerations standard and not a stand-alone standard, therefore, should expand on how to apply the principles of the ISAs to the various group structures that are most likely to be encountered in practice, taking into consideration the various stages of the audit lifecycle.
8. ED-600 makes particular reference to linkages with the following ISAs:
 - a. Proposed International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Related Services Engagements*;
 - b. ISA 210, *Agreeing the Terms of Audit Engagements*;
 - c. Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*;
 - d. ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*; and
 - e. ISA 330, *The Auditor's Responses to Assessed Risks*.
9. SAICA is in support of the linkages to the standards made above. However, further linkages can be made to the following standards:
 - a. Proposed International Standard on Quality Management 2 (ISQM 2), *Engagement Quality Reviews*. (Refer to the response to question 1(b) below, paragraphs 10 and 11.)
 - b. ISA 230, *Audit Documentation* (refer to the response to question 1(b) below, paragraphs 12 and 13.)
 - c. ISA 510, *Initial Audit Engagements – Opening Balances* (refer to the response to question 1(b) below, paragraph 14.)
 - d. ISA 320, *Materiality in Planning and Performing an Audit* (refer to the response to question 10 below.)
 - e. ISA 550, *Related Parties* (refer to the response to question 12 below.)

(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?

10. SAICA is of the view that additional guidance should be included in the ED-600 in respect of the role of the Engagement Quality Reviewer (EQR) in a group context and where there are component auditors involved. The focus of the guidance should not only be on the alignment of the terminology between the two sets of standards as the IAASB has done in paragraph A2 of ED-600 but on providing further guidance on the role and responsibility of the EQR in group audits.
11. In various group audits, situations arise where, similarly to the group engagement partner, there is a group EQR. The group EQR has to place reliance on the individual EQRs at a component level (the component EQRs). Neither the exposure draft nor ISQM 2 provide guidance regarding the group EQR responsibilities and procedures to be performed to place reliance on component EQRs. ED-600 should give further guidance on the

scope of work performed by the group EQR and this should not go beyond the scope of work performed by the group engagement partner.

12. It is imperative that there is clarity on the extent of documentation that should be included in the group engagement file with respect to work performed at component level to avoid different practices being adopted by the firms as this could lead to recurring inspection findings. In South Africa, a substantial portion of the audit inspections findings relate to the lack of sufficient documentation being included in audit files. Failure to provide clear guidance on the documentation requirements could lead to a situation where these findings are exacerbated for group audits.
13. In light of the above, SAICA is in support of further guidance being provided, in particular for:
 - a. The responsibilities of component auditors for maintaining audit documentation and how this evidence should be incorporated in the group engagement file in order to support the group opinion. Paragraph A124 of ED-600 needs to be enhanced as it is currently not clear who has the ultimate responsibility for maintaining audit documentation for work performed at a component level. SAICA is of the view that the group engagement team's evaluation of significant judgements made by the component auditor that have an impact on the group audit opinion should be included in the group engagement file. Such enhanced documentation requirements would also play a significant role in demonstrating the involvement of the group engagement partner in the work performed by component auditors.
 - b. Situations where statutory audits have been performed by other auditors on components and how the group auditor should assess and document the considerations made to rely on the work performed by the other auditor. For example, the group engagement team may not be in a position to evaluate whether the component auditors have fulfilled the ethical requirements that are relevant to the group audit engagement, including those related to independence. In addition to this, another consideration relates to the competence of the component auditor. There needs to be emphasis that the requirements of ISA 230 are applicable where the group engagement team relies on the work performed by the component auditor in these instances to ensure that considerations regarding the work of the other auditor are sufficiently and appropriately documented in the group engagement file.
 - c. Cases where some of the components in a group structure relate to equity investments that the group does not exercise control over. Such components may have component auditors from different auditing firms and the group engagement team may not necessarily have access to information and people. This scenario, including 13(b) above, could result in lack of sufficient appropriate evidence to support the group engagement partner's opinion on the financial statements.
14. The introduction of MAFR in South Africa will result in situations where new auditors have to be appointed for public interest entities (PIEs). Given the additional procedures that need to be performed in the case of new group engagements, ED-600 should include a linkage to ISA 510, *Initial Audit Engagements – Opening Balances*, reminding the group auditor of the need to comply with this standard prior to accepting the engagement, where appropriate. In most instances, group audit engagements relate to PIEs and it is important that the group engagement team determine whether they will be able to obtain sufficient appropriate audit evidence by obtaining access to the previous group auditors where appropriate. This will have an impact on the decision to accept the engagement. The ideal location for the additional guidance to ISA 510 is in paragraph A25 of ED-600.

