



Our Ref.: C/AASC

30 September 2020

International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor,  
New York  
NY 10017  
USA

Dear Sirs,

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

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory body in Hong Kong that sets auditing and assurance standards, ethical standards and financial reporting standards. We welcome the opportunity to provide our comments on the captioned IAASB Exposure Draft (ED).

We support the IAASB's commitment in revising the standard such that it stays relevant in the face of continually changing circumstances. We appreciate the extensive outreach and effort undertaken by the IAASB in informing and developing the proposed changes. We find the proposed requirements and enhanced guidance in ISA 600 (Revised) robust and useful. The adoption of a risk-based approach in a group audit has the potential to drive the group engagement team's focus on assessing and identifying risks on disaggregated financial information, thereby ensuring a more efficient and effective group audit.

In summary, we set out below our key comments on certain aspects of the ED to be clarified and re-considered:

- The applicability of the ED to audit engagements other than audits of consolidated financial statements or financial statements applying the equity method of accounting;
- In case the group auditor encounters restriction to information, whether obtaining "publicly available information" itself is sufficient for the purposes of the restricted information;
- Expectations on component auditors in the context of the ED;
- Additional guidance on practical difficulties if the group auditor and component auditors do not come from the same network firm, jurisdiction or regulatory regime;
- Additional guidance on documentation expected in a group audit file;
- Whether ED-600 is best placed under the ISAs 600 series; and
- The applicability of relevant ISAs when a component auditor reports to the group engagement team in the context of the ED.

Our responses to the specific questions in the ED including suggestions to address the comments above are included in the attachment. We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact Selene Ho, Deputy Director of the Standard Setting Department ([selene@hkiipa.org.hk](mailto:selene@hkiipa.org.hk)).

Yours faithfully,

Chris Joy  
Executive Director

CJ/SH

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'**  
**COMMENTS ON THE IAASB'S EXPOSURE DRAFT**  
**ISA 600 (REVISED), SPECIAL CONSIDERATION—**  
**AUDITS OF GROUP FINANCIAL STATEMENTS**  
**(INCLUDING THE WORK OF COMPONENT AUDITORS)**

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 consider ED-600 has appropriate linkages to other ISAs. In our view, linking the standard with other ISAs encourages a more detailed understanding of the standard and clarifies the roles and responsibilities of a group engagement team and group engagement partner. While the substance of such roles and responsibilities remain unchanged from the extant ISA 600, some practitioners in Hong Kong consider the extended linkages with other ISAs and the explicit description on roles and responsibilities can be onerous to less complex group engagements. We therefore recommend the IAASB to clarify how other ISAs could be applied in a scalable manner to the broad range of group audits that fall within the scope of ED-600 through further explanation and examples on factors to consider and what may be involved for less complex group audits.

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 support the placement of sub-sections throughout ED-600 which has enhanced understandability and drawn attention to corresponding requirements when component auditors are involved.

3. **Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements?**

We agree with the approach of ED-600 to emphasize the importance of professional scepticism in the Introduction to the standard, and then reinforce it through establishing linkages to other ISAs as well as requiring the group engagement team to “stand back” before giving a group audit opinion.

**4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).**

We believe ED-600 is clear on its scope and applicability to an audit of consolidated financial statements or financial statements applying the equity method of accounting. However, we consider further clarification is needed on ED-600's applicability to the following audit engagements:

- A single entity with branches and/or divisions being "consolidated" to compile its financial statements;
- A special purpose audit on the combined results of identified entities or business units, regardless whether they are subject to common control;
- Audit of financial statements of which its preparation does not involve a "consolidation process", but part of the audit procedures are performed by the auditor of network firms/ other audit firms; and
- Specified procedures performed by auditors of network firms or other audit firms directly reviewed and concluded by the group auditor.

