

Willie Botha  
Technical Director  
IAASB  
529 5<sup>th</sup> Avenue  
New York  
NY 10017

Submitted Electronically

16 September 2020

Dear Willie,

**Exposure Draft ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of CAs)***

The Financial Reporting Council (FRC) welcomes the opportunity to comment upon Exposure Draft, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600). Overall we are strongly supportive of the aim of the IAASB to address the key public interest issues in respect of the audits of group financial statements, and the enhancements to ED-600 that will support the group auditor's efforts in achieving high quality audit work.

To support this response, we conducted extensive outreach with our stakeholders, including practitioners who are responsible for complex group audits, component auditors, audit committee chairs of large multinational groups and investors. We heard positive comments on the proposals contained with ED-600, with many participants being supportive of the IAASB's public interest objectives and efforts to respond to the issues and challenges inherent in performing group audits in today's rapidly evolving global business environment.

We believe that the following areas within the proposed standard are instrumental in enhancing audit quality in group audits:

- The new 'risk-based' approach to planning and performing group audits demonstrates greater alignment with, and reinforces the important concepts set out in, ISA 315 and ISA 330. We believe this has the potential to drive significant improvements in the group auditor's risk assessment process and subsequent design and performance of further audit procedures (discussed further in our response to **Question 8**);
- The emphasis that ED-600 is supplemental to the requirements and application material in all ISAs and reinforcement of that principle by including requirements and application material that refer to, or expand on, how other relevant ISAs are to be applied in an audit of group financial statements (discussed further in our response to **Question 1**);
- The revised definition of a component that reflects the 'auditor's view' for purposes of planning and performing the group. This allows for greater flexibility and scalability in

accommodating evolving, complex businesses models and structures (discussed further in our response to **Question 6**);

- The emphasis on more robust communications and interactions between the group engagement partner, the group engagement team and component auditors through greater links to ISA 220 (Revised) (discussed further in our response to **Question 8**); and
- The emphasis on the importance of professional scepticism in the introduction to the standard, the stand-back requirement and the guidance in the application material (discussed further in our response to **Question 3**).

The revision this standard is long overdue. To allow time for implementation by audit firms, we recommend that there are no unnecessary delays to its finalisation. We strongly urge the IAASB to finalise the standard no later than June 2021 and align the effective date with that of the revised quality management standards (ISA 220, ISQM1 and ISQM2)<sup>1</sup>.

In finalising the standards, we urge the IAASB to encourage practitioners to embrace the new requirements in revising their methodologies, so as not to simply default to extant ISA 600 requirements. To do so will undermine the IAASB's efforts to facilitate high quality group audits.

We welcome the work of the International Ethics Standards Board for Accountants (IESBA) to address the topic of independence of component auditors outside a firm's network in the context of a group audit. The absence of requirements and guidance in this regard has been a longstanding issue and we strongly support IESBA's goal to provide requirements and guidance in this respect. It would be helpful if the outcome of that work could be aligned with the finalisation of the standard.

Our detailed responses to each of the IAASB's consultation questions, are set out in **Appendix 1**, along with our proposals to further enhance the standard. We have also included some editorial suggestions in **Appendix 2**. If you have any questions about our response or wish to discuss any of our observations in more detail please contact me or Jason Bradley ([j.bradley@frc.org.uk](mailto:j.bradley@frc.org.uk)) by e-mail.

Yours sincerely



**Mark Babington**  
**Executive Director, Regulatory Standards**  
DDI: +44 (0)20 7492 2323  
E-mail: [m.babington@frc.org.uk](mailto:m.babington@frc.org.uk)

---

<sup>1</sup> Proposed ISA 220 Quality Management at the Engagement Level/ Proposed ISQM1 Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements/ Proposed ISQM2 Engagement Quality Reviews

## Appendix 1: Responses to the Questions set out in the Explanatory Memorandum

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?**

We agree with the emphasis in ED-600 of the need to apply all relevant ISAs in a group audit and support how the requirements and application material refer to, or expand on, how other relevant ISAs are to be applied in a group audit. This is a significant improvement on the extant ISA 600, which was sometimes inappropriately treated as a stand-alone standard, resulting in a lack of compliance with the requirements of other relevant ISAs. In particular, we support the linkage to, and special considerations, in respect of:

- ISA 210<sup>2</sup>. We discuss this further in our response to **Question 7**;
- ISA 220. We strongly support the linkages to ISA 220 and the related requirements and application material which address the special considerations in a group audit that are described in paragraphs 18-20 of the explanatory memorandum. However, in finalising the standard we strongly recommend that the important connection between the material related to the direction, supervision and review of engagement team members, and the robust two-way communications between the group engagement team (GET) and component auditors (CA) is better articulated in the requirements and application material of the standard. We have discussed this matter further in our response to **Question 8(a) and (b)**;
- ISA 230<sup>3</sup>. We discuss this further in our response to **Question 11**;
- ISA 260<sup>4</sup>. We support the new requirements in ED-600.56. Depending on the circumstances of the group audit, the planned scope and timing of the audit, including the extent to which CAs are involved, may be extremely complex. Particularly where the GET have determined that it is more effective and efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not aligned with how group management or those charged with governance view (TCWG) the entities or business units comprising the group. Where such complex arrangements exist, it will be even more important for group auditors to communicate effectively with TCWG and group management;

Accordingly, we recommend the requirement for the GET to communicate an overview of the work to be performed at the entities and business units comprising the group is extended to include both TCWG and group management;

---

<sup>2</sup> ISA 210, Agreeing the Terms of Audit Engagement

<sup>3</sup> ISA 230, Audit Documentation

<sup>4</sup> ISA 260 (Revised), Communication with Those Charged with Governance

- ISA 315<sup>5</sup> and ISA 330<sup>6</sup>. We discuss this further in our response to **Question 8 and 9**;
- ISA 550<sup>7</sup>. We support the new requirement(s) for the GET to communicate the related party relationships or transactions identified by group management that are relevant to the work of the CA, and for the CA to communicate information about related parties not previously identified by group management or the GET; and
- ISA 570<sup>8</sup>. We support the new requirement(s) for the GET to communicate events or conditions identified by group management or the GET, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the CA.

**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 believe that the inclusion of sub-sections throughout ED-600 highlighting specific requirements and considerations when CAs are involved is logical and aids scalability. However, some sections of ED-600 contain multiple sub-headings within short sections, multi-indented lists and other formatting elements which make the ED-600 difficult to follow in places. In this regard, the IAASB should consider the use of tables and well-designed diagrams to communicate more complex ideas, as is the case in ISA 315. ISA 315 includes helpful boxed examples where additional clarity is helpful for users. We would encourage the IAASB to consider formatting ED-600 in a similar manner to aid usability.

We also welcome the IAASB efforts to digitize the ISAs, similar to the IESBA e-Code. This would go some way to improving the usability of the standards.

**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 agree with the approach being taken by the IAASB in ED-600 to emphasise the importance of professional skepticism in the introduction to standard, and to establish requirements and application material that are intended to drive sceptical behavior in an audit of group financial statements by all members of the engagement team. In particular, we support:

- ED-600.A9 that highlights the additional considerations auditors need to be aware of in exercising professional skepticism appropriately in an audit of group financial statements when applying the requirements and guidance in ISA 220.
- ED-600.49 that requires the auditor to “stand back” prior to forming a group audit opinion and evaluate whether sufficient appropriate audit evidence has been obtained from the procedures performed, including those performed by CAs. This will assist in supporting the exercise of professional skepticism by the group engagement partner.

<sup>5</sup> ISA 315 (Revised 2019), Identifying And Assessing The Risks Of Material Misstatement

<sup>6</sup> ISA 330, The Auditor's Responses to Assessed Risks

<sup>7</sup> ISA 550, Related Parties

<sup>8</sup> ISA 570 (Revised), Going Concern

In our outreach we heard support for the new requirements and application material - professional skepticism demonstrates a commitment to high-quality audit work. However, some of our stakeholders suggested it be made clearer that all members of a group audit should be proactive in challenging management on explanations and assumptions received. We recommend that the IAASB emphasise this, and we have included our suggestions in this respect in our response to **Question 8(a)** under the heading 'Responsibility for Managing and Achieving Audit Quality'.

In addition, our stakeholders expressed concern that auditors do not always give enough consideration to impediments to the exercise of professional skepticism at the engagement level. In particular, that complex and tight reporting deadlines across a group may constrain the ability of the engagement team to make appropriate judgements and question management's assertions in an informed way. Stakeholders noted that this risk can be mitigated by renegotiating or delaying reporting deadlines. We therefore recommend, that the material in ED-600.A9, that is linked to the requirements and guidance in ISA 220 and discusses the exercise of professional skepticism, is enhanced to:

- Describe that when working to very tight group reporting deadlines, the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions may be constrained; and
- Include possible actions that the engagement team may take to mitigate such impediments to the exercise of professional skepticism at the engagement level, such as communicating with those charged with governance of the group when management imposes undue pressure.