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?

15. SAICA supports the placement of the sub-sections that highlight the requirements when component auditors are involved.
16. While we support the view of ED-600 in that the group engagement partner should take overall responsibility for the group audit opinion, component auditors also have a significant role to play in ensuring that high audit quality is maintained and that the group audit opinion is appropriate in the circumstances. Therefore, incorporating requirements for component auditors in ED-600 may ensure that component auditors take accountability for the quality of the work that they perform.
17. SAICA believes that the IAASB should also consider strengthening the guidance in ED-600 to demonstrate the role that component auditors should play in group audit engagements, including the work effort required from component auditors. Refer to our response to question 8 for further details on this.

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?

18. The IAASB Glossary of Terms' definition of professional skepticism is, "*an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.*"
19. Globally, the auditing profession is going through, what is arguably, the greatest reputational crisis of all time. The interconnectedness of the profession globally means that a corporate failure in one jurisdiction is viewed as a corporate failure in the profession as a whole and brings the auditing profession into the spotlight globally. Therefore, the application of professional skepticism is fundamental in the audit process and in ensuring high audit quality. There is a need to reinforce the importance of professional skepticism, especially in the context of group audits.
20. In this regard, SAICA is of the opinion that professional skepticism can be further reinforced in the main paragraphs in ED-600, instead of the application paragraphs. The application of professional skepticism in group audit engagements can be pin-pointed to certain transactions such as intra-group transactions, transactions that are not at arms-length and related party transactions, therefore, the requirement to apply professional skepticism should be heightened in these situations.
21. Another situation where professional skepticism should be heightened in a group scenario is where the audit client insists on having multiple group auditors, including joint audit arrangements, and there is no clear rationale for splitting the group audit between numerous firms. Although joint audits are being considered globally to address issues of market concentration in the auditing profession, there need to be valid reasons for appointing joint auditors and/or multiple auditors and audit quality should not be compromised. This is another example that could be included in the application paragraphs (A9-A10) to reinforce the exercise of professional skepticism in a group context where joint auditors or multiple auditors are involved.

C. RESPONSES TO REQUEST FOR SPECIFIC COMMENTS

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).

22. SAICA is of the opinion that the scope and applicability of ED-600 is clear.
23. In assessing the scope and applicability of ED-600, it appears that ED-600 adopts a principles-based approach. This is important given the diversity of group structures that may exist and the various environments and broad range of circumstances in which the final standard may be applied.
24. The definition of 'group financial statements' should include reference to paragraph 11, explaining the consolidation process. For paragraph 9(k), SAICA suggests the following wording:
- 9(k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. Refer to paragraph 11 for the definition of a consolidation process.
25. SAICA has also noted the revised definition of consolidation process as this now includes 'the aggregation of the financial information of branches or divisions.' Based on our understanding, this has the effect that ED-600 can be applied not only in cases where group financial statements are prepared but also in all cases where financial information of a single entity is consolidated.

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?

26. ED-600 is a principles-based standard and we believe that it incorporates all the elements that are needed to conduct a group audit engagement. It is important that the principles-based approach remains so that the final ISA 600 remains fit-for-purpose even as the environment in which group audits are performed continues to evolve. Refer to paragraph 27 below on how ED-600 can be improved to ensure that it is scalable for large and complex group structures.
27. While the standard needs to be principle-based, there needs to be a mechanism to address the practical challenges that may arise especially in complicated group structures. In this regard, SAICA believes that the examples in the application paragraphs could be further enhanced to take into consideration such complexities. Some of the complex areas where further guidance could be provided in ED-600 include use of shared service centres, coordination and communication challenges when there are multiple component auditors across international boundaries, significant equity investments not under control of group management and situations where group audits are performed by joint auditors.
28. Furthermore, the IAASB should consider issuing implementation guidance on some of the complex areas as mentioned above such as in paragraph 27. In this regard, implementation guidance to final ISA 600 (Revised) incorporating illustrative examples for these complexities and others that may be encountered by group engagement teams could prove to be useful. ED-600 cannot include examples of all of the practical challenges

and scenarios that group auditors may encounter, therefore, non-authoritative implementation guidance with detailed examples would be useful in this regard.

