



**САМОРЕГУЛИРУЕМАЯ ОРГАНИЗАЦИЯ АУДИТОРОВ
АССОЦИАЦИЯ «СОДРУЖЕСТВО»**

член Международной Федерации Бухгалтеров (ИФАС)
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119192, г. Москва, Мичуринский проспект, дом 21, корпус 4.
т: +7 (495) 734-22-22, ф: +7 (495) 734-04-22, www.auditor-sro.org, info@auditor-sro.org

October 1, 2020
Mr. Tom Seidenstein
Chair, IAASB
529 Fifth Avenue New York, NY 10017

Exposure Draft - International Standard on Auditing 600 (revised)

Comments on the Exposure Draft of the proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

Dear Chairman Seidenstein,

Self-regulating organization of auditors (SRO), Association “Sodruzhestvo”, Russia (SRO AAS) welcomes the opportunity to comment on the International Auditing and Assurance Standards Board’s (IAASB) Exposure Draft, proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

IFAC submits this comment letter to further highlight the importance of the issues covered in the Exposure Draft.

Generally, the SRO AAS was supportive of the approach taken but had suggestions on the way forward and the indicative drafting.

At the end of April 2020, the International Auditing and Assurance Standards Board (IAASB) issued the Exposure Draft of ISA 600 (“Draft 600”), comments on which are due by 2 October 2020.

The principles that have been retained in Draft 600, covering a wide range of existing group structures, are reasonable.

The amendments to ISA 600 are in line with those made to other fundamental standards, including International Standards on Quality Control (ISQC), ISA 220 and ISA 315 (revised). Consequently, the changes to ISA 600 should be carefully reviewed considering the changes and dates of adoption of these other fundamental standards.

The IAASB should continue to work with IESBA to develop relevant ethical requirements and ensure the implementation of international standards of independence applicable to component auditors who are involved in group audits, because the IESBA Code does not currently regulate the activities of component auditors (with the exception of the “Violation of Laws and Regulations” section).

Below, please find an overview of our comments on Draft 600:

- Separate clarifications should be provided regarding the following:
 - the definitions for “consolidation process” and “group financial statements”, as in practice these definitions could lead to misunderstandings.
 - how the standard applies to investments recorded under the equity method (i.e. the nature and scope of work performed as part of the audit of relevant entities, including the materiality of audit procedures).
- Further clarification is needed to ensure that the definition covers a wider range of circumstances (information should be considered in aggregated as well as disaggregated form). The definition of component should be communicated to group management and those charged with governance (this is especially important when the auditor’s point of view differs from that of group management).
- The standard should include separate clauses that address issues related to the involvement of component auditors, as this would highlight the need to engage component auditors at various stages of the audit.
- Clarifications should be provided regarding access to people and information, and existing restrictions should be lifted.
- The risk-based approach is critical to group audits, even if there are serious doubts about the need to scale up during the trial testing process (i.e. applying this approach to larger groups with a more complex organisational structure).
- Exposure Draft of the ISA 600 places significant emphasis on the centralised performance of work by the group engagement team and sole responsibilities of the group engagement partner. Although the group engagement team partner is solely responsible, Draft-600 appears to view the approach of involving component auditors to do the work as less desirable than having the group engagement team perform the work in a centralised way. Based on the review of the proposed standard discussion, it can be concluded that the IAASB did not intend to propose this interpretation. However, Draft 600 does not contain any clear wording on how the group engagement team should perform procedures at a more detailed level, since it is not possible to apply the appropriate approach to larger groups. Accordingly, in practice, the above situation could lead to different interpretations of whether the entity may use this approach. Therefore, it is necessary to take a more balanced approach to this issue and provide explanations on the importance and, most often, the need to involve component auditors under the risk-based approach.
- The correct approach is to provide an explanation of the aggregation risk of misstatements. However, corresponding amendments should be made to other fundamental standards and the aggregation risk of misstatements concept should be included in the risk-based approach (instead of including it only in the analysis of performance materiality).
- The new requirements on the unification of controls and the centralised nature of applied procedures are reasonable.

- Establishing sustainable two-way communication and information sharing with component auditors during the audit is essential, as these are key elements in assuring audit quality. Therefore, it is also relevant to provide appropriate explanations and changes in this area, including the development of new recommendations regarding sharing information on going concern, related parties and events after the reporting date.
- The new requirement regarding the assessment of the competencies and capabilities of audit team members needs clarification and the scope of its application should be restricted when publicly available information is prepared.
- Information on the scope of component auditors' documents to be stored and/or reviewed by the group engagement team should include a description of factors governing the group engagement team in deciding on whether they should keep/review these documents.
- Requirements on documentation should be clearer about the scope of group audits.
- Documentation requirements have become tougher when component auditors are involved (for example, the need to justify site visits or selection of documents for testing). However, given that the regulatory authorities consistently pay attention to this issue, the logic behind toughening these requirements seems reasonable.
- The approach used by the engagement team to identify components needs further improvement. The new definition of component suggests that components identified by the engagement team may be different from the actual structure of the group. In the event of such a difference, group management is not responsible for preparing financial information for a component identified by the group auditor that is not included in the group's structure (see p. A5 of Draft 600). Consequently, the financial information of such a component will be disaggregated by the actual structural subdivisions of the group and it would thus be rather difficult to perform audit procedures on such a component. In addition, it would be difficult to identify management of the above component.
- The strengthening of requirements on the conclusions of the component auditor, in comparison with the current ISA 600, is not reasonable.
- Draft 600 does not stipulate that the component auditor should reach conclusions based on the audit procedures performed, but only to send a message to the group auditor related to uncorrected misstatements above a certain threshold for which the component auditor performed further audit procedures. In addition, the absence of any materiality level for components in Draft 600 could lead to situations when the component auditor is unable to conclude that it has achieved reasonable assurance that all material misstatements in the financial information have been identified. This could result in reducing the level of responsibility of the component auditor.
- For the purposes of translating certain terms into Russian, the meaning of the wording "internally and externally" should be clarified in para 24.1.ii of Draft 600 (i.e. "The

nature and extent of the measures used internally and externally to assess the entities' or business units' financial performance").

- Para 9d of Draft 600 introduces the definition of component management. According to the logic of the standard, components are determined by the engagement team and not by the management of the audited group. Accordingly, a situation could arise where a component does not have any management who are responsible for the financial information to be audited.
- Consideration should be given to developing a guide with examples on calculating the materiality of components in various circumstances, such as when only certain items of a component's financial information are audited (para 29 of Draft 600).
- The requirements of para 56b of Draft 600 would seem to pose a contradiction for situations when the group auditor and the component auditor are entities of the same network. It is unlikely that the group auditor would report its concerns about the component auditor to those charged with governance.

In closing, we applaud the IAASB's desire to address an important and complicated issue, made more acute with recent initiatives specifically targeted at Group audits. SRO AAS looks forward to the IAASB's careful consideration of diverse stakeholder feedback arising from the Exposure Draft on the Proposed ISA 600. Please do not hesitate to contact me if have any questions regarding this response



Olga Nosova
General Director of SRO AAS