



For the attention of Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6th Floor  
New York, New York, 10017  
USA

[Submitted via IAASB website]

8 October 2020

Dear Mr. Botha,

**IAASB Exposure Draft: Proposed International Standard on Auditing 600 (Revised) - Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)**

We<sup>1</sup> appreciate the opportunity to comment on the IAASB's Exposure Draft (ED) for proposed ISA 600 (Revised) and support the IAASB's public interest objectives in revising the standard. A robust and comprehensive ISA that addresses the practical challenges faced by auditors in conducting audits of group financial statements is important to support audit quality and the confidence of users in consolidated financial statements.

**Summary of Points**

- We support revising ISA 600. The time is right to update the ISA to remain fit for purpose in light of how groups are managed and controlled in today's global environment.
- In doing so, we believe it is important that the standard supports auditors in being able to scope and plan the audit as is most appropriate to the nature and circumstances of the group, and recognises the important roles both group and component auditors play in contributing to group audit quality. Without changes, we are concerned that the proposed standard could negatively impact quality.
- Different approaches to a group audit are warranted in light of the structure of the group and its financial reporting processes and controls. Additional emphasis is needed on the importance of obtaining an understanding of those matters, and guidance needed on the factors to consider, given the nature and circumstances of a particular group, in making key decisions about the components where work needs to be performed and the appropriate involvement of component auditors.
- By casting component auditors in a "support" role, the proposed standard:
  - diminishes the potential contributions to the group audit that component auditors can make,
  - underplays the importance of their accountability for the work they perform to overall group audit quality, and

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<sup>1</sup> This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

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- undermines the collaborative relationship between the group and component auditors that group engagement leaders tell us is vital.

This could lead to confusion of roles and responsibilities and, consequently, potential inefficiencies or, more worryingly, lower audit quality.

- We appreciate that the group engagement partner's responsibilities under the new ISA 220 have been strengthened. However, in a group context, those responsibilities must be operable and practicable. We are concerned that by diminishing component auditor responsibility, the standard places excessive sole responsibility on the group engagement partner. Clarity on how the ISA 220 principles apply practically under varying group engagement structures is needed.
- We also recommend the IAASB take into account the circumstances when sharing audit evidence between group and component auditors is justified (the latter of whom might also serve as statutory auditors) and address the practicalities involved.

### **Proposals need to be strengthened to maintain group audit quality**

Current ISA 600 provides a framework for determining where audit work needs to be performed, through the requirement for an audit of individually financially significant components together with ensuring appropriate focus on addressing significant risks of material misstatement of the group financial statements at components. This framework was intended to serve as a safeguard to the sufficiency and rigour of audit work that is necessary across the group to provide a basis for the opinion on the group financial statements. This approach provided several benefits:

- It helped promote consistent understanding about where work should be performed.
- It ensured a focus on complying with all of the ISAs, including risk assessment procedures by component auditors at those components where a full-scope audit or an audit of one or more account balances, classes of transactions or disclosures was performed. This component auditor involvement helped avoid risks of material misstatement ("risks") being missed at the component level that may be relevant group audit risks.
- It embedded an additional layer of responsibility for managing quality at those components through the responsibilities of the component engagement partner. As a basis for forming an audit opinion on some or all of component financial information, the component auditor was responsible for the appropriate direction, supervision and review at the component level due to the applicability of ISA 220 to that audit work.

The additional layer of accountability at the component auditor level did not in any way reduce the group engagement partner's overall responsibility for the group audit and judgements made around risks, responses and sufficiency of evidence. But it embedded another level of shared accountability for audit quality with those best placed to contribute to it.

Changes in organisational and financial reporting structures have introduced challenges in applying extant ISA 600 in some circumstances, and we are not proposing to retain the status quo. But in moving away from the framework in extant ISA 600 that guided the scoping judgements in the group audit, it is vital that the proposed standard provides an equivalent framework to guide auditors in

making appropriate decisions in the circumstances about the sufficiency and appropriateness of work performed across the group. We do not believe the current proposals achieve this.

We support a risk-based approach to a group audit, built around principles-based requirements, that enables the group engagement team to approach scoping of the group audit as best suits the group's organisational and financial reporting structure. However, we believe there are potential risks, drawbacks and challenges to the approach as currently described in the proposed standard. Without further changes, we do not believe the current proposals provide a sufficient framework to maintain audit quality.

In reaching our views, we applied the following key principles to evaluate whether the proposals are likely to meet the IAASB's stated public interest objectives and have the desired impact on audit quality:

**Our key principles for safeguarding audit quality**

1. A sufficient understanding of the group, its operations, financial reporting process and controls is critical to risk assessment and is the bedrock on which an effective group audit is based.
2. Changes in relation to the design and scope of a group audit engagement should reflect, and be responsive to, evolving global corporate operating and reporting structures, including recognising increasing centralisation of activities and the impact that has on the group audit.
3. Audit quality is most effectively achieved when accountability for different aspects of audit quality is assigned to those who are best placed to influence those aspects. In group audits, audit quality is best achieved when the group engagement team and component auditors work collaboratively.
4. The group engagement team's overall responsibility for managing the quality of the group audit is unquestionable. However, in doing so:
  - the group engagement team must be able to design the audit in the manner that best serves the interests of audit quality based on the circumstances of the group audit engagement; and
  - the responsibilities specifically assigned to the group engagement partner must be operable and practicable.
5. Effective collaboration and the sharing of audit evidence performed centrally by other auditors, including shared service centre (SSC) auditors, when permitted and justifiable in the circumstances, supports audit quality.

The proposed revision of ISA 600 introduces some welcome enhancements that will support group engagement teams in meeting a number of these principles more effectively. This includes the ability to design the group audit approach to reflect differing group structures, particularly those with centralised financial reporting activities. However, we do not believe all of the principles above are sufficiently reflected in the proposals. In particular, we believe that there is insufficient recognition of the important role component auditors play. As we discuss further below, the shift from the current standard in how the role of component auditors is described could, in our view, undermine the close collaborative relationship between group engagement teams and component auditors that we believe is important.

In developing our views, we consulted with group engagement partners across our Network who conduct audits of both small and large/complex multinational groups, as well as with engagement teams that coordinate work at SSCs of multinational groups. This insight into current practices provided valuable input about the challenges of managing audit quality across varied group structures and helped us to evaluate the practical implications of the proposed revisions to the standard. It also highlighted the need for the proposed standard to provide a sufficient framework and practical guidance for the judgements that need to be made in scoping and planning a group audit.