**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).**

Overall, we support the scope and applicability of ED-600 and believe it will address a number of concerns that have been raised by stakeholders, including concerns about when ISA 600 does or does not apply. We support the approach described in the explanatory memorandum in relation to the application of ISA 600 to shared service centres, entities with branches and divisions and non-controlled entities (including equity-accounted investees and investments carried at cost). We also support the conclusions of the IAASB that:

- ED-600 should apply when the auditor is engaged to perform an audit of group financial statements, regardless of whether CAs are involved;
- The 'consolidation process' is fundamental to the definition of group financial statements; and
- The definition of a component should focus on the 'auditor's view', of the entities and business units comprising the group, for purposes of planning and performing the group audit (discussed further in our response to Question 6).

Feedback from stakeholders was mixed, however, as to whether the scope and applicability is sufficiently clear in ED-600. For example, where the accounting policy choices that an entity makes in accordance with the applicable financial reporting framework do not directly accord

with the definition of group financial statements or consolidation process<sup>9</sup> scope and application may still be confused. To address this, we recommend that:

- The IAASB include examples, that illustrate the application of the requirements of an applicable financial reporting framework in the context of the definitions of group financial statements and the consolidation process.
- ED-600.A17 is included in the introductory material of the standard that explains its scope. In particular, that part of A17 that explains that in circumstances when the accounting for branches or divisions is performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation, that the financial statements do not represent group financial statements and ED-600 does not apply.

**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?**

ED-600 builds on the requirements and application material in other ISAs and includes requirements and application material that refers to, or expands on, how other relevant ISAs are to be applied in a group audit in a way that is scalable to groups of different sizes and complexity. In our outreach we heard mixed views as to whether this is sufficiently clear.

In finalising the standard, we believe consideration should be given to including material which describes how an auditor, when auditing a less complex group that falls within the scope of ED-600 could scale the requirements of ED-600 (e.g. such as an group that has a non-controlling investment in an entity which management has elected to equity account for). This could be achieved through in the inclusion of an illustrative example that focuses on the most relevant aspects of ED-600 in such circumstances (e.g. those relevant to access), and highlights those requirements that would not be relevant in the circumstances (e.g. those relevant to common controls).

**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?**

Global businesses models continuously evolve in response to changing global trends, their effects on supplier, consumer and labour markets, geopolitical relationships and evolving technology. The implication of this is that many groups have increasingly complex structures, including with more extensive use of shared service centres. Auditors, therefore, need the flexibility to plan and perform their audits in a manner that will deliver consistently high quality work across many different group structures. As explained in our response to the ITC<sup>10</sup>, in our view extant ISA 600 inhibits the flexibility required through its prescriptive mechanisms for

<sup>9</sup> For example: *IFRS 10 Consolidated Financial Statements* defines consolidated financial statements as “The *financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity*”

<sup>10</sup> IAASB Invitation To Comment, Enhancing Audit Quality In The Public Interest (December 2015)

obtaining audit evidence (see our response to **question 8**) and a definition of components that does not ally expand beyond the entity’s legal and reporting structure.

Along with the new risk-based approach, the change in the definition allows for audit teams to take into account the entity’s legal, reporting and operational structure in determining the most effective and efficient way to plan and perform the group audit. We therefore strongly support the revised definition of a component to focus on the “auditor view” of the entities and business units comprising the group for the purposes of planning and performing the group audit.

**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 to the requirements and application material relating to acceptance and continuance and believe that ED-600 appropriately addresses restrictions on access to information and people. In our response to the ITC we supported the IAASB’s view that ISA 600 should be strengthened in response to inspection findings that inadequate consideration was given by auditors in respect of access to evidence. We therefore support the enhancements that strengthen the links in ISA 600 to ISA 210 and ISA 705 (Revised)<sup>11</sup> regarding access issues in relation to obtaining sufficient appropriate audit evidence.

We agree that it is fundamental that management acknowledge their responsibility for preparing the group financial statements and for keeping the records necessary to enable them to do so, i.e. it is not the auditor’s responsibility to obtain records on management’s behalf. In this regard, we agree with the IAASB that greater prominence should be given to the requirements of ISA 210.6 in ED-600 including the requirement for the auditor to obtain agreement from group management that it will provide the auditor with unrestricted access to persons within the group (as set out in ED-600.15(c)).

We recognise that there may be situations when management may not be able to facilitate auditor direct access to information or persons, such as when the group has a non-controlling interest in an entity that is accounted for by the equity method. In this regard we support the new application material in ED-600.A29 that offers practical advice to auditors as to how such restrictions can be overcome.

We support enhancing the requirement for the group engagement partner to determine whether sufficient and appropriate audit evidence can be obtained in the acceptance and continuance phase of the audit. This has the potential to deliver improvements to the auditor’s consideration of matters that are relevant to the acceptance and continuance decision, including whether sufficient and appropriate audit evidence can be obtained.