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?

29. SAICA has noted the change in the definition of a 'component.' The new definition gives the group engagement team the option to determine whether it is more effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group.
30. SAICA agrees with this change as the group structures in the modern-day business environment are not just driven by geographical locations or separate legal entities. Many businesses use shared service centres and other business considerations to structure their operations.
31. While SAICA agrees with this approach as it involves applying a questioning mind when assessing management conclusions and not readily accepting their views on the structure of the group, it is important that sufficient guidance is given in ED-600 and the application paragraphs on the actions that the group engagement team should take when they differ with group management on the structure of the group.
32. There is a risk that the group engagement team may not be able to obtain sufficient understanding of the group if a different view than management is taken and that actual areas of risk are missed. This risk may be even more prevalent on initial audit engagements where the group engagement team does not have sufficient industry knowledge. A mechanism that could be incorporated into ED-600 to mitigate this risk is to take a 'stand-back' approach where the group engagement team takes the group management's view of the group structure initially, and after assessing the audit evidence, to conclude on the appropriateness of the group structure and set-up of the components.
33. Application paragraphs A4-A6 only give examples of when such differences in views with regards to the group structure may occur and do not go further to give guidance on how to address the possibility of differences in views. Practical challenges may arise where the group management's and group auditor's views of the group structure may be irreconcilable. For example, the processes and functions of the business may be structured in a way that only supports the management view of the group structure and the auditor could experience significant delays in obtaining audit evidence or even obtaining one set of financial information that management takes responsibility for, in a manner that supports the auditor's views of the group structure. If the IAASB considers such situations to be a restriction on access imposed by group management, SAICA recommends that ED-600 should explicitly state so.
34. Another practical concern relates to the signing of management representation letters for the components as identified by the group engagement team. The audit client may not necessarily have employees responsible to take accountability for account balances, class of transactions and disclosures at component level. Practical guidance needs to be provided in the application paragraphs for these and other possible scenarios that could arise.

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?

35. SAICA supports the enhancements to the requirements and application material in ED-600.
36. SAICA is of the view that paragraph 19 of ED-600 can be further strengthened by making it a requirement in the standard that component auditors should allow access to their working papers to the group engagement team in relation to the group engagement unless there are valid reasons not to allow this, such as the legal requirements in a particular jurisdiction. This is particularly important in situations where the group engagement team and the component auditors do not belong to the same network firm and where the component auditors may be uncooperative.
37. SAICA proposes the following wording which can also be included as an additional paragraph above paragraph 19 of ED-600: *“The group engagement team shall require the component auditors to allow them access to the work performed by component auditors unless there is a valid reason not to permit such access. Examples of valid reasons may include restrictions imposed by management (e.g. in the case of equity investments), laws and regulations or other conditions, for example, war, civil unrest or outbreaks of disease.”*
38. SAICA believes that such a paragraph would enhance accountability and transparency in the audit process and is in the interests of promoting audit quality. The group engagement team does not necessarily have to incorporate the working papers of the component auditor in the group engagement file but access would allow the group engagement partner to evaluate the evidence and ensure that there is sufficient and appropriate evidence to support the audit opinion. Failure to obtain such access from the component auditor may be an indication that the group engagement team should conduct the audit of the component themselves.
39. It would also be very difficult for group engagement partners to apply their minds as to whether sufficient appropriate evidence has been obtained at component level without accessing the working papers of the component.
- 40. SAICA urges the IAASB to work closely with the relevant global audit regulators to resolve the issue of access to information and people. Regulators should be in a better position to influence laws and regulations in their respective jurisdictions to overcome this challenge. It is in the interests of audit quality to ensure that these restrictions are overcome.**
41. Furthermore, it is our view that advances in technology do allow for work to be shared across geographic locations even during outbreaks of diseases and other similar conditions. This has been case during the outbreak of the COVID-19 pandemic in South Africa, where auditing firms have been conducting audit engagements remotely. SAICA understands that the standards should be principles-based to cater for a wide array of circumstances, however, the impact of technology should be considered as this is inherent in the modern audit environment.
42. There may be further developments from the time that the group engagement partner makes the determination on whether to accept or continue with the group engagement and when the engagement starts. During that time, it is possible that changes may have taken place in the group structure, e.g. the acquisition of a significant equity investment. This change in the group structure could result in restrictions that may not be overcome and may affect the original acceptance/continuance decision. Application paragraph A25 should be supplemented with this possible scenario.