We set out below our views and recommendations on where enhancements are needed to achieve these principles in a way that will provide the safeguards we believe are necessary to effectively manage group audit quality. Our responses to the questions posed in the explanatory memorandum are set out in the appendix and provide further details.

### **Our key recommendations**

***Key recommendation 1: We recommend further emphasis is given to the importance of understanding the group's structure, financial reporting processes, and systems as part of risk assessment.***

This is important to help identify inherent risk factors that may affect the potential for risks of material misstatement across the group and the relevant controls that may be in place, as a basis for identifying components at which audit work will be required.

In our outreach with engagement partners, all participants talked about the importance of understanding the group structure. The structure of a group and its financial reporting processes and controls were seen as playing a significant role in determining how best to approach a group audit and the key judgements that need to be made around the involvement of component auditors in both risk assessment and performing further audit procedures to respond to risks.

We are supportive of providing group engagement teams with the ability to design the group audit in a manner that best supports audit quality, taking into account the group's structure and circumstances. However, we believe the standard lacks sufficient clarity regarding the group engagement team's thought process. Guidance is needed on the factors to consider in making key planning decisions when determining the overall group audit strategy and involvement of component auditors to ultimately obtain sufficient appropriate audit evidence on which to base the group audit opinion.

Further explanation is also needed of what it really means in practice to "take responsibility" for the key judgements around scoping, risk assessment and design of responses, while recognising the vital role component auditors play in most group audits.

Paragraph 50 of the explanatory memorandum outlines the Board's view of how the risk-based approach to a group audit can be characterised, highlighting the judgements that need to be made about what, how, by whom, and where audit procedures will be performed in the group audit. Given the importance of these preliminary decisions in developing an overall group audit strategy, we believe that the proposed standard fails to give sufficient emphasis to the importance of the understanding of the group and financial reporting structure, and lacks sufficient guidance on the factors to consider in identifying the components at which audit work needs to be performed. Such judgements necessarily need to be based on a preliminary understanding of how management views and controls the business, taking into account the group, its structure, its financial reporting processes and system of

internal control.

Our response to question 6 in the appendix provides further details.

**Key recommendation 2:** *We recommend the standard set out factors to help guide group engagement teams in their scoping decisions regarding the components at which audit work needs to be performed, and considering whether, where, and to what extent to involve component auditors in performing risk assessment procedures, identifying and assessing risks, and the design and performance of further audit procedures.*

To achieve this, we recommend that the standard includes an overarching new requirement based on ISA 300 paragraph 7, addressing the special considerations in developing the overall group audit strategy that sets the scope, timing and direction of the group audit. To support this requirement, we recommend the application material set out factors to help guide group engagement teams in their scoping decisions.

Many of our group engagement partners welcomed a number of the proposed changes in the ED as reflecting current best practice for audits of groups that are well controlled and managed centrally – which lend themselves best to a group engagement team-led approach to risk assessment. However, experienced group engagement partners observed that a group team-led top-down risk assessment is more difficult to apply effectively in audits of large, diverse conglomerates or entities in which management has no formalised accountability framework (e.g., component management certification to group management). The engagement partners recognised that the most effective approach to the design of the group audit is dependent upon the characteristics of the group and its financial reporting structure.

For some, therefore, approaching the audit by focussing in the first instance on the classes of transactions, account balances and disclosures that are significant to the group financial statements (SCOTABD) works well. For others, a continued focus on significant components *first* may remain the best approach (e.g., when there are specific or unique risks associated with a location or business unit). In practice, we anticipate the processes to scope a group audit, understand potential risks of material misstatement to the group financial statements, and design of appropriate responses to those risks will be iterative, rather than linear. We believe it is important that the proposed standard provides more guidance on the factors that should be considered by the group engagement team in determining the most effective approach to the group audit, including the nature and extent of involvement of component auditors in risk assessment and responding to identified risks. Guidance should also address both the circumstances when a full-scope audit may be warranted, and those in which more targeted audit procedures may be appropriate. This is an important element linked to our principles 1 and 4.

Our response to question 8 in the appendix provides further details.

**Key recommendation 3:** *We propose the standard recognise more fully the important role component auditors play.*

We agree that a group engagement team needs to take overall responsibility for the judgements described above. However, our engagement partners highlighted some critical dependencies to making a top-down approach successful, including effective two-way communication between the group engagement team and component auditors. This reflects the important role that component



auditors play in performing assigned audit work at components. More than just performing requested procedures, component auditors can provide valuable insights that inform the understanding of the entity and risk assessment for the group audit.

Component auditors have an in-depth understanding of the specifics of the component entity, its business practices, local culture and laws and regulations, and, where performed, insight from local statutory audits. Particularly in circumstances when the group's financial reporting structure is not centralised, or when the group operates in multiple jurisdictions, component auditor input to the design and performance of risk assessment procedures at the component level to identify potential risks of material misstatement at the group financial statement level can be important. They may also be best placed to design audit responses to address those risks that will be effective in the specific circumstances of the component.

As the complexity of a group, its decentralisation, or the diversity of the jurisdictions in which the group operates increase, the importance to audit quality of appropriate involvement of component auditors also increases. The nature of such involvement in many circumstances is, in our view, more than the component auditor being asked to "assist" the group engagement team in performing audit procedures. In such circumstances, component auditors may need to play a leading role in ensuring there is a sufficient understanding of those component entities and the potential sources of material misstatement to the group financial statements that may exist in that component.

We recommend avoiding language in the standard that implies that component auditors simply perform procedures to "assist" the group engagement team, as such wording underplays the role that is often played and the professional judgement and professional scepticism component auditors need to bring to bear in the work performed at components. Further emphasis is also warranted within the standard on the importance of effective ongoing two-way collaboration with component auditors in the identification and assessment of risks of material misstatement and design of appropriate responses in relation to particular components. Our responses in the appendix provide further details, including recognising the relevant insights that can be obtained when statutory audits of components take place.

**Key recommendation 4:** *We recommend the IAASB further clarify the application of the new principles established under ISA 220 (Revised), particularly when applied to varying group engagement structures.*

With respect to our principle 3 on assigning accountability for different aspects of audit quality to those who are best placed to influence those aspects, we remain concerned about the practical operability of ISA 220 (Revised) when applied to large/complex group audit engagements.