---

<sup>11</sup> ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor’s Report

## **8 (Part 1)**

**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?**

We strongly support the new approach and believe that it has the potential to drive significant improvements in the assessment of the risks of material misstatement of the group financial statements and the design and performance of responses to those assessed risks. The approach in extant ISA 600 is a 'bottom-up' approach and counterintuitive to the principles of ISA 315 and ISA 330. As a result, the responses to risks of material misstatement at the group financial statement level may not be appropriate in the circumstances (e.g. audit resources are targeted on testing transactions and account balances of the component's financial information without any particular focus on a testing strategy that responds group risk).

In our outreach activity, stakeholders supported the revisions in this area, noting that the change to a risk-based approach will lead to a greater understanding of the overall risks at the group financial statement level. We believe these changes will: reinforce the risk-based approach that is foundational to an ISA audit; better support the auditor's conclusion that sufficient appropriate audit evidence has been obtained; offer a principles-based and flexible approach to address current and evolving group structures in a reasonably consistent manner; and address stakeholder concerns about poor understanding and application of concepts like component materiality (discussed further in our response to **Question 10**), what is required under the ISAs to "audit or review a component" and challenges regarding the work effort for non-significant components.

## **8 (Part 2).**

**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?**

In general, we agree that respective responsibilities of, and interactions between, the GET and CAs are clear and appropriate, as set out in the introductory paragraphs and the requirements and the application material. Our stakeholder engagement identified a need to clarify the following matters:

### *Responsibility for managing and achieving audit quality*

We do not believe that ED-600 appropriately addresses the requirements of ISA 220.14, as they relate to the group engagement partner's responsibility to establish and communicate the expected behaviour of engagement team members including achieving quality and exercising professional skepticism throughout the audit (as discussed in our response to **Question 3**). Whilst we recognise that there are circumstances where it is not possible or practical to do so, particularly when the engagement team includes a large number of CAs located in multiple

locations, both ISA 220 and ED-600 explain the mechanisms by which such responsibilities can be discharged, including in very large group audit teams.

In finalising ED-600 we recommend that the IAASB extend the requirements and application material to appropriately supplement 220.14 in the context of a group audit. We have included suggested wording in **Appendix 2** in that regard.

#### *Direction and supervision of CAs and review of their work*

ISA 220 is very clear that CAs are part of the engagement team, and ED-600.23 includes a requirement for the group engagement partner to take responsibility for the nature, timing and extent of direction and supervision of CAs and the review of their work. However, the additional requirements in respect of two-way communication between the GET and the CA were interpreted by some of our stakeholders as the only communications that will take place between CAs and the GET, including in respect of direction, supervision and review. In finalising the standard we recommend that the IAASB clarify, in the introductory section and in ED-600.43, that the requirements in relation to two-way communication are additional to those communications already expected within an engagement team, particularly in respect to direction, supervision and review.

#### *Scoping a group audit and the stand back provision in ISA 315 (Revised)*

We strongly support the new application material in ED-600.A86-A95 that discusses the different options available to the engagement team when determining the nature, timing and extent of further audit procedures in a group audit. We also support the new application material in ED-600.A96 in respect of the GET's considerations as to when CAs should be involved. However, the standard could be further enhanced by:

- Replacing the term 'Group engagement team' in paragraphs A86-A90, with 'engagement team' will make it explicit that CAs can be involved in scoping decisions as well as performing further audit procedures. This will allow the deletion of paragraphs A98-A101.
- Providing additional guidance to determine when the approaches would apply (when scoping the group audit) in the context of the scoping paragraphs A86-A95. In addition, the options in A97 in the ED are very similar to the prescriptive work effort set out in extant ISA 600 (e.g. an 'audit' of a component and 'specified procedures'). The current, limited guidance could have the unintended consequences of GETs defaulting to assigning work to CAs using the extant ISA 600 prescriptive mechanisms and undermining the risk-based approach. In finalising ED-600, we recommend removing language from the standard that might encourage engagement teams to default to extant ISA 600 mechanisms, deleting paragraph A97 and instead adopting the revisions we have suggested in respect of A86-A95 above (and those set out in our response to **Question 12**). We consider this a more comprehensive way of demonstrating different ways in which a CA can be involved in a group audit.
- Including additional material, either in the requirements directly or the application material to address stakeholder concerns that where the financial information of an entity or business unit included in the group financial statements is material, but the GET has not identified any risks of material misstatement that are reasonably possible (and therefore for which there are no relevant assertions), that the financial information would not be subject to audit. In particular this could draw on:

- ISA 330.18 requires, irrespective of the assessed risks of material misstatement, the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.
- ISA 315 requires that, after identifying the classes of transactions, account balances and disclosures that are quantitatively or qualitatively material, the auditor is required to *reconsider*, for such classes of transactions, account balances or disclosures, whether *there could be* one or more risks of material misstatement at the assertion level (i.e. the ‘stand-back requirement’).