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:

43. SAICA welcomes the introduction of the risk-based approach. This approach requires the group engagement team to obtain an understanding of the group structure and to determine components as well as to identify

significant risks at the group level. This is consistent with the requirements in ISA 315 (Revised 2019) and the responses to the assessed risks of material misstatement are aligned to the requirements of ISA 330.

44. The risk-based approach, however, also poses the risk that significant risks at the component level may be overlooked. Where similar risks exist across all other components, this could have a significant impact on the group audit opinion. In this regard, an additional application paragraph following after A79 of ED-600 could be included to emphasise this point. The application paragraph should specifically require the group engagement team to remain alert to this scenario and design appropriate audit procedures to address this risk.

(a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?

45. The respective responsibilities of the group engagement team and component auditors are clear and appropriate.
46. Paragraph 28(b) and paragraph 41(b) of ED-600 relate to the same communication to be made by the component auditor. Therefore, this should be included in paragraph 41(b) as that is the ideal location in this context. Furthermore, paragraph 28 relates specifically to communication to be made by the group engagement team hence the preferred location of paragraph 41(b).
47. Additional guidance can be provided for those cases where the group engagement team is placing reliance on work performed by another auditor at the component (e.g. in the case where a statutory audit has been performed by another auditor or the component represents an equity investment by the group but no control is exercised by the group). For these cases, it is important that ED-600 clarifies the fact that the nature of the work performed for the purpose of group audits could be different compared to standalone financial statements. For example, different materiality levels could have been used by the component auditor, the classification of risk for account balances, classes of transactions and disclosure may be different and the nature and extent of procedures performed could be significantly different to those required for the purposes of the group audit engagement.

(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?

48. The interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate.
49. ED-600 emphasises the importance of dialogue between the group engagement team and the component auditor through two-way communication.
50. Another item for consideration in paragraph 44 may include:
- Key Audit Matters (KAM) from the audit of the components that component auditors believe that the group engagement team should consider including in the group audit report.
51. The application paragraphs should also give examples of the nature of the reports that the component auditor could submit to the group engagement team. For example, ISA 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, contains various illustrative reports that could serve as guidance on the nature of the report to be submitted to the group

engagement team by component auditors, especially in situations where they are auditing specific elements, accounts or items included in the component's financial statements. Illustrative reports that can serve as guidance to group auditors on the nature of reports that may be submitted by component auditors for various group scenarios could be included in the appendix section.

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

52. Due to the significant change in approach, SAICA believes that some of the scoping paragraphs in the application material should be included in the main paragraphs of ED-600. In this regard, SAICA proposes that application paragraphs A86 and A87 be included after paragraph 33 of ED-600 as a separate section, 'Scoping a Group Audit'. These paragraphs are not prescriptive and will not change the tone of ED-600 in this regard. Also refer to the response to Question 12 in terms of additional guidance that can be issued by the IAASB.
53. In addition to the two paragraphs mentioned above, the IAASB should consider identifying any other unintended consequences of this flexible approach to ensure that the scope of audit procedures at component level are not inappropriate, and supplementing the application paragraphs for these scenarios. Some of the possible unintended consequences include:
- a. Inconsistencies in terms of how different firms within the same group engagement may interpret the requirements of ED-600, especially where there are conflicts in the audit methodologies. Paragraph 25 of ED-600 states, *"When the group engagement team assigns the design and performance of risk assessment procedures to component auditors, the group engagement team shall consider the results of those procedures in fulfilling the requirement in paragraph 32."* This paragraph, read together with other paragraphs in ED-600 such as paragraphs 37 and 38 create the impression that the component auditors may, to a large extent, direct the work performed at component level, and this potentially increases the risk of conflict and asymmetry between the group engagement team and component auditor's firm methodologies.
 - b. Lack of accountability at component level as the component auditors may only focus on executing group instructions without applying much professional judgement to other aspects at the component. Therefore, the group engagement team risks losing the granular details that the component auditors may communicate as per the requirements of extant ISA 600. One of the advantages of a component auditor performing an audit of a component is that they can identify the relationships between the various account balances, classes of transactions and disclosures within that component. Limiting the scope of the work to be performed by the component auditor could erode this benefit. Furthermore, there could be lack of cohesion in the work performed by the group engagement team and the component auditors where some of the account balances, classes of transactions and disclosures for a particular component are audited at the group level.
 - c. The risk-based approach could create incentives for group management to influence the group engagement team in its scoping in order to minimise the audit fee.
 - d. Uncertainty in knowing how much should be scoped in, in order to reduce audit risk to an acceptable level from a group engagement team's point of view.
54. SAICA is of the view that the ED-600 can be enhanced in terms of evaluating whether sufficient appropriate evidence has been obtained at group level.
55. Paragraph 49 of ED-600 states, *"In applying ISA 330 the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115). A115 states, "The evaluation required by paragraph 49 assists the group engagement team in*

determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330 for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure **also may be helpful** for purposes of this evaluation in the context of the group financial statements.”