In redrafting ISA 600 to emphasise the top-down, risk-based approach and the overall responsibility of the group engagement team for audit quality in the group audit, the sense of ownership by component auditors for the judgements and decisions they make – and in many cases are best placed to make – may have inadvertently been diminished too far. We are concerned that this could have unintended consequences for the professional scepticism and professional judgement brought to bear in the work performed at components. We do not believe that can be overcome by increased supervision and review by the group engagement team alone.

Effectively managing audit quality requires contribution by both group engagement teams and component auditors in relation to the work they do. An acknowledgement that there are others in the group audit who play a role in managing the quality of work performed in aspects of the group audit is

needed, without diminishing the overall responsibility of the group engagement partner and team for the decisions and judgements they need to make or their necessary involvement in the work of component auditors to have a basis for doing so.

We set out practical questions and illustrate implementation challenges in our response to question 1 in the appendix, as well as recommendations on how they could be addressed in the standard.

We also believe that significant uncertainty remains as to the practical implications of the change in ISA 220 (Revised) to include component auditors within the definition of engagement team, in particular when component auditors are not from within the same network as the group engagement team (increasingly the case due to the requirements of mandatory firm rotation in some jurisdictions). We comment further in our response to question 1 in the appendix.

Further, it is important that the IAASB works closely with the IESBA to reflect on the outcomes of the current IESBA project to assess the impact to the Code of Ethics of the change in the definition and to determine any consequential changes that may be needed in proposed ISA 600. The proposed wording in ISA 600 will not remove the ambiguity that currently exists regarding the ethical requirements with which component auditors applying the IESBA Code of Ethics are expected to apply. We believe the ambiguity needs to be resolved in the IESBA Code.

**Key recommendation 5:** *We believe the proposed standard needs to address circumstances and conditions when it is justified to share audit evidence across the group to support the audit work that may be needed across components, as well as the associated implications for direction, supervision and review.*

Increasing centralisation of accounting and reporting processes into SSCs by group entities means that audit work related to those processes also needs to be performed on a centralised basis by auditors to obtain audit evidence that will be relevant to group audits, audit work at components and stand-alone statutory audits.

The standard should address how component auditors across the group are able to demonstrate that they have fulfilled their responsibilities in relation to evaluating the sufficiency and appropriateness of the shared evidence without duplicating unnecessary effort.

Effective collaboration between a group engagement team and component auditors on the audit evidence that may be needed from procedures performed at centralised activities (such as a SSC) to support the further audit procedures needed in relation to component financial information is therefore important.

Although it could be argued that how component auditors address audit evidence from work performed at centralised locations is tangential to forming an opinion on the group financial statements, it is undoubtedly a special consideration in practice when performing a group audit engagement. Linked to our principle 5, it would be a disservice for the IAASB to ignore or defer consideration of this practical reality in the design and performance of the group and statutory audits in the broader context of a group audit engagement. We note that further changes to ISA 220 are also likely needed in this regard.



### **Achieving global consensus**

In progressing the proposed standard to finalisation, given its global impact (i.e., the need to involve component auditors from across multiple territories that results from the increasing globalisation of groups), it is important that proposed solutions have global support. In particular, it would be highly disruptive if different requirements were to emerge between standard setters, which may lead to inconsistencies in practice and risks to audit quality.

We encourage the IAASB to work closely with national standard setters, in particular the PCAOB given the pervasive reach of audits performed under the ISAs and PCAOB standards, to ensure there is broad consistency in the principles and approach to the conduct of group audit engagements. Any differences should be both justified in the circumstances and, to the extent possible, minimised.

**In summary**, we support the IAASB's objectives in revising ISA 600. Enhancing the quality of audits of group financial statements is important in maintaining confidence in the consolidated financial statements of multinational entities that underpin the global economy.

However, we believe it is important that the revised requirements embed an appropriate judgement framework for making robust scoping and planning decisions as described in our key recommendations.

We hope our observations in this letter and the accompanying appendix provide useful input in achieving the Board's goals. We would be happy to discuss our views further with you.

If you have any questions regarding this letter, please contact Diana Hillier, at [diana.hillier@pwc.com](mailto:diana.hillier@pwc.com), or me, at [james.chalmers@pwc.com](mailto:james.chalmers@pwc.com).

Yours sincerely,

A handwritten signature in black ink that reads 'James Chalmers'.

James Chalmers  
Global Assurance Leader



## **Appendix - Responses to specific 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?**

#### ISA 220 (Revised)

##### *Responsibilities of the engagement partner*

While we acknowledge the concept in ISA 220 (Revised) (“ISA 220”) that the engagement partner “shall take responsibility” for certain matters and can assign tasks, actions or procedures to others, we remain concerned about the practical operability of ISA 220 when applied to large/complex group audit engagements and the potential behavioural implications for the work of component auditors.

In redrafting ISA 600 to emphasise the top-down, risk based approach and overall responsibility of the group engagement team for audit quality in the group audit, the sense of ownership by component auditors for the judgements and decisions they make – and in some circumstances may be best placed to make – may have inadvertently been diminished too far. We are concerned that this could have unintended consequences on the professional scepticism and professional judgement brought to bear in the work performed at components. See our response to question 2.

As explained in our principle 3, we believe that group audit quality is most effectively achieved when accountability for different aspects of audit quality is assigned to those who are best placed to influence those aspects. This requires an appropriate balance in the roles, responsibilities and accountability for audit quality by both group engagement teams and component auditors. Further clarity is needed on the application of the new principles established under ISA 220 (Revised) when applied to varying group engagement structures.

At a minimum, we believe there is a lack of clarity around the principle established in ISA 220 on what may constitute the “provision of information by the firm or others in the engagement team” and what may constitute the assignment of responsibility to someone else on the engagement team. For example, ISA 220 requires that the engagement partner “shall determine that members of the engagement team, and any auditor’s external experts..... collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement”. When a component auditor uses an expert, the component auditor is best placed to determine the competence and capabilities of the expert in that jurisdiction. However, if a component auditor were to make such an evaluation and convey “information” about that to the group engagement partner, we believe there is risk of regulatory challenge as to compliance with the requirement of ISA 220, even though the actions are clearly in the best interest of audit quality.