#### *Involvement of CAs*

Enhancing the *introduction* of the standard to illustrate when the involvement of CAs is likely to be a key aspect of group audits, recognising that CAs can be, and often are, involved in all phases of a group audit engagement. This is well articulated in Appendix 1 to the standard, and the introduction should be raised to the same level. An example might be when CAs have more in-depth knowledge of a component, and as a result the GET intends to obtain the assistance of the CA to determine the nature, timing and extent of risk assessment or further audit procedures.

#### *Interactions and underlying principles of good communication*

Expanding the application material at ED-600.A106-110, to include material on the fundamental principles of good communication. We have included some examples in Appendix 2, intended to address concerns expressed by some stakeholders.

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

We strongly support the focus away from the concept of group-wide controls and instead to enhance the links to ISA 315 and ISA 330 in respect of the auditor’s responsibility in relation to the group’s system of internal control. The inclusion of material on common controls and centralised activities better reflects the modern reality of many international groups and is sufficiently principles-based to allow for evolution in group structures. Such work provides evidence for the group audit as a whole and therefore the work applies to all components to which a process, control, account, transaction or disclosure is relevant. The use of the wider term “centralised activities” is appropriate, allowing the requirements of ED-600 to be applied to a wide range of possible scenarios, including where there may be multiple shared service centers within a group.

#### *Sharing evidence*

We understand that the work performed in a shared service center may support not only the audit of the group financial statements but also audit engagements that are required for entities within a group for statutory, regulatory or other reasons (i.e. ‘sharing evidence’). However, in this respect, the sharing of evidence is not directly relevant to the GET’s objective of obtaining sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. Accordingly, we agree that further guidance could be developed to set out how such work is coordinated and the conditions under which audit evidence can be shared.

Where the GET or a CA obtains audit evidence from a centralised location and that evidence is also relevant to the planning and performance of audit work to be undertaken at other component(s), we believe that how such work is coordinated is relevant to the GET's objective under ED-600. We recommend, that in finalising the standard, the IAASB explain this through an illustrative example to be included in the application material.

**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?**

As noted in our response to **Question 8**, during our outreach activities, stakeholders expressed the view that the prescriptive mechanisms in extant ISA 600 exacerbate the issues surrounding the application of materiality in a group audit; the concept of component materiality is not well understood and there are many variations in practice. Accordingly, we strongly support the decision to remove the concept of component materiality and clarify the meaning of component performance materiality and aggregation risk. Aggregation risk is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Indeed, as aggregation risk exists in all audits, we recommend including the definition of aggregation risk in ISA 320 as a conforming amendment.

We believe that to meet the requirement for the GET to communicate performance materiality to the CA, it would be beneficial to include an additional requirement for the CA to also have an understanding of group performance materiality. This will support collaboration between the GET and the CAs to determine if component performance materiality, in the context of group performance materiality, is appropriate in the circumstances. It will also assist where CAs have more in-depth knowledge of the component or the GET intends to obtain the assistance of the CA to determine the nature, timing and extent of further audit procedures to be performed on the financial information of the component.

**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 GET's audit documentation when access to CA documentation is restricted?**

In general, we support the enhanced requirements and application material on documentation including the linkage to the requirements of ISA 230. However, there are areas where the standard, as drafted, is in need of further work. We recommend the following enhancements:

*Application Material*

The requirements of ISA 230 apply equally to group audits conducted under ED-600 as to single entity audits. Whilst we understand that meeting documentation requirements of ISA 230 in a group audit can be complex, we would not support the inclusion or addition of

application material in ED-600 that could detract from or undermine the requirements in ISA 230. As a result, we disagree with some of the material in ED-600.A130. Where the GET is restricted from including relevant parts of the CA documentation in the GET audit file and access to the CA file is also restricted, the material in A130 implies that it is sufficient to simply describe what is in the CAs file. In particular, that the GET's audit documentation: '*may need to include a description of the audit procedures performed., the evidence obtained..and the findings and conclusions reached*'. This severely undermines the requirements in, and subsequent compliance with, ISA 230.

If access to the CAs file is restricted, then it is the responsibility of the GET to meet the requirements of ISA 230 and compile the relevant documentation in the group audit file. Whilst ED-600.A130 makes reference to the language in ISA 230.8, it is not sufficiently detailed and has been made concessional with the use of the auxiliary verb 'may'. Absent also are the references to the remaining requirements in ISA 230, including those in ISA 230.9 that are specific about what aspects of the nature, timing and extent of procedures performed are required to be documented.