Paragraph 9(b) of ED-600 defines a "component" as a location, function or activity determined by the group engagement team for the purposes of planning and performing audit procedures in a group audit. Paragraph 11 of ED-600 considers the "consolidation process" includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of consolidation, aggregation of the financial information of branches and divisions, etc. Further, paragraph A17 explains that unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore ED-600 does not apply.

Generally speaking, "consolidation" is a financial reporting concept, for example, under HKFRS/IFRS 10 *Consolidated Financial Statements*, an entity that is a parent shall present consolidated financial statements when it controls one or more other entities or investees.

In ED-600, the interpretation of "consolidation process" goes beyond those applied in a consolidation, proportionate consolidation or equity method of accounting in the context of HKFRS/IFRS 10 and HKAS/IAS 28 (2011) *Investments in Associates*. It includes aggregating the financial information of branches or divisions within the same entity, and combined financial statements of financial information of entities or business units that have no parent but are under common control.

As the interpretation of "consolidation process" in ED-600 is broader than the process applied to prepare consolidated financial statements or financial statements using equity method of accounting under the applicable financial reporting requirements (e.g. HKFRS/IFRS 10, HKSA/IAS 28 (2011)), to avoid confusion, we suggest the IAASB to provide illustrative examples, other than the audit of

consolidated financial statements or financial statements using the equity method of accounting, that would potentially be caught by ED-600. For example:

- A single entity with branches and/or divisions being “consolidated” to compile its financial statements using a simple aggregation and elimination process.
- A special purpose audit on the combined results of identified entities or business units, regardless whether they are subject to common control.

As currently drafted in the ED-600, it is unclear whether the applicability of ED-600 is driven by the presence of a “consolidation process” or the involvement of component auditors. For example, whether ED-600 is applicable to a specified procedure (e.g. attendance at physical inventory counting) performed by the auditor of network firms/ other audit firms while the preparation of financial statements under audit do not involve a “consolidation process”.

In addition, it would be helpful if the IAASB could clarify whether ED-600 is applicable as long as other auditors are used, even if specified procedures performed by auditors of network firms or other audit firms are directly reviewed and concluded by the group auditor, i.e. auditors at network firms or other audit firms do not evaluate, conclude and report on the work they performed for the purposes of the group audit.

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

We believe ED-600 has the potential to drive scalability through its risk-based approach which is adaptable to a wide variety of circumstances. Given that it establishes explicit linkages to other ISAs for application in a group audit engagement and as we pointed out in Question 1, it will be helpful for the IAASB to clarify how other ISAs could be applied in a scalable manner to the broad range of group audits that fall within the scope of ED-600 through further explanation and examples for less complex group audit engagements

- 6. Do you support the revised definition of a component to focus on the “auditor view” of the entities and business units comprising the group for purposes of planning and performing the group audit?**

We agree with the revised definition of a component to focus on the “auditor view” to plan and perform a group audit. We believe this will result in a more prominent focus on identifying and responding to risks of material misstatements by the group engagement team based on the components identified, which do not necessarily align with how management views and manages the entities and business units.

**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 are generally supportive on the enhanced requirements and application material addressing restrictions on access to information and people in a group audit engagement. However, we would like to have clarification regarding the following:

- According to paragraph A29, the group engagement team may be able to overcome restrictions on access to information or people, for example, by considering publicly available information such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity. However, ED-600 is not clear whether obtaining “publicly available information” itself is sufficient. In addition to obtaining “publicly available information”, it is not clear whether the group engagement team is still required to go through additional procedures or obtain further information. Consequently, we believe clarification is needed in this area.
- According to paragraph A30, when the group engagement team cannot overcome restrictions on access to information or people, the group engagement team may communicate about the restrictions to the group engagement team’s firm, regulators, listing authorities, or *others*. We find the term “others” ambiguous and too broad for the group engagement team to determine who “others” might be, particularly for group audit engagements not involving listing authorities or industry regulators. We understand that it is difficult for the IAASB to provide a precise definition on “others” given the wide variety of group audits and jurisdictions ED-600 will be applied. Instead of using “others” as a “catch-all” phrase, we recommend the IAASB to clarify the role and functions of “others” for group engagement teams’ communication purposes, for example, whether “others” would be confined to appropriate stakeholders required by laws, regulations and contracts.

**8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:**

- (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?**
- (b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?**
- (c) What practical challenges may arise in implementing the risk-based approach?**

We agree that the proposed risk-based approach in ED-600 is suited to addressing a wide range of group audit engagements and enhancing assessment and

identification of the risks of material misstatements, thereby driving more appropriate responses.

ED-600 focuses on the group auditor's responsibilities in a group audit engagement, whereas the responsibilities of component auditors in ED-600 are limited to complying with the group engagement team's instructions and the communication requirements in paragraph 44. As ED-600 strengthens the group engagement team's involvement in and communication with the component auditor, it will be helpful if the IAASB can develop additional material to clarify expectations on component auditors in the context of ED-600.

Meanwhile, we find the visual illustration in the Proposed ISA 600 Webinar<sup>1</sup> useful in demonstrating the relationship among "group engagement team", "engagement team" and "component auditor" in ED-600, and would suggest including it as an appendix in ED-600 or as implementation guidance.

In practice, the group auditors and component auditors do not necessarily come from the same network firm, jurisdiction or regulatory regime. In addition to issues relating to restrictions on access to information or people, other practical difficulties in a group audit engagement might include differences in audit and quality control methodologies; challenges in assessing the component auditor's independence and ethical compliance in case it is in a different regulatory regime than that of the group engagement team. Any guidance on such practical difficulties in a group audit engagement will be useful to support the implementation of ED-600.

**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 support the additional application material on the commonality of controls and centralized activities, and consider them clear and appropriate.

**10. Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?**

We support the focus in ED-600 on component performance materiality. Under the risk-based approach in ED-600, there is no requirement for the group engagement team to identify significant components and obtain audit evidence on all of the component's financial information (i.e. performing an audit of component financial information using component materiality under paragraph 26 of the extant ISA 600 is no longer required). We believe ED-600's emphasis on using the component performance materiality to plan and perform procedures on disaggregated component financial information has the potential to drive the group engagement team's focus on identified risks, rather than all of the component's financial information as in the extant ISA 600, which is set to enhance the efficiency and effectiveness of a group audit engagement.

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<sup>1</sup> Presentation slide 7, the IAASB's second webinar on ED-600 held on 13 August 2020.

Meanwhile, we recommend that further guidance be provided on the calculation of component performance materiality in the context of ED-600.

**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?**

We would like to have further guidance on what is expected in respect of documentation in a group audit file to be provided in ED-600.

According to paragraph 87 of the explanatory memorandum, the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component. Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file. While paragraph 57(d) of ED-600 requires the group engagement team to document the review of component auditors' work, paragraph A127 states that the nature and extent of the review of component auditor documentation by the group engagement team is a matter of professional judgment.

In practice, we note instances that documentation in a group audit file only provided a brief description of the procedures carried out by component auditors; the group auditor considered that since the component auditor is one of its network firms, the marking of the results as "satisfactory" by the component auditor meant that the component auditor had complied with its network firms' audit methodology. However, we consider such extent of documentation is insufficient under paragraph 8 of ISA 230, *Audit Documentation*, which requires the audit documentation to enable an experienced auditor having no previous connection with the audit to understand the audit procedures performed and audit evidence obtained. Also, we doubt whether simply including or referring to component auditors' working papers would be sufficient to demonstrate the group auditor's evaluation of the work of component auditors, particularly on significant audit risk areas upon which ED-600 requires focus.

Under ED-600, an engagement team comprises the group engagement team and component auditors. In the absence of an explicit documentation expectation, there is a risk that the group auditor would not devote sufficient consideration and attention to document the work performed by component auditors and his/ her evaluation on the sufficiency and appropriateness of component auditors' work who, under ED-600, is in the same "engagement team" as the group auditor.