Similarly, we support the Board’s intent to ensure the component auditor has sufficient time to perform the work to which they are assigned, as we believe this is important when executing a high-quality group audit. However, it is not clear in the proposed standard what the group engagement partner is



being required to perform, incremental to what is addressed in ISQM 1, in order to determine that the component auditor has sufficient time to perform the assigned audit procedures at the component. We note this mirrors the requirement in ISA 220, but we believe it could cause practical challenges in a group audit if what is expected of the group engagement partner is not sufficiently clear in the standard. In most cases, we believe the group engagement partner will be relying on communication from the component engagement partner as a basis for making such a determination, but it is unclear whether additional efforts would be expected and what would be expected to be documented.

We believe ISA 600 needs to address these practical considerations. Bringing clarity to the appropriate assignment of responsibility will avoid different interpretations between auditors and regulators on the application of ISA 220 principles and requirements to a group audit.

We therefore believe the standard needs to acknowledge and illustrate that there are others in the group audit who can assume responsibility for the quality of work performed, without diminishing the overall responsibility and accountability of the group engagement partner and team for the decisions and judgements they need to make, or their necessary involvement in the work of component auditors to have a basis for doing so. For example, we believe there would be merit in recognising that component audit teams are led by appropriately senior leaders, such as a partner or director (depending on the nature of the component), who act as an additional layer of responsibility for the quality of the work performed at the component level.

We believe this concept of assigning responsibility for aspects of quality on the group engagement, for example to component partners or a partner overseeing audit work performed at a SSC, is entirely consistent with the principle being established in ISQM 1, where those with ultimate responsibility for the system of quality management assign operational responsibility to other individuals as well as responsibilities for specific aspects of the system, while still retaining ultimate responsibility for the evaluation and conclusion over the system. The intent is not to reduce the overall responsibility and accountability of the group engagement partner but recognise that, in a group audit, others are needed to effectively manage quality across the entire audit in the same way as is needed across a firm's system of quality management.

We urge the IAASB to further assess the practical operability of ISA 220 when applied to group engagement structures, and also assess how the Board seeks to achieve consistent alignment between the two standards with respect to the specific responsibilities of the group engagement partner. Further clarity would also be beneficial in proposed ISA 600 to illustrate the practical application of "shall determine" requirements in ISA 220, taking into account varying circumstances of group engagement structures. We also suggest, in this regard, that an illustrative example(s) of how the specific requirements in ISA 220 would be expected to be applied in a complex multinational group engagement structure(s) (e.g., with a number of components and a spectrum of work being performed across components) is necessary to ensure auditors can sufficiently understand the interaction of these requirements with ISA 600.

In that context, we recommend that additional emphasis is also given in proposed ISA 600 to the ability to rely on firm (and network) policies and procedures, established in accordance with ISQM 1, with respect to the allocation of acceptable roles and responsibilities to individuals in accordance with the firm's policies and procedures.

*Definition of engagement team*

We believe that significant uncertainty remains as to the practical implications of the change in ISA 220 to include component auditors within the definition of engagement team, particularly insofar as it affects compliance with independence and ethical requirements. This is likely to be heightened when component auditors are not from within the same network as the group engagement team – such circumstances are increasing as a result of mandatory audit firm rotation in some jurisdictions. It is important that the IAASB works closely with the IESBA to reflect on the outcomes of the current IESBA project to assess the impact to the Code of Ethics of the change in the definition of engagement team, and to determine any consequential changes that may be needed in proposed ISA 600. The proposed wording in ISA 600 will not remove the ambiguity that currently exists regarding the ethical requirements with which component auditors applying the IESBA Code of Ethics are expected to apply. We believe the ambiguity needs to be resolved in the IESBA Code.

*ISA 240, ISA 550 and ISA 570*

We welcome the specific requirements that address consideration of related party relationships and going concern when component auditors are involved. However, we believe these requirements need to be given more prominence.

Consideration by the group engagement team of related party relationships and going concern, and how the group financial statements may be impacted by these matters at a component level, is important in all group audits. We are concerned that the standard underplays this point by only addressing these matters under a requirement for “when component auditors are involved”. This risks failing to identify something at the component level that may not be immediately obvious at the group level when the group engagement team does not involve component auditors. In those circumstances, it is essential that the group engagement team gives appropriate due consideration to the risk of fraud, related parties, compliance with laws and regulations, and matters related to going concern that may exist at a component level and affect the risks of material misstatement or going concern evaluation at the group level. We believe the standard needs to address the special considerations in these areas in all audits and therefore be included as core requirements, in addition to any additional requirements for when component auditors are involved.

As noted, we believe consideration of risk of fraud and compliance with laws and regulations are equally important and should form part of the required matters explicitly addressed in these requirements.

*ISA 330*

We recommend that the application material make clear that when component auditors perform risk assessment procedures, the determination of the significant classes of transactions, account balances and disclosures and their relevant assertions relate solely to the group financial statements, and that responses at the assertion level (ISA 330 paragraph 18) are also considered at the level of the group financial statements and not at each component across which those balances/transactions may be disaggregated.

- 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. The sub-sections in each section of the standard clearly set out considerations for the group engagement team when component auditors are to be involved in the group audit. These sub-sections are helpful when navigating the standard and provide clarity over which requirements apply in a given engagement's circumstances.

These sub-sections also aid the scalability of the standard and may be particularly helpful to smaller group audit engagements performed entirely by the group engagement team (for example, if the group entities are all audited by the same team from a single office).

That being said, the clear separation of these requirements is only beneficial if the standard provides a sufficient framework to guide group engagement teams in considering whether, where, and to what extent, to involve component auditors as described in our cover letter and our response to question 8.

**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?**

Professional scepticism and professional judgement are essential to any audit, and the emphasis placed on them throughout the standard underlines their importance. For example, the stand-back requirements (paras. 45-46 and 49-51) provide useful milestones to evaluating the sufficiency of audit evidence.

The change in the overall approach to scoping the group engagement and risk assessment, and the greater flexibility that is being afforded to group engagement teams in this regard, may pose risks to professional scepticism if not complemented by the frameworks that we describe in our cover letter to drive consistency in both the evaluation of the sufficiency and appropriateness of work performed across the group and the appropriate involvement of component auditors based on the nature and circumstances of the group engagement.