SAICA suggests that paragraph 49 should be enhanced with some of the elements in A115 as follows, “*In applying ISA 330 the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. The requirement in ISA 330 for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure must also be considered for purposes of this evaluation in the context of the group financial statements.* (Ref: Para. A115). Paragraph A115 could then be updated accordingly or deleted altogether.

56. If paragraph 49 is structured in such a way, each firm can then apply the requirement in terms of their own methodology to ensure that sufficient appropriate audit evidence has been obtained at a group level. This is in line with the principles-based approach envisaged in ED-600 and will allow flexibility in the procedures used by audit firms in obtaining sufficient appropriate audit evidence.
57. ISA 330.18 states, “*Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure.*” This paragraph read together with paragraph 49 of ED-600 implies that there is a requirement to design and perform substantive procedures for each material class of transactions, account balance and disclosure. In a group scenario, this would mean that the group engagement team needs to ensure that substantive procedures are performed until all untested balances at group level are below materiality. This could be onerous for large group engagements and could be in contradiction to the ‘stand-back’ requirement envisaged in ED-600. The IAASB needs to clarify the interaction of these two requirements. This may result in an expansion of the scope of work beyond that anticipated and expected, especially when applying a risk-based approach.

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

58. SAICA supports the additional application material on the commonality of controls and centralised activities included in A59 – A65 of ED-600.
59. The term, “component” has been defined in ED-600 and should only be used in the context of that definition throughout ED-600. SAICA suggests that an explanation, even as a footnote, be included in paragraph A60 that ‘component’ is being used in the context of ISA 315.

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?

60. SAICA welcomes the guidance on materiality, including the definition of aggregation risk. This is an area that can be complex in the context of group audits. Due to the complex nature of materiality in group audits, further enhancements can be made to ED-600 to clarify some of the complexities which are discussed below.

61. ED-600 has removed the explicit reference to component materiality and focuses specifically on component performance materiality. SAICA's understanding is that this has been done to emphasise the point that under the risk-based approach, in a group engagement the focus should not be on significant components, and component performance materiality is determined by the group engagement team for the purposes of performing audit procedures on disaggregated component financial information. Determining materiality in group audit engagements is distinct from the situation where the component auditor applies ISA 320, *Materiality in Planning and Performing an Audit*, to determine materiality for the standalone financial statements of a component and has the users of the financial statements in mind. Further guidance should be included in the application paragraphs to emphasise these two concepts. SAICA does not believe that removing "component materiality" is the correct approach to addressing this complexity and the term could be left in ISA-600 without detracting from the point being made.
62. Another scenario that requires further guidance in ED-600 is the situation where a component represents a significant equity investment where the group does not exercise control over the investee. The component could be larger than the group in terms of revenue, profit before tax and other applicable benchmarks and the materiality used by the component auditor could be significantly larger than the group materiality. This could have the effect that the audit procedures performed by the component auditors may not be sufficient for purposes of the group engagement. ED-600 should give guidance to the group engagement team in such scenario and the possible options that the group engagement team has to address the differences in materiality.

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?

(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?

63. Some of the considerations that may be included in paragraph 57 of ED-600 include:
- Any other documentation on how the group engagement team demonstrated their application of professional judgement and professional skepticism during the group engagement.
 - Documentation on how the group engagement partner has applied the 'stand-back' requirement to ensure that he or she has taken overall responsibility for the group engagement and how he or she has ensured that sufficient appropriate audit evidence has been obtained to take overall responsibility for the group audit opinion. This is crucial in large and complex group structures.
 - Documentation on the group engagement team's determination on its conclusion that it is appropriate to use the work of component auditors (e.g. where statutory audits have been performed by another auditor or where the component relates to an equity investment of the group but no control is exercised).
 - Conclusions on the expected manner and form of communication between the group engagement team and component auditors.
 - Discussion of significant matters with group and/or component management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
64. SAICA recommends that the IAASB should not be too prescriptive in setting the documentation requirements in ED-600 as the principles of documentation in ISA 230 apply in group audit engagements. There is a risk that auditors will focus on complying with the requirements stipulated instead of applying their professional

judgement. The list provided in paragraph 57 of ED-600 should be the examples of items to consider for inclusion in the audit documentation. While we acknowledge that documentation poses serious problems for auditors globally – based on the review of regulatory inspections findings reports – the auditor enhances audit quality by applying professional judgement instead of following a ‘tick-box’ approach.