We recognise that the form, content and extent of documentation is a matter of professional judgement. Nevertheless, the GET is required to comply with the requirements in ISA 230 to prepare audit documentation that can be understood by an experienced auditor, particularly as the audit documentation may be subject to review by external parties for regulatory or other purposes<sup>12</sup>. We have included alternative wording for ED-600.A124 in **Appendix 2**.

### *Requirements*

In respect to the requirements, we believe that some of the additional complexities and challenges that arise in a group audit engagement should be evidenced in the engagement file. In this regard, we believe that additional documentation requirements are appropriate in the following areas:

- The fulfillment of responsibilities relating to relevant ethical requirements of the engagement team (through enhanced links to the documentation requirement in ISA 220).
- The basis for the group engagement partner's determination that CAs have the appropriate competence and capabilities, including sufficient time.
- The basis for the determination of component performance materiality and the threshold for communicating misstatements in component financial information to the GET
- The basis for the GET's conclusion that sufficient appropriate audit evidence has been obtained from the audit procedures performed with respect to the work performed by CAs.

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

### *Using the in-depth knowledge of CAs in the risk assessment process*

We do not believe that it is clear that where the GET plans and performs risk assessment procedures but allocates the design and performance of further audit procedures to CAs, that, whilst implicit, the GET would discuss the findings from the risk assessment process with the

---

<sup>12</sup> ISA 230 Audit Documentation, paragraph A16

CA. This would be particularly important where the component is also an entity of the group subject to audit for statutory or other reasons, and the CA is the statutory auditor of that entity.

Absent this material, we do not believe the requirements or application material deliver the desired outcome that the GET utilises the deeper skills and experience of the CA in drawing appropriate conclusions from the risk assessment process. We recommend enhancing the requirements and application material in this regard, possibly in line with ISA 315.A42 that addresses the importance of the engagement team discussion. We have also included suggested wording in **Appendix 2** to this letter.

#### *Sampling considerations when auditing multilocation components*

We recommend including additional application material or implementation guidance to address the challenges the engagement team may encounter when audit procedures are performed on classes of transactions, account balances or disclosures that are disaggregated across components in multiple locations. In particular, when auditing multilocation components, the engagement team may face additional sampling considerations beyond those encountered when applying audit sampling to a single population at a centralised location.

#### *Cash and cash equivalents*

During the course of our outreach we heard from a number of stakeholders, particularly investors, who believed that ED-600 should contain material which specifically addresses the audit of group cash and cash equivalents, and the increased opportunity for misappropriation, particularly where cash transfers regularly occur between group entities, or where there are unusual cash transfers to newly incorporated entities. We believe this material could be incorporated into Appendix 4 of ED-600 and have included suggested wording in **Appendix 2** to this letter.

#### *Fraud and the consolidation process*

As briefly recognised in the fourth bullet of ED-A80, fraud can be perpetrated through the consolidation and other adjustments. However, the guidance in this area is limited. In finalising the standard, we recommend the inclusion of additional application material to address the increased susceptibility to fraud in relation to the consolidation process.

#### *In-person communications with CAs and visits to components*

During the course of our outreach, some stakeholders suggested that ED-600 should include a requirement for the group engagement partner, or a key member of the GET, to always visit a component. Some felt this was an important factor in achieving robust and effective communications with the CA or local management. We support the position taken in the ED that this remains a matter for the judgement of the GET. The IAASB may wish to include examples of factors that the engagement team may take into account when determining whether a visit to a component is appropriate, or when in person communication with CAs is more appropriate. We have included an illustrative example in **Appendix 2** to this letter.

#### *Distinction between work performed for the purposes of the group audit and work performed to support a separate auditor's report (e.g. a statutory audit)*

We recommend clarifying the distinction between work performed by the engagement team for the purposes of the audit of the group financial statements and work performed to support a separate auditor's report (e.g. a statutory audit of an entity within the group). This material could be included in the introduction, the application material and/or the basis of conclusions.

We are not convinced that the important distinction between these two activities is well understood, and as a result, some commentators may be conflating the removal of the prescriptive mechanisms that require the ‘audit of a significant component’ as similar to abandoning statutory audits, which is not the case.

When a statutory audit of an entity is being undertaken and that entity is also determined to be a component for the purpose of the group audit, benefits may arise in co-ordinating work effort, particularly where the work performed on account balances, transactions or disclosures for the purpose of addressing risks of material misstatement of the group financial statements is also an appropriate response to risks of material misstatement of the entity subject to a statutory audit. However, this is a matter for the CA, in communication with the GET, to determine, and should not detract from the GET’s overall responsibility to identify and assess the risks of material misstatement of the group financial statements, and to plan and perform further audit procedures to appropriately respond to those assessed risks.