There is a risk, for example, of group engagement teams making judgements about risks and responses without having a sufficient basis for those judgements. A potentially more significant consequence might be the possible behavioural impact on component auditors. The switch away from requiring an audit of individually financially significant components may increasingly result in group engagement teams choosing to instruct component auditors to perform specified procedures. While that may be appropriate, in some circumstances the risks at certain components may be better addressed by a broader response. As described in our cover letter and in more detail in response to question 8 below, we believe the standard should provide factors that guide group engagement teams in making judgements about when performing a full-scope audit of a component may be appropriate in the circumstances.

The proposed approach may result in less work being performed than may be appropriate in the circumstances. In addition, under those circumstances, when component auditors are not also engaged for statutory audit purposes, there is a risk that they may have less focus on considering the nature of the risks and suitability of the further audit procedures to be performed in relation to the financial information of the component. That may act as an inhibitor on the exercise of professional scepticism and result in a greater susceptibility of potential risks of material misstatement remaining unidentified.

It is therefore important that the standard encourages the communication by component auditors of any specific additional areas of higher assessed risks of material misstatement that may be relevant to

the group audit, even if they relate to financial information not within the scope of the work the component auditor was instructed to perform. We recommend that paragraph 44 include an additional communication as to *“Whether the component auditor has identified additional specific areas of higher assessed risks of material misstatement of the group financial statements, due to fraud or error, in the component, and any other matters identified as a result of the work performed by the component auditor that may suggest a revision of the assessed risks of material misstatement of the group financial statements may be necessary.”*

This potential switch towards a much greater predominance of specified procedures, with the potential drawbacks we describe, may also be promulgated by commercial pressures - whether internal to a firm or from group management - resulting in an overall reduction in the amount of audit work being conducted. That would not be in the interests of audit quality. While a more targeted approach to performing audit procedures is a natural consequence of a move to a top-down risk-based audit, the factors for engagement teams to consider in determining when a full-scope audit would be appropriate in the circumstances are, we believe, an important safeguard against insufficient work being performed.

- 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 support the intent of clarifying different engagement circumstances to which the standard is expected to apply. We also support the intent of the change in definition of group financial statements.

In our engagement team outreach, there was uncertainty around the extent of the intended application of the proposed revised definition of “consolidation process” to entity structures that are not typical “groups”. For example, whether the aggregation of multiple divisions within a single legal entity that is not structured as a parent entity and subsidiaries falls within scope. Many larger single entities that are not a group also now operate sophisticated ledgers that have separate financial reporting capabilities for aspects of the business, such as revenue streams, segments, or divisions, which may be seen as giving rise to an “aggregation process”. For example, entities that have multiple discrete business lines with separate management, or retail entities that have financial information disaggregated on a store-by-store basis. Aggregation does take place in preparing the financial statements in both these examples, leading some to believe the standard applies to these audits. Given this ongoing ambiguity, we recommend further clarity is needed in the application material (paragraph A17) as to circumstances not intended to be within the scope of the standard.

We also believe further clarity is needed with respect to shared service centres (SSCs). As businesses increasingly centralise and standardise processes, SSCs are becoming ever more integral to record-keeping and financial reporting – meaning they are also of increasing importance to an auditor’s understanding of the group’s system of internal control. Addressing how SSCs may be viewed in the context of the operations of the group, based on a robust understanding of their role in the financial reporting of the entities or business units of the group, would provide useful guidance for group engagement teams in determining how best to approach the performance of audit procedures at a SSC. For example, whether determined to be a component in its own right or not, the group engagement team may want to engage a “component” auditor to help in understanding the SSC, its processes, systems and controls and to perform testing.



Consideration of how evidence obtained from testing at a SSC fits into the overall scope of further audit procedures to be performed across components of the group is also vital to ensuring a cohesive and effective approach that avoids the risk of insufficient evidence being obtained to address the risks of material misstatement of the group financial statements. Who, within the group, is best placed to manage the quality of the work performed at the SSC and who is best placed to assess the results of those procedures? When a SSC performs specific transactional processing for entities of the group, for example revenue and receivables, the component auditor of the relevant entity may be better placed to evaluate the outcomes of that work relevant to that component, taking into account their knowledge of the component and its operations. The group engagement team, however, still needs to be involved in coordinating this holistic view across the group as a whole and evaluating whether or not sufficient appropriate audit evidence has been obtained to support their report over the group financial statements. See also our response to question 9.

These matters may best be addressed in the section on understanding the group as part of risk assessment procedures, for example, expanding the guidance around paragraphs A64-A65. However, this needs to be linked to the consideration of when a SSC may be deemed to be a component for purposes of the group audit (paragraph A6).

Further guidance would also be useful in explaining when and how ISA 600 may be used when addressing engagement structures that involve more than one auditor but that do not meet the definition of an audit of group financial statements. The IAASB has made clear that such engagements fall within the scope of ISA 220. We understand the rationale given for the relocation of paragraph 2 of extant ISA 600, which states that the standard may provide useful guidance in addressing such engagement circumstances, to ISA 220. However, we believe this paragraph should also be retained in ISA 600 and perhaps expanded to include, for example, a reference to a new appendix that could provide additional guidance to explain that audit quality is best supported when the individuals best placed to manage aspects of quality are assigned responsibility for those aspects. Such an appendix could also illustrate the “when and how”, emphasising the critical importance of collaboration across the engagement team without diminishing the overall responsibility of the engagement partner for the engagement as a whole.

**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?**

There are competing drivers, outlined below, that will determine whether the standard is viewed as appropriately scalable.

As explained in our response to question 2, the clarity as to which requirements apply based on whether or not component auditors are to be involved will benefit scalability, removing uncertainty about whether something is required or not based on the engagement circumstances.

The additional flexibility given to group engagement teams in designing the audit, and determining risks and how to specifically respond to those risks, may lead to some efficiencies by potentially avoiding unnecessary audit procedures (e.g., in smaller group audits where the group team determines they have the necessary knowledge and competence to perform procedures centrally). However, as we note in our cover letter and response to question 3 and 8, we believe additional guidance is needed to provide a framework for the judgements to be made by group engagement



teams on the appropriate nature and extent of work to be performed at components to protect audit quality against inappropriate use of that flexibility.