65. ISA 230, *Audit Documentation*, already contains strict documentation requirements that auditors need to adhere to. As per ISA 230.A6, in principle, compliance with the requirements of ISA 230 will result in audit documentation being sufficient and appropriate in the circumstances. It is recommended that paragraph 57 of ED-600 should rather clarify the application of ISA 230 instead of providing a comprehensive list of documentation requirements.
66. SAICA, therefore proposes the following wording as the introduction to paragraph 57 in ED-600:
 57. *“In applying ISA 230, the group engagement team shall consider for inclusion in the audit documentation:...”*
67. SAICA agrees with the application material in paragraphs A129 and A130 of ED-600.

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

68. SAICA is of the view that due to the complex group structures that exist in the modern day era, it is imperative that the IAASB produce implementation guidance outside of ED-600. ED-600 should not be rules-based and should remain principle-based to avoid a ‘tick-box’ approach being followed by auditing firms in order to satisfy the requirements of the standard, hence the need for implementation guidance outside of ED-600. The implementation guidance should incorporate practical examples.
69. The following are some of the suggested topics to be covered in the implementation guidance to ED-600:
 - a. Process to be followed in archiving the documentation of component auditors.
 - b. Group and components having non-conterminous year-ends.
 - c. Dealing with situations where some of the components may be using accounting policies that are inconsistent with the group’s accounting policies.
 - d. Scoping of account balances, class of transactions and disclosures in group audit engagements (using the risk-based approach in ED-600).
 - e. How to review component auditor documentation and the extent of review required.
 - f. Using the work of another auditor where the group holds a significant equity investment but does not exercise control of the investee.
 - g. Component materiality and component performance materiality for components that represent equity investments but where the group does not exercise control of the investee.
 - h. The group engagement partner’s considerations when there are restrictions on access to people and information.
 - i. Illustrative examples of communication by the component auditor to the group engagement team.
 - j. Performing group audits where the group uses shared service centres.
 - k. The role of component auditors in group audits.
 - l. Documentation to be included in the group engagement file.
70. Another consideration is to include a section on ‘Related parties’ directly after the section relating to ‘Subsequent events’ in paragraph 47. Corporate failures often involve fraudulent transactions that are in some instances linked to collusion between related parties. Unusual transactions not at arms-length at component levels could

indicate the existence of related parties that have not been identified by the group engagement team. Paragraph 41(a) of ED-600 should be moved into this section and there should be additional information on the unusual transactions not at arms-length as explained above. A separate section on related parties, with reference to ISA 550, *Related Parties*, and unusual transactions at component level would highlight the importance thereof.

D. RESPONSES TO 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.

71. No further comments in this regard.

(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.

72. Given the introduction of the risk-based approach, there could be fundamental investments that firms may be required to make to ensure effective implementation of ED-600. Furthermore, given that there have been changes to other foundational standards such as ISA 315 (Revised 2019), proposed ISQM 1, ISQM 2 and ISA 220 (Revised), SAICA is of the view that the effective date should be for financial reporting periods beginning 24 months after the approval of the final ISA.

73. SAICA welcomes that earlier application of the standard is permitted. However, earlier application should not necessarily be encouraged. SAICA supports the decision by the IAASB to allow for field testing prior to the effective date and believe that this can be encouraged to allow firms to adjust in applying the risk-based approach instead of encouraging early adoption. Early adoption should only occur when firms are ready to fully implement the standard in order to ensure the performance of high quality audits consistent with the requirements of the ISAs.

74. Another consideration for the IAASB is the fact that in group audit engagements, auditors (group or component) may not all be from the same network firm and that could possibly create inconsistencies within the group audit engagement where some audit firms have adopted the ED-600 and others not. ED-600 needs to give further guidance in this regard.
