



International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017
USA

October 2, 2020

Proposed International Standard on Auditing 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Consequential and Conforming Amendments to Other ISAs*

The Nordic Federation of Public Accountants (NRF) is pleased to respond to the IAASB's Exposure Draft, Proposed International Standard on Auditing 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

General comments

In general, we support the risk-based approach to planning and performing the audit of the group financial statements.

However, we do have some concerns about the proposed top-down approach. In our view, allowing the Group Engagement Team (GET) to perform all risk identification, assessment and responsive procedures without necessary recourse to component auditors, not even to those auditing significant components, might lead to less involvement of component auditors which, in turn, might affect the audit quality.

Regarding the involvement of component auditors in group audits, we believe that the requirements and application material in ED-600 might be a bit unbalanced in that it focuses very much on additional requirements related to the direction, supervision and review of component auditors, without also emphasizing the benefits of using these in the group audit in order to enhance audit quality.

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Yours sincerely,

A handwritten signature in black ink that reads "Helene Agélie". The signature is written in a cursive style with a prominent flourish at the end of the name.

Helene Agélie
Secretary General and CEO
Nordic Federation of Public Accountants

About NRF

NRF is a separate legal institution, founded in 1932, acting on behalf of and under the direction of the recognized audit and accounting institutes in the Nordic region (DnR in Norway, FAR in Sweden, FLE in Iceland, FSR – danske revisorer in Denmark and Suomen Tilintarkastajat ry – in Finland).

DETAILED COMMENTS

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?*
 - b) *Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?*

Yes, in our view ED-600 does have appropriate linkages to other ISAs and also to the proposed ISQMs.

However, we believe the inclusion of component auditors in the definition of engagement team under ISA 220 (Revised) and the requirements in ISA 600 regarding the GET's responsibilities for direction, supervision and review might create practical challenges (perceived lack of efficiency, more detailed work and increased costs) which, in turn, might lead to less involvement of component auditors in group audits. This will be particularly challenging in situations where the component auditors are from outside the firm of the GET or not within the same network. Such a development might especially have negative consequences for SMPs.

2. *With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?*

Yes, we support this structure and believe it is easier to navigate in the standard.

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?*

Trying to enforce professional skepticism through standard-setting is a challenge. A requirement to exercise professional skepticism is, in itself, not sufficient. In addition to training sessions, examples of situations and actions where the exercise of professional skepticism might be especially important, are necessary. Therefore, the references in paragraphs A9-A10 to examples in other ISAs and, in particular, concrete examples focused on group audits situations, are helpful. At the same time, this application material is related to a paragraph in the introduction section, why we are concerned that it might be overlooked.

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With regard to the requirements in paragraphs 49-51 and 45-46 and the related application material, we believe that the references to professional skepticism and the need to “stand back” as explained in para 96-97 (p. 27-28 in the ED), could be further reflected and clarified in the requirements and application material themselves.

The level of professional skepticism that can be exercised, depends on the information that is available to the GET. Therefore, we believe that the requirements and application material should not only focus on the top-down approach, but also address the benefits of involving component auditors, with their more specific in-depth knowledge, as part of the information base, when exercising professional skepticism.

Specific questions

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

Yes, we agree that the proposed standard with regard to scope and applicability is sufficiently clear. We also believe that the linkage to a consolidation process is helpful. However, there are still situations where more guidance could be helpful. We would recommend the IAASB to provide more examples – outside the standard – on situations where the revised ISA 600 is or is not applicable.

- 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?*

Yes, we believe that the ED provides improvement to extant ISA 600 in terms of scalability.

We have some concerns that the centralized, top-down approach, especially with regard to allowing the GET to perform all risk identification, assessment and responsive procedures without recourse to component auditors, might lead to more work within the GET without necessarily enhancing audit quality.

- 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?*

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Although we believe that the auditor often will use the entity's organizational and reporting structure in determining components of the group, we support the revised definition since it allows for more flexibility and hence is in accordance with a risk-based approach.

7. *With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?*

Yes, we believe that this issue is appropriately addressed and we support the enhancements.

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?*

In principle we believe that a risk-based approach to group audits should result in appropriate risk assessments.

However, the risk-based approach in ED-600 is combined with a more centralized and top-down way of working, including more focus on the responsibilities of the GET, especially with regard to direction, supervision and review. Even though we support the emphasis of the group auditor being more involved, we are not convinced that the suggested structure and way of working, which will require more focus and work on team performance – and not on the group audit itself – necessarily will increase audit quality.

Also, we have some concerns that ED-600, to some extent, reflects an imbalance between the advantages of using component auditors and the supervision activities related to such use, especially if component auditors are from outside the firm of the GET or that firm's network. There is a risk that the number and content of requirements and application

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material dealing with the supervision of components auditors might lead to a reluctance to include component auditors in the group audit. Therefore, we would encourage the IAASB to consider emphasizing the benefits of using component auditors in order to get sufficient local knowledge when planning the group audit, especially in terms of understanding the entity and its operating environment.

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

Yes, we support the additional application material on the commonality of controls and centralized activities.

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

Yes, we support this, but we also believe that this is an area that could benefit from implementation support.

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 have not identified any such matters.

- b) *Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?*

Yes, we agree that the GET shall use professional judgment in determining relevant parts of the component auditor documentation to be included in the GET's audit file.

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

We have not identified any such matters.