In the context of a group audit, scalability at the large end is equally as critical as scalability for smaller and less complex audits. The flexibility afforded in this new model does not come without a cost. As the complexity of a group increases, the need for component auditor involvement at each stage of the group audit also likely increases, along with the potential need for experts. This is particularly the case for large conglomerates that operate globally in several diverse, unrelated business lines. Such groups may have unique characteristics, may require specialised knowledge (e.g., financial services), and may involve multiple sub-consolidations. The need to scale “up” for such entities can be considerable. To a lesser extent this will also be relevant for businesses that are less centralised, and operate on a more localised, territory specific management model. We believe the standard could do more to emphasise these considerations, alongside our recommendations around factors for the group engagement team to consider in deciding when, where, and to what extent, to involve component auditors. As we set out in our response to question 8 below, we recommend that the application material builds out these considerations by recognising the correlation between the spectrum of complexity and the need for greater involvement of component auditors, specialised knowledge and experts, in particular at the risk assessment stage.

We support retaining the options for the different scope of work that can be requested of component auditors. We note, however, that there is a difference from the extant, which made these decisions earlier in the audit process (i.e., the component auditor being asked to perform a full scope audit, including the risk assessment). We believe that there will remain components for which component auditors will need to be involved at all stages in the audit and not just after the nature, timing and extent of further audit procedures have been determined by the group engagement team (as set out in our response to question 8). We recognise the importance of the group engagement team’s involvement but believe that greater recognition of the necessary collaboration with component auditors is needed in these key decisions and judgements, including recognising the fact that component auditors may be best placed to make some of the decisions and judgements in the first instance.

**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 believe the standard lacks sufficient clarity regarding the group engagement team’s thought process and practical considerations in making key judgements in determining the overall group audit strategy, determination of components and involvement of component auditors.

The structure of a group and its financial reporting processes and controls play a significant role in determining how best to approach a group audit and the key judgements that need to be made around the determination of components, and involvement of component auditors in both risk assessment and performing further audit procedures to respond to risks of material misstatement. Such judgements necessarily need to be based on a preliminary understanding of how management views and controls the business, taking into account the group, its structure, its financial reporting processes and system of internal control. Different approaches may be justified depending on the group’s structure and circumstances.

We therefore recommend the standard gives further emphasis to the importance of understanding the



group's structure, financial reporting processes, systems and internal control as part of risk assessment procedures. This is important to help identify inherent risk factors that may affect the potential for risks of material misstatement across the group and the relevant controls that may be in place, as a basis for identifying components at which audit work will be required.

In providing that additional emphasis we recommend:

- Amending paragraph 24(c)(i) to add an additional reference to understanding "other relevant aspects of the design and implementation of the group's information processing activities"; and
- Provide factors in application material for a group engagement team to consider in making key planning decisions, including the determination of the components of the group at which work needs to be performed.

Such factors referred to above would include:

- The nature and amount of assets, liabilities, and transactions executed at the location or business unit, including, e.g., significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature ("significant unusual transactions") executed at the location or business unit;
- The significance (materiality) of the entity or business unit's financial information to the overall group financial statements;
- Locations at which relevant controls over group financial reporting are in operation; and
- The degree of centralization of records or information processing.

Please also see our response to question 8 where we elaborate on the considerations for involvement of component auditors in risk assessment and the design of responses to assessed risks at the identified components.

Having completed a robust understanding process and risk assessment, the group engagement team can make fully informed decisions about the final determination of components where further audit procedures are to be performed, based on the identified and assessed risks of material misstatement.

If the proposed changes we describe above are adopted, we support the proposed flexibility provided in the standard that the final determination of components may be designed by the group engagement team in a manner that is most effective for purposes of performing the further audit procedures.

**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?**

Drawing a distinction between access restrictions imposed by management, and those that are outside of management's control, is helpful. While both require careful consideration by the group engagement team with respect to engagement acceptance or continuance of the engagement, each has different and/or additional considerations and potential consequences.

With respect to paragraph 15(b), we believe there may be practical challenges in seeking group management's agreement that they are responsible for providing additional information that the

engagement team has requested from *component* management. We recommend amending (b) to simply state “additional information that the engagement team determines is relevant for purposes of the group audit”.

**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?**

Please see our comments in respect of ISA 220 in response to question 1 with regard to the respective responsibilities of the group engagement team and component auditors.

*Overall*

We believe the standard lacks sufficient clarity regarding the group engagement team’s thought process and practical considerations in making key judgements when determining the overall group audit strategy and involvement of component auditors. Further explanation is needed of what it really means in practice to “take responsibility” for the key judgements around scoping, risk assessment and design of responses, while recognising the vital role component auditors play in most group audits.

Paragraph 50 of the explanatory memorandum outlines the Board’s view of how the risk-based approach to a group audit can be characterised, highlighting the judgements that need to be made about what, how, by whom, and where audit procedures will be performed in the group audit. Such judgements necessarily need to be based on a preliminary understanding of how management views and controls the business, taking into account the group, its structure, its financial reporting processes and system of internal control.

Our response to question 6 includes our recommendations for enhancing the requirement for understanding the group and provides additional factors for group engagement teams to consider when identifying components.

Understanding the group structure, financial reporting processes and relevant controls is also important in determining how best to approach a group audit and the key judgements that need to be made around the involvement of component auditors in both risk assessment and performing further audit procedures to respond to risks of material misstatement.

For some engagements, approaching the audit by focussing in the first instance on the classes of transactions, account balances and disclosures that are significant to the group financial statements (SCOTABD) works well. For others, a continued focus on significant components *first* may remain the best approach (e.g., when there are specific or unique risks associated with a location or business unit). In practice, we anticipate the processes to scope a group audit, understand potential risks of



material misstatement to the group financial statements, and designing appropriate responses to those risks will be an iterative process, rather than a linear one.

In addition to the factors we describe in our response to question 6 that assist group engagement teams in deciding where to perform work (identifying components), we believe it is important that the proposed standard provides more guidance on further factors that should be considered by the group engagement team in determining the most effective approach to the group audit, including the nature and extent of involvement of component auditors in risk assessment and responding to identified risks. This should also include additional guidance to address both the circumstances when a full-scope audit may be warranted, and those in which more targeted audit procedures may be appropriate. For example, a decision to request a full-scope audit of a component that is “financially significant” to the group would not be uncommon. Such guidance would benefit group engagement teams in making consistent judgements.

We therefore recommend that the standard includes an overarching new requirement based on ISA 300 paragraph 7 addressing the special considerations in developing the overall group audit strategy that sets the scope, timing and direction of the group audit. Application material to this requirement can include the factors referred to in the preceding paragraph.

The factors set out in paragraph 12 of the PCAOB’s AS 2101 could help provide a useful starting point for this judgement framework, which could be expanded to address factors that, as suggested, may indicate that a full-scope audit may be warranted. We believe this would lead to greater consistency in judgements in relation to aggregation risk, which is another objective of the IAASB.

#### *Role of component auditors*

We support the appropriate involvement of the group engagement team in understanding the group as a basis for being able to identify and assess the risks of material misstatement of the group financial statements. The group team needs to have a sufficient understanding of the group and its environment, including the group’s financial reporting structure and internal control, to take overall responsibility for the determination of the classes of transactions, account balances and disclosures that are significant to the group financial statements. In obtaining that understanding, effective collaboration with component auditors is often important in ensuring a robust, informed and complete assessment of the risks of material misstatement of the group financial statements.

Component auditors have an in-depth understanding of the specifics of the component entity, its business practices, local culture and laws and regulations, and, where performed, insight from local statutory audits. Particularly in circumstances when the group’s financial reporting structure is not centralised, or when the group operates in multiple jurisdictions, component auditor input to the design and performance of risk assessment procedures at the component level to identify potential risks of material misstatement at the group financial statement level can be important. They may also be best placed to design audit responses to address those risks that will be effective in the specific circumstances of the component.

As the complexity of a group, its decentralisation, or the diversity of the jurisdictions in which the group operates increase, the importance to audit quality of appropriate involvement of component auditors also increases. The nature of such involvement in many circumstances is, in our view, more than the component auditor being asked to “assist” the group engagement team in performing audit procedures. In such circumstances, component auditors may need to play a leading role in ensuring



there is a sufficient understanding of those component entities and the potential sources of material misstatement to the group financial statements that may exist in that component.

We have found in practice that proactive and robust two-way dialogue with component auditors who have performed statutory audits has positive impacts to quality for both the group audit and the statutory audits of components. Where such statutory audits are required, they can be a source of valuable risk assessment information.

In conjunction with our other recommendations described above, we propose that the standard recognise more fully the important role component auditors play. For example, we recommend avoiding language that implies that component auditors simply perform procedures to “assist” the group engagement team, as such wording underplays the role that is often played and the professional judgement and professional scepticism component auditors need to bring to bear in the work performed at components.

We believe further emphasis should be given in the application material to paragraphs 25, 32 and 37 on the importance of effective ongoing two-way collaboration with component auditors in the identification and assessment of risks of material misstatement and design of appropriate responses, including the importance of leveraging the in-depth knowledge and insight of the component auditors in certain circumstances.

We note also that we believe the requirement that the group engagement team “considers” the results of risk assessment procedures performed by component auditors to similarly lack a strong enough message of the importance of the component auditor’s role in informing the group engagement team’s risk assessment. The group engagement team needs to take into account such information and react accordingly.

#### *Other audits (paragraph 42)*

We believe that paragraph 42 and its associated application material may be viewed as directly undermining the intended objectives of the revised requirements for the group engagement team to take responsibility for the identification and assessment of risks, and the design of further audit procedures. As drafted, this appears to allow a group engagement team to use the statutory audits of components as providing the evidence needed over that component’s financial information without the involvement in the risk assessment and design of responses that the changes were designed to achieve.

We agree that there will be certain circumstances where use of such audit work is a necessity, such as large conglomerates where there may be hundreds of (what today are described as) non-significant components, or equity method investees where the group engagement team cannot “direct” the component auditor. When, after appropriate risk assessment procedures, a determination has been made that the risks of material misstatement of the group financial statements are low in relation to such entities or business units, it may be appropriate to use evidence from such statutory audits as providing additional evidence, where this provides additional coverage and helps address aggregation risk. Such an approach would not seem appropriate for entities or business units where there are higher assessed risks of material misstatement of the group financial statements (or “significant components” as defined in extant ISA 600).

We also note that, with increasing mandatory firm rotation in many jurisdictions, the statutory auditor of

a component may not be from the same network as the group auditor. The ability to obtain access to audit evidence from those statutory audits may therefore be restricted and/or the evidence obtained insufficient due to differences in policies and procedures and methodologies of the respective firms. These factors will therefore impact the ability of the group engagement team to make use of the statutory auditors' work.

We believe paragraph 42 and related application material need to be revisited to make clear the circumstances when the use of such evidence is considered appropriate, and to ensure the intent of this paragraph is aligned with the stated public interest objectives.

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

*Group level controls*

The clarified guidance is helpful. However, additional clarification is needed on controls that are designed and operated specifically at the group level (i.e., not "common controls" across the group) to ensure this is not inadvertently missed or underplayed.

*Shared audit evidence*

While the standard seeks to clarify the role of SSCs, we believe this is an area that may continue to give rise to questions. In addition to the matters described in our response to question 4, increasing centralisation of accounting and reporting processes into SSCs by group entities means that audit work related to those processes also needs to be performed on a centralised basis by auditors to obtain audit evidence that will be relevant to group audits, audit work at components and stand-alone statutory audits.

How the evidence needed from such procedures is shared appropriately to support such audits can require careful planning. For example, when a component auditor is requested to audit the complete financial information of a component, or an audit of one or more account balances or class of transactions, the sufficiency of audit evidence to "complete" that audit may be contingent upon evidence obtained from testing at one or more centralised locations.

The standard should address how component auditors across the group are able to demonstrate that they have fulfilled their responsibilities in relation to evaluating the sufficiency and appropriateness of the shared evidence without duplicating unnecessary effort.

Effective collaboration between a group engagement team and component auditors on the audit evidence that may be needed from procedures performed at centralised activities (such as a SSC) to support the further audit procedures needed in relation to component financial information is therefore important.

Although it could be argued that how component auditors address audit evidence from work performed at centralised locations is tangential to forming an opinion on the group financial statements, it is undoubtedly a special consideration in practice when performing a group audit engagement. It would be a disservice for the IAASB to ignore or defer consideration of this practical reality in the design and performance of the group and statutory audits in the broader context of a group audit engagement. We note that further changes to ISA 220 are also likely needed in this regard.