#### *Retention of significant component*

We understand that some IAASB stakeholders have expressed a view that the requirement to identify significant components should be retained alongside the new risk-based approach. We strongly disagree with this view, as it undermines both the risk-based approach, and the IAASB’s previously stated public interest objectives. Such an approach would also increase complexity for auditors, may lead to unnecessary duplication of work effort and may increase the risk of inappropriate application, all of which will undermine audit quality. We believe instead that including additional application material to ED-600.A96-A95 could address the complexities in scoping a group audit under the risk-based approach. In particular, where the auditor’s view of the components differs from that of group management, examples could be included to illustrate the consequential impact of such a decision on the risk assessment process, further audit procedures and the involvement of CAs.

**13 (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 regarding translation issues.

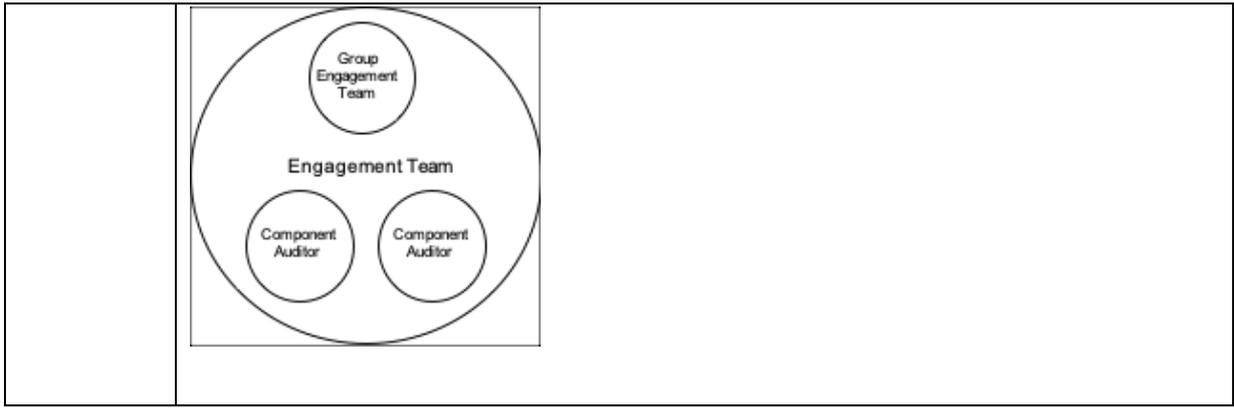
**13 (b) Effective Date—Recognizing that ED-600 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after 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.**

As noted in our opening remarks, the revision of ED-600 is long overdue. We agree that an 18-month period between the approval of a final ISA and the effective date is reasonable. However, we strongly urge the IAASB to align the effective date of ED-600 with that of the revised quality standards, ISA 220 and ISQM 1 and ISMQ 2. Accordingly, the approval of the final version of ED-600 should not be delayed beyond June 2021.

## Appendix 2: Suggested Amendments

Paragraph	Comment
12	<p>In respect to our response to Question 8, we suggest the following amendments:</p> <p>12. In applying proposed ISA 220 (Revised),<sup>8</sup> <u>the group engagement partner shall take overall responsibility for managing and achieving quality on the group audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the expected behavior of engagement team members.</u></p> <p><u>12A In applying proposed ISA 220 (Revised) <sup>8A</sup> the group engagement partner shall be sufficiently and appropriately involved throughout the group audit engagement, including in the work of CAs, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement. (Ref: Para. A19–A20)</u></p> <p>Footnote 8: <del>Proposed</del> ISA 220 (Revised), paragraph <del>13</del>, <u>14 and 15</u>  Footnote 8A: <u>ISA 220 (Revised), paragraph 13</u></p>
41	<p>In respect to our response to Question 12, we suggest the following amendments:</p> <p><i>Considerations When CAs Are Involved</i></p> <p>41. The GET shall request the CA to communicate on a timely basis: ...</p> <p>(b) Any events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern; <u>and</u></p> <p>(c) <u>Where applicable, any risks of material misstatement identified by the CA, not already communicated to the CA by the GET, which may be relevant to the identification and assessment of risks of material misstatement of the group financial statements.</u></p>
A106-A110	<p>In respect to our response to Question [X], we offer the following principles of good communications for the IAASB's consideration.</p> <ul style="list-style-type: none"> <li>• <b>Clarity in Ideas</b> – The principle that key ideas should be clear, with the key aims of any communication being obvious to the intended user. Any communications should include clear indication of why work is being completed in a given area, and how that fits with the overall objective.</li> <li>• <b>Appropriate Language</b> – Good communications consider the audience. The use of highly technical language may, for example, be more appropriate when communicating with CAs than with those charged with governance.</li> <li>• <b>Consistency</b> – On-going communications are often more effective if they are made in a consistent format with the use of similar language, contributing to an overall picture of good communications.</li> <li>• <b>Expectations</b> – Expectations should be laid out effectively at the beginning of a relationship, and any changes in what is expected of either party should be communicated in a timely and effective manner.</li> <li>• <b>Responsibility</b> – All parties should be aware of their respective responsibilities, and the importance of fulfilling them, to the overall objective.</li> </ul>
A107	<p>In respect to our response to Question 12, we suggest the following amendments:</p> <p><i>Effective Two-Way Communication</i> (Ref: Para. 43)</p>