To fulfil paragraph 8 of ISA 230, we believe, for instance, the group audit file should document matters discussed in ED-600 paragraph A130 even when there is no access restriction to component auditor documentation:

- A description of the audit procedures performed by component auditors on matters relevant to the group audit, i.e. the nature, timing and extent of the work

- performed by component auditors;
- Evidence obtained from performing the procedures; and
- Findings and conclusion thereto by the component auditor.

In addition, we believe the group auditor should document his/ her assessment on the sufficiency and appropriateness of the component auditors' work and whether further audit procedures are needed at the group level.

We also note that ED-600 does not include any documentation requirement regarding the competence of the component auditor to establish a basis for relying on their work although there is a requirement to consider this under paragraph 21(a). We recommend ED-600 to include an explicit requirement to document the basis for this conclusion.

In summary, we recommend the IAASB to strengthen the documentation guidance in ED-600 in the context of a group audit, particularly on how to illustrate the compliance with applicable ISAs in the group audit file, and segregate the guidance for the following scenarios:

- Group auditor and component auditors are in the same firm/ network firm;
- Group auditor and component auditors are in different jurisdictions; and
- Group auditor with restricted access to component auditor documentation (addressed in ED-600 paragraph A130).

It will be of stakeholders' interest if the IAASB could develop illustrative documentation expected in a group audit file on work performed by a component auditor in the context of ED-600 and requirements in other applicable ISAs.

We noted that the IAASB considers providing audit documentation examples other than those addressed in paragraph 57(e) of ED-600 might be viewed as insufficient given the wide variety of group audits. However, we believe there is merit in being more specific in the standard given the reasons described above and the complicated regulatory environment nowadays. For example, an auditor of a Hong Kong listed company might be subject to the monitoring of several local and overseas regulators if the auditee is simultaneously listed in another stock market or incorporated outside Hong Kong. We believe more explicit documentation guidance would promote consistency in regulatory application of ED-600 among jurisdictions.

**(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?**

We consider the application material in A129 and A130 useful in the context of the group engagement team's audit documentation when access to component auditor documentation is restricted.

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

### ISAs 600 series

The ISAs 600 series are intended to cover “using the work of others” in an audit of financial statements. For instance, ISA 610 (Revised 2013)<sup>2</sup> addresses using the work of internal auditors while ISA 620<sup>3</sup> addresses using the work of an auditor’s expert in an audit of financial statements.

ED-600 clarifies the role and responsibilities of a group engagement partner and the group engagement team in a group audit engagement, particularly their involvement throughout the group audit. It also clarifies how other ISAs are to be applied in a group audit engagement. In substance, ED-600 goes beyond “using the work of a component auditor” – it covers audit evidence required in a group audit. With that, we recommend the IAASB to re-consider whether ED-600 is best placed under the ISAs 600 series.

### Reporting by a component auditor

While ED-600 includes extensive requirements and application material on communications between the group and component auditors, such as factors that may influence the form of communication (paragraphs A108 and A109) and timing of communication (paragraph A110), it does not contain guidance on a component auditor’s reporting to the group auditor on the component financial information. While the type or format of communication is driven by specific facts and circumstances, it will be helpful if the IAASB could develop practical guidance in this area, such as including an illustrative component auditor’s reporting in the appendix of ED-600; clarifying whether the component auditor should apply relevant ISAs namely ISA 700 (Revised)<sup>4</sup>, ISA 705 (Revised)<sup>5</sup> and ISA 706 (Revised)<sup>6</sup> for the purposes of reporting to the group engagement team, or whether component auditors should use ISA 800 (Revised)<sup>7</sup> as the reporting basis.

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2 ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

3 ISA 620, *Using the Work of an Auditor’s Expert*

4 ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

5 ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

6 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*

7 ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*