**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?**

Broadly yes. As with risk assessment, the determination of an appropriate component performance materiality may require the involvement of the component auditor to determine what would be an appropriate judgement by the group engagement team, taking into consideration the component auditor's in-depth knowledge of the component and potential sources of misstatement of the group financial statements at the component level. We believe the application material could also be expanded in order to consider the interaction between component performance materiality and statutory audit performance materiality, where relevant.

We note that when a component auditor is requested to perform an audit of the complete financial information of a component, some may believe it is important to audit quality and accountability at the component level for component auditors to form an audit opinion on that information. In such cases there will be a need for the group engagement team, or component auditor, to determine an overall materiality for the component financial information as a whole. This concept could be reflected in application material.

With a greater likelihood of more requests by group engagement teams for audits of one or more account balances, classes of transactions or disclosures in a component's financial information, additional questions might be anticipated in relation to methodology for determining an appropriate performance materiality to allocate to such components. This is an area where the IAASB may further benefit from outreach with academics with experience in aggregation risk in order to develop application material on the subject.

**11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:**

**(a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?**

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

As a result of the revised Quality Management standards the conforming amendment to ISA 300 to require a description of the planned direction, supervision and review of the engagement team (including component auditors) to be documented may result in extensive additional documentation as part of the overall planning of the group audit, especially for larger groups involving many components. Depending on the extent of changes made to the engagement team and the initial audit plan, this could also result in an ongoing burden throughout the entire engagement. While existing ISA 300 paragraph 11 required the auditor to plan the direction, supervision and review of the engagement team, which would have resulted in a level of documentation, we believe the focus on a *description* creates expectations that may be onerous.

As this change has been approved as a conforming amendment resulting from ISA 220, and not directly exposed for comment, we recommend ISA 600 needs to address expectations for the nature and extent of documentation the Board envisages in meeting this requirement in the context of a group



audit. This seemingly open-ended requirement could range from a simple sign-off requirement in relation to the engagement's planned procedures and work allocation, to a more significant exercise where rationale for specific procedures, assigned individuals and reviewers is recorded. We believe that the nature and extent of documentation requirements such as these are likely best addressed at the firm level within a firm's policies and procedures. For example, the use of technology such as documentation software could permit the former approach (a sign-off requirement) to be built into a required workflow automatically, with little manual documentation needed. Application material could address such considerations.

With respect to paragraph 57(d), extant ISA 600 requires that the group engagement team document their direction, supervision and review of *significant* components. The new proposed requirement would apply in respect of every component within the group at which audit work is performed, which may give rise to a significant increase in documentation that is not commensurate with assessed risk. While the standard indicates that the nature and extent of documentation would be expected to scale in line with the level of assessed risk and other factors, we suggest further clarification be given in the application material that a firm's policies and procedures may address the nature and extent of documentation of direction, supervision and review relative to the scope of work and risk of the component.

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

### *Flowchart*

In our broader outreach, we received comments on the usefulness of the flowchart that follows paragraph A47 in extant ISA 600. We encourage the Board to consider what useful additional flowcharts can be developed, and perhaps included as an appendix to the ISA or as implementation support materials, to illustrate the thought process and key considerations under the proposed new approach. This would likely build off the flowcharts developed for implementation of ISA 315 (Revised 2019)).

### *Conforming amendments*

#### *ISA 610*

We find the proposed change to paragraph A16 to lack clarity. Previously the intent was clear from the guidance - in some circumstances the auditor could obtain evidence from audits or reviews performed by internal auditors of subsidiaries that were not significant components. Now stating that the auditor can make use "*In some circumstances, [of] the work performed on the financial information of entities or business units of a group*", the circumstances that are being envisaged here, and whether there are any constraints placed on the nature or extent of such use, are unclear. We believe revisions are necessary to provide such clarifications.

#### *ISA 700*

We find the deletion to references to "the financial information of the entities or business activities within the group" in paragraph 39 (c)(i) eliminates the purpose of the paragraph. The required statement now conveys nothing meaningful and does not achieve any additional purpose beyond the statement required by paragraph 39 (b)(i). We recommend reinstating these deleted words.

We also note that the amended illustrative reports do not align with the wording stated in the requirement, referring to “consolidated” rather than “group” financial statements. While having no objection to either term, we note the requirement is worded as “...the auditor’s report shall further...describe the auditor’s responsibilities in a group audit engagement by stating that”, indicating this is prescribed language that must be used.

**13. The IAASB is also seeking comments on the matters set out below:**

- (a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.**
- (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.**

Our experience on the implementation of other recent significant standards, such as ISA 540 (Revised) and ISA 315 (Revised 2019), is that a significant amount of time is needed to properly embed these changes into methodology, supporting tools and technical implementation training. Allowing insufficient time for effective implementation is a direct risk to audit quality.

ISA 600 is a broad standard, addressing all aspects of an audit. In that regard it is a much more significant implementation project than an ISA addressing an individual aspect of an audit.

This standard, which will in many cases involve potentially multiple firms and different networks across the globe in planning and performing a group audit, will require significant investments in revising methodology and the development and implementation of training. Furthermore, as noted, given this standard affects every stage of a group audit, from planning to completion, the methodology will need to be revised, and then the training materials will need to be created and rolled out, at least one complete audit cycle before it is required to be implemented. Feedback from the engagement partners in our outreach indicated that, to provide the greatest opportunity for the implementation of the new approach to be successful, engagement teams would want to be considering how their approach to risk assessment and scoping the engagement might change when conducting the audit of the period prior to the new standard coming into effect. The efforts needed for implementation cannot be underestimated.

The following illustrates the minimum timeline we believe is necessary:

- September/December 2021 - Approval of final standard
- During 2022 - Development of revised audit methodologies, tools and templates, including audit software revisions (which often require significant lead times)
- Q1-Q2 2023 - Pilot testing of proposed changes
- Q2-Q4 2023 - Finalise changes to methodology, tools and templates and development of annual audit training programmes for engagement teams
- Q2-Q3 2024 - Training programme rollout across territories
- December 2024 year-end audits - group engagement teams consider potential changes that



may be needed to implement the new standard while concurrently planning and performing the 2024 year-end audit under the extant standard

- December 2025 year-ends - formal implementation of the revised standard

We also strongly recommend maintaining a December effective date due to the annual methodology and training programmes in place at many firms.