	<p>A107. Factors that may also contribute to effective two-way communication include:</p> <ul style="list-style-type: none"> <li>• A mutual understanding of relevant issues and the expected actions arising from the communication process.</li> <li>• The manner in which communications will be made. For example, it may be better to discuss certain matters in person or by telephone or videoconference rather than by exchanging emails...</li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>Example: Factors that may contribute to an auditor determining that communications in person or visiting the location of a component(s) are appropriate</u></p> <ul style="list-style-type: none"> <li>• <u>The risks of material misstatement of the group financial statements associated with the component or where the information obtained from risk assessment procedures and related activities indicate that one or more fraud risk factors are present at the component;</u></li> <li>• <u>A recent change in CAs or component management or significant changes in the scale or type of local activities;</u></li> <li>• <u>The component is a recently acquired entity or disposal of that entity is anticipated;</u></li> <li>• <u>There are restrictions on access to people or information at the component</u></li> </ul> </div>		
A130	<p>In respect to our response to Question 11, we suggest the following amendments:</p> <p>A130. In these circumstances, the GET is nonetheless required to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. In addition, when the GET determines that it may be appropriate to include relevant parts of the CA documentation in the GET's audit file, but is restricted from doing so, the GET's <del>audit documentation may need to include a description of the audit procedures performed by the CA on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the CA with respect to those matters.</del> The GET uses professional judgment in determining the nature <u>form, content and extent</u> of such <u>audit documentation</u> to include in the GET's audit file, in <del>view of</del> <u>order to comply with</u> the requirements of ISA 230.</p>		
Appendix 4	<p>In respect to our response to Question 12, we suggest the following amendments:</p> <p>Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px; vertical-align: top;"> <p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p> </td> <td style="width: 50%; padding: 5px; vertical-align: top;"> <ul style="list-style-type: none"> <li>• ...Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation</li> <li>• <u>Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk</u></li> </ul> </td> </tr> </table>	<p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p>	<ul style="list-style-type: none"> <li>• ...Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation</li> <li>• <u>Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk</u></li> </ul>
<p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p>	<ul style="list-style-type: none"> <li>• ...Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation</li> <li>• <u>Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk</u></li> </ul>		
Other Matters	<p>During our outreach, we noted that a few stakeholders were confused about the definitions related to the engagement team members. We observed that a diagram similar to the picture below was presented on an IAASB webinar to demonstrate where CAs fit in the engagement team definition. We believe that the IAASB's diagram conveyed a complex idea efficiently and was very quickly understood by participants. We would encourage the IAASB to review ED-600 for scenarios where well-designed diagrams such as the one included below could be used to communicate ideas more effectively, particularly when preparing implementation guidance and FAQs.</p>		



Willie Botha  
Technical Director  
IAASB  
529 5<sup>th</sup> Avenue  
New York  
NY 10017

Submitted Electronically

22 September 2020

Dear Willie,

**Exposure Draft ISA 600 (Revised) - Proposed Conforming and Consequential Amendments to Other ISAs**

The Financial Reporting Council (FRC) welcomes the opportunity to comment upon Exposure Draft, ISA 600 (Revised) – *Proposed Conforming and Consequential Amendments to Other ISAs (Exposure Draft)*.

Overall, we are strongly supportive of the proposed conforming and consequential amendments to other ISAs as set out in pages 88 to 112 of the Exposure Draft. If you have any questions about our response, please contact me or Jason Bradley ([j.bradley@frc.org.uk](mailto:j.bradley@frc.org.uk)) by e-mail.

Yours sincerely



**Mark Babington**  
**Executive Director, Regulatory Standards**  
DDI: +44 (0)20 7492 2323  
E-mail: