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submitted electronically through the IAASB website

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Re: Exposure Draft: Proposed International Standard on Auditing 600 (Revised) “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs”

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the Exposure Draft: “Proposed International Standard on Auditing 600 (Revised) Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs”, hereinafter generally referred to as “the draft”.

In Appendix 1 to this comment letter, we have provided our responses to the questions posed to respondents in the Request for Comments of the Explanatory Memorandum. In Appendix 2 to this comment letter, we have provided our additional comments on the draft by paragraph.

However, in this letter we would like to make a number of important overall observations. Although we support revising ISA 600 to improve audit quality on group audits – in particular by improving the involvement of the group engagement team in the work of component auditors and improving the identification and assessment, and response to, the risks of material misstatement of the financial information of components that are not significant

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individually but are so collectively – we are not convinced that some of the key measures and approaches proposed in the draft will be conducive to increasing the quality of group audits, and believe that the draft may be impracticable to implement in a range of circumstances and may have detrimental effects on the audit market. Without addressing all of the major issues that we have identified in our response in Appendix 1 to the questions posed in the Explanatory Memorandum, we address the overriding issues that we believe have the potential to significantly decrease audit quality below.

We believe that the risk-based approach as proposed in the draft, which includes a top-down approach with micromanagement of the work of component auditors through the specification of procedures (whether risk assessment or risk response) and the application of technology for “remote auditing” will mislead group engagement teams into seeking to increasingly perform audit work on components without using the work of component auditors in situations in which group engagement teams may not be able to do so effectively. These situations arise primarily for components in jurisdictions with significantly different laws and regulations, cultures, languages, and business practices. Furthermore, we believe that eliminating the concept of significant components due to their financial size, together with the elimination of the concomitant requirement to have the entire financial information of those significant components subject to a full-scope audit, will increase the risk that material misstatements (in particular, those resulting from fraud, non-compliance with laws and regulations, and going concern issues at component level) of the group financial statements at component level will not be detected and will therefore reduce audit quality. We also believe that the approach as proposed does not adequately clarify 1. when component auditors are to be involved, 2. if they are to be involved, the nature, timing and extent of their involvement and 3. the nature, timing and extent of the involvement of the group engagement team in the work of component auditors. We provide suggestions as to how these matters can be addressed in our responses to Question 8.

We also believe that the risk-based approach as described in the draft will be difficult to implement in practice because of the granular risk assessment required by ISA 315 (Revised 2019) and ISA 540 (Revised) and the more granular risk response required by ISA 540 (Revised), which will cause a great increase in the extent of communication required between group engagement team and component auditors. Communication between group engagement teams and component auditors from another firm or network that are subject to different quality management systems and use different audit methodologies and tools would become particularly difficult.

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We would also like to point out that a risk-based approach as described in the draft will also lead to undesirable effects on the audit market. In particular, the approach will lead to group engagement teams seeking to only use component auditors from within the same firm or network because the granular risk assessment required by ISA 315 (Revised 2019) and ISA 540 (Revised) and the more granular risk response required by ISA 540 (Revised) will lead to more granular direction, supervision and review and therefore increase pressure to use component auditors subject to the same quality management and who use the same audit methodologies and tools. This pressure will also cause increased concentration of the audit market for both work on components for group audits as well as for the other work on components by auditors, such as statutory audits. These market effects are not in line with the policies set forth by the European Commission and national governments in the EU and could be viewed as being anti-competitive.

Another serious matter we have identified is the nature of the reference in the application material to ISA 230 on documentation which, if taken as read, would imply that paragraphs 8 and 9 of ISA 230 apply to the group engagement team's documentation of its direction, supervision and review of the work of component auditors and therefore lead to most of the audit file of component auditors needing to be reproduced in the audit file of the group engagement team. We believe that this is inappropriate because, if component auditors are a part of the engagement team, their audit documentation is a part of the documentation for the group audit and does not need to be duplicated in the group engagement team's audit file.

- On the whole, based on these and our other comments in our responses to the Questions posed in the Explanatory Memorandum, we have concluded that the draft requires substantial revision in a number of areas and recognize that this may lead to re-exposure. Some of these areas of substantial revision with the concomitant other changes that they would engender in the draft include reintroducing the concept of significant components and the requirement to have full-scope audits of the financial information of these; the introduction into the requirements of clear criteria for the nature, timing, and extent of involvement of component auditors needed;
- the introduction into the requirements of clear criteria for the nature, timing and extent of the involvement of the group engagement team in the work of component auditors;

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- a more appropriate treatment of entities accounted for by the equity method.

It is unfortunate that a good number of improvements in the draft are overshadowed by fundamental issues with the overall approach taken in the draft.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

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Appendix 1:
**Responses to Questions Posed to Respondents in the Request for
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?**

As we note in our response to Questions 7 and 8 below, the current draft will lead group engagement teams to increasingly seek to perform a top-down risk assessment and design and perform further audit procedures at group financial statement level, rather than having component auditors perform risk assessments and design and perform further audit procedures at component level for the group audit. We believe that group engagement teams will not be capable of identifying and assessing the risks of material misstatement and designing and performing further audit procedures at group level in an effective manner because these matters will need to be done at component level by component auditors given the level of granularity in ISA 315 (Revised 2019) and ISA 540 (Revised) with respect to such issues as the identification of risks of material misstatement that are reasonably possible, the application of inherent risk factors, the use of the concept of a spectrum of inherent risk, the impact of the new definition of significant risk, and the more granular risk assessment and risk responses to accounting estimates (including the explicit consideration of methods, assumptions and data), as well as the more granular responses to risks that result from the more granular assessment of risks of material misstatement in ISA 315 (Revised).

This implies that the linkages in the draft between the draft and ISA 315 (Revised) and ISA 540 (Revised) do not reflect the real impact of those standards, which would make a top-down approach by the group engagement team, including the communication between the group engagement teams and component auditors, increasingly complex and therefore impracticable.

**(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**

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ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

We refer to our response in (a) above and our general response to Question 8 on the linkage between the draft and ISA 220 (Revised).

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?

Without commenting on the content of the sub-sections throughout the draft that highlight the requirements for when component auditors are involved, we agree that it makes sense to deal with the requirements for when component auditors are involved in the relevant sections of the draft and therefore agree with the placement – but not necessarily the content – of these requirements in such sub-sections.

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

We recognize the efforts of the IAASB to reinforce the exercise of professional skepticism in relation to an audit of group financial statements as described in the Explanatory Memorandum with the reference to the paragraphs in the draft. However, our responses to Questions 7 and 8 below indicate that the lack of robustness in the requirements as to when component auditors need to be involved, how they should be involved in certain circumstances, the needed involvement of the group engagement team in the work of component auditors, the top-down approach to group audits (including the impression that group engagement teams should specify audit procedures to be performed by component auditors in detail, and the elimination of the concept of significant components based on financial size), are not conducive to reinforcing the exercise of professional judgment and professional skepticism in relation to an audit of group financial statements because, as we point out in our response to Question 8, these issues will likely cause group engagement teams to be less aware of the issues at component level, therefore they will be less able to

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exercise professional skepticism in an appropriate manner. Consequently, unless our recommendations to the issues addressed in our responses to Questions 7 and 8 are implemented, we believe that the draft will be detrimental to the exercise of professional skepticism in group audits.

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).**

We believe that the scope and applicability of the draft is clear because the draft proposes that the standard applies to group financial statements, which in turn are clearly defined as those that include the financial information of more than one entity or business unit by means of a consolidation process. The consolidation process is in turn clearly defined and supported by application material that should, in most circumstances, leave no doubt as to when the financial statements represent group financial statements and therefore when the draft applies. For these reasons we very much support the linkage to the consolidation process.

We do not believe there are any other reasonable alternatives for scoping when ISA 600 applies. This applies particularly to the issue of the aggregation of the financial information of branches or divisions by means of a consolidation process. As the Explanatory Memorandum points out, there is fundamentally no difference between the consolidation process used to consolidate subsidiaries and the process used to aggregate the financial information of branches and divisions, both processes of which involve aggregating the financial information and eliminating inter-entity transactions and balances. Whether ISA 600 applies should not be made dependent upon whether, for example, international groups choose to organize their entities or business units in various jurisdictions in the form of legal subsidiaries, or partnerships or branches or divisions that may or may not be legal entities in some jurisdictions, but for which separate financial information is prepared that then needs to be aggregated. Furthermore, as the application material in the draft explains, if the financial information of branches or divisions does not need to be aggregated because the accounting for these is

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performed centrally and no separate financial information for the branches or divisions needs to be aggregated, then no consolidation process takes place and ISA 600 would not apply.

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

We believe the draft to be more or less scalable for audits of the group financial statements of fairly homogenous, corporate groups of different sizes, whose entities and business units are situated for the most part in in a very large country, such as the USA, with a comparatively uniform language, culture, laws and regulations, and business practices, and where component auditors are largely from the same firm, or perhaps network, as the group engagement team.

However, in line with our general response to Question 8 and our responses to (a), (b) and (c) in that Question below, we do not believe the draft represents a viable option in terms of effectiveness or scalability for audits of group financial statements for many corporate groups based in other countries (in particular in Europe), in which corporate groups of a certain size automatically straddle national boundaries and the group's entities and business units are situated in countries with very different languages, cultures, laws and regulations, and business practices, and due to varying laws and regulations governing auditor rotation in these jurisdictions component auditors are likely not to be from the same firm or network as the group auditor. We also believe that as risks of material misstatement in component financial information become more complex and hence become significant risks, more involvement is needed by component auditors.

Our suggestions for improved scalability are included in our response to Question 8.

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?

In this context it is important to distinguish the definition of a component for group audit purposes from the definition of group financial statements (and its

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use of the terms “entities and business units” as described in paragraph 3 of the draft). The definition of group financial statements is inextricably attached to the existence of a consolidation process as defined in the draft and is designed solely to determine when the draft applies. In contrast, the definition of component serves to allow group engagement teams to design their audit approach so that the group audit is both effective and efficient.

While we believe that the group engagement team needs to have some flexibility as to how they identify components for the purposes of the group audit, the definition proposed in the draft and the related application material appears to underemphasize that group management may organize its financial reporting in a manner that is different from how its entities and business units within the group are structured. Paragraph A2 in extant ISA 600 provides some excellent examples of how management may structure the entities and business units within its group, but also that it may organize its financial reporting in different ways by geographic location, function, process, product or service, or groups thereof. While in some cases the group engagement team may choose to group components differently for the purposes of the audit than management may have structured its group or organized its financial reporting, in many cases an effective and efficient group audit may be predicated upon the group engagement team identifying components in a manner similar to how group management has structured the group or organized its financial reporting.

Consequently, we believe the definition of component needs to be augmented to reflect the fact that often components are identified by the group engagement team through how group management structures its entities and business units, and the application material should emphasize that this structure or how management organizes the group’s financial reporting may often govern how group engagement teams identify components for group audit purposes. To this effect, some of the guidance noted above currently in paragraph A2 of extant ISA 600 should be reintroduced into the draft. However, clarity should remain in the application material that group engagement teams have the flexibility to depart from how group management structures its group or organizes its financial reporting to perform an effective group audit. Our suggested wording for the changed definition of component (also taking into account our response to Question 8) is “An entity, business unit, location, function, or activity (or groups or combinations thereof) determined by the group engagement team for the purposes of planning and performing the group audit.”

7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements

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and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

We agree with the enhancements to the requirements and application material with respect to acceptance and continuance of group audit engagements, and with the treatment of restriction on access to information and people and ways in which group engagement team can overcome such restrictions – with one important exception, as discussed below.

Paragraph 42 in the draft correctly points out that audits that have been performed on the financial statements of an entity or business unit that is part of the group, the group engagement team can use such work as audit evidence for the group audit as long as the group engagement team evaluates that the conditions for use as audit evidence as described in paragraph 42 (a) to (c) of the draft have been fulfilled. In contrast, the application material on ways in which the group engagement team can overcome restrictions on access to information and people for entities accounted for by the equity method, as set forth in the second bullet of paragraph A29, appears to suggest that access to financial information about such entities, whether obtained through group management or publicly available information, would suffice.

The second bullet of paragraph A29 therefore undermines the requirement set forth in paragraph 42 of the draft that the group engagement team must have access to information about the audit procedures performed, the component materiality used for the audit, and about the competence, resources and independence of the component auditor. This is not as much of an issue for components that are not significant components as described in extant ISA 600, since the risks of material misstatement are likely to be lower for these, but it is critical for entities accounted for by the equity method that are significant components as described in extant ISA 600. As noted in our response to Question 8 below, the elimination of the concept of significant components will reduce audit quality considerably, and therefore the concept should be reintroduced. The situation described in our response to this question above indicates that without a required concept of significant components, audit quality will be reduced for significant components accounted for by the equity method. We therefore also believe that the guidance currently set forth in paragraph A15 needs to be reintroduced as application material to paragraph 42 of the draft.

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Consequently, the application material in paragraph A29 of the draft needs to be revised and the concept of significant components as well as the guidance of paragraph A15 of extant ISA 600 reintroduced.

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?

While the risk-based approach as proposed will improve the treatment of the financial information of components that are individually not significant, but are collectively significant, we are convinced that that risk-based approach as contemplated by the draft will result in inappropriate assessment of the risks of material misstatement of the group financial statements and the inappropriate design and performance of appropriate responses to those assessed risks for significant components. Furthermore, the way the draft is written, it will mislead group engagement teams into inappropriately seeking to perform, at component level, risk assessment procedures, identify and assess the risks of material misstatements, and design and perform further audit procedures, even though they are not capable of doing so effectively. We provide our reasoning in the treatment of the main issues below.

Issues resulting from the interaction between new ISA 220 (Revised) and the draft

ISA 220 (Revised) has recently been issued by the IAASB and clarifies through the definition of “engagement team” in paragraph 12 (d) in connection with the application material in paragraph A18 that component auditors are members of the engagement team performing the group audit. This is reflected in the definition of “component auditor” in paragraph 9 (c) of the draft. Without addressing here all of the issues as to why we believe this extension of the concept of engagement team is unlikely to function as stakeholders of auditors’ reports expect as set forth in our comment letters relating to ISA 220 dated 13 March 2020 and 1 July 2019, we believe that ISA 220 (Revised) has not provided sufficient guidance on how direction, supervision and review can be operationalized effectively when the incentive and disincentive measures in the quality management system of a engagement partner’s (and hence group engagement team’s) firm cannot be extended to individuals (such as component auditors) from another firm – especially a firm that is not in the same network as the firm of the engagement partner (or group engagement team). This implies

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that, beyond the issue of the nature, timing and extent of the involvement of the group engagement team in the work of component auditors, the measures taken to direct, supervise and review component auditors from outside the group engagement team's firm would need to be qualitatively very different than those taken to direct, supervise and review component auditors within the firm. The approach taken in ISA 220 (Revised) without the guidance needed naturally pulls ISA 600 towards a top-down approach to group audits and leads to some of the issues in the draft that we identify below. We also note that ISA 220 (Revised) and the draft (paragraph A50 in the draft just refers to ISA 220) collectively leave group engagement teams in the dark as to how their direction, supervision, and review of component auditors needs to be qualitatively different for component auditors from a firm or network different from that of the component auditors from the same firm.

Centralized, top-down approach to group audits

We recognize that through the use of the words “the engagement team shall take responsibility for” in the requirements for risk assessment procedures (paragraph 24 of the draft), the identification and assessment of the risks of material misstatement (paragraph 31 of the draft), and the nature, timing and extent of further audit procedures to be performed (paragraph 33 of the draft), etc., and the related application material to these requirements, the draft acknowledges that these procedures need not be performed by the group engagement team, but can be assigned by the group engagement team to component auditors.

However, we are **deeply concerned** by the way the draft is written, which appears to imply a very granular, top-down approach by the group engagement team when seeking to involve component auditors. In particular, the use of the term “audit procedures” throughout the draft, rather than the more generic “audit work” (which is used in other places in the draft), leaves the impression that the group engagement team is always specifying the audit procedures in detail to be performed by the component auditors, rather than allowing the group engagement team flexibility in the level of granularity at which the instructions to the component auditors to perform audit work (whether risk assessment, or the design and performance of further audit procedures) are given. Examples of the use of “audit procedures”, rather than “audit work” suggesting a detailed level of granularity in the specification of audit procedures include paragraphs 9 (a) and (b), 21 (a), 44 (a) and (e), 47, 51, A4, A8, A12, A39, and A85 in the draft. Paragraph A101 is ambiguous in this respect because it refers to “overall” nature, timing and extent of procedures. We believe that group engagement

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teams specifying audit procedures at a detailed level will cause component auditors to seek to limit the judgment with which they perform those procedures and will therefore have a detrimental impact on the exercise of professional skepticism by component auditors. We believe it is important that component auditors exercise considerable professional judgment and professional skepticism in their performance of audit work for the group audit and should therefore take responsibility for that work, including the judgments they make, by issuing interoffice opinions or conclusions on that work.

Furthermore, in the context of the requirements in paragraphs 24, 31, and 33 of the draft and the use of the term “audit procedures”, **we are also deeply concerned** by the wording of the requirements in paragraphs 32 (“when the group engagement team involves component auditors in the risk assessment procedures ... or in the identification and assessment of the risk of material misstatement”) and 37 (“when the group engagement team assigns the design and performance of further audit procedures to component auditors”) of the draft on their own, and their interplay with application material in the following paragraphs of the draft:

- A71, which addresses only some limited factors in the relevant decision,
- A79, which states that the group engagement team “may involve component auditors in risk assessment procedures as their direct experience with the entities or business units may be ‘helpful’”,
- A82, which states “the group engagement team may involve component auditors in the identification and assessment of the risks of material misstatement” and refers to paragraph A71,
- A96, which states “component auditors may have a more in-depth knowledge of the components that the group engagement team, and therefore the group engagement team may need the assistance of the component auditor to determine the nature, timing and extent of further audit procedures”, and
- A97, which states that component auditors may “design and perform further audit procedures” of different scope,
- A102, which only refers to the factors in paragraph A51 and does not address the relevant factors in A42.

The interaction of these paragraphs implies that the rather thin factors in paragraph A71 of the draft may be considered for the decision on whether to involve component auditors in risk assessment procedures and the identification and assessment of risks of material misstatement, and that only the component auditor’s knowledge of the component beyond that of the group engagement

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team may need to be considered when seeking the assistance of component auditors in determining the nature, timing and extent of further audit procedures.

These paragraphs collectively imply that the group engagement team may consider a few noted factors in deciding when to involve component auditors in the noted work, but that the decision is entirely within the judgment of the group engagement team – regardless of the importance of other overriding factors. Given advances in technology that allow auditing procedures to be performed remotely (which was, and is being, amply demonstrated through the COVID-19 crisis) and the fact that the members of engagement teams (including those in the group engagement team) may be geographically dispersed, the way the draft is written, we foresee group engagement teams striving to reduce audit effort and cost by increasingly seeking to perform the risk assessment procedures, the identification and assessment of risks of material misstatement, the determination of further audit procedures, and to perform the latter, almost solely within the group engagement team, rather than to involve component auditors. We believe that doing so may be a more or less viable proposition for audits of the group financial statements of fairly homogenous, large corporate groups whose entities and business units are situated for the most part in a very large country, such as the USA, with a comparatively uniform language, culture, laws and regulations, and business practices.

However, we are not convinced that this is a viable option for audits of group financial statements for many corporate groups based in other countries (in particular in Europe), in which corporate groups of a certain size automatically straddle national boundaries and the group's entities and business units are situated in countries with very different languages, cultures, laws and regulations, and business practices. In these circumstances, obtaining an understanding of the entity and its environment, identifying and assessing the risks of material misstatement, determining the appropriate further audit procedures, and performing these, is heavily influenced by the noted national peculiarities. We also believe that as risks of material misstatement in component financial information become more complex and hence become significant risks, more involvement is needed by component auditors.

Furthermore, the level of granularity required by ISA 315 (Revised 2019) and ISA 540 (Revised) for risk identification, assessment and (in ISA 540) responses to risk make it very unlikely that group engagement teams would be capable of performing these effectively given the noted factors (see also our response to Questions 1 (a) and (b)) above. There is therefore a real risk to audit quality in these circumstances that, simply due to their lack of knowledge of local

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circumstances (they don't know what they don't know), group engagement teams will overestimate their ability to perform these tasks adequately, to the detriment of audit quality – particularly in relation to the risks of material misstatement arising from fraud or non-compliance with laws or regulations. This also implies that having the group engagement team perform the risk assessment procedures, the identification and assessment of the risks of material misstatement for the group financial statements at component level, or determining the further audit procedures, but involving the component auditors in the performance of those further audit procedures, is a form of micro-management of component auditors that may not actually adequately address audit issues for the group at component level.

Consequently, the centralized and procedures-driven, top-down approach to group audits with a micro-managing group engagement team as set forth in the draft will very likely reduce audit quality for group audits. We would like to point out that the idea of effective “command and control” of a group audit and component auditors at the micro-managed level of audit procedures through the use of audit methodologies and automated tools by the group engagement team is an illusion in the context of multiple complex national environments with component auditors often needing to be drawn from outside of the firm or the network. Drawing upon a military management analogy, effective military organizations (including those in the USA) have rejected striving for such command and control because it is impracticable when dealing with complex, rapidly changing situations “on the ground” involving allied forces with interoperability issues (which is similar to component auditors from outside the firm of the group engagement team not being subject to the same quality management systems and using different audit methodologies). To transplant the military analogy to group audits, what matters in these circumstances is highly competent and well-resourced component auditors with an understanding of their mission as directed by the group engagement team, who communicate with the group engagement team as needed on an ongoing basis, but take responsibility for their mission (by for example, issuing interoffice “opinions” or other conclusions to the group engagement team), and in which the engagement team represents a “team of teams” comprising the group engagement team and component auditors (which are invariably teams, too). By ascribing to the illusion of the “one engagement team” concept involving the group engagement team centrally directing the entire engagement in detail in complex circumstances, the IAASB is neglecting current management theory and practices, which seek to empower those closer to the “coal face” to improve effectiveness.

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Consequently, to reduce the risk to audit quality caused by an inappropriate top-down approach to group audits, we recommend that, similar to the requirement in paragraph 8 of ISA 620, the IAASB set forth, in the requirements of ISA 600, clear criteria for the group engagement team's determination of the nature, timing and extent of component auditor involvement in group audit. In addition to the criteria set forth in paragraphs A71 and A96 of the draft, the IAASB should also include some of the criteria contained in paragraph A42 of the draft, which include the issues of differing languages, cultures, laws and regulations, and business practices. We also believe that when appropriate, the draft should refer to "audit work" rather than audit procedures to indicate that there is no implication that group engagements are required to specify the audit procedures to be performed by component auditors in detail. In this vein, the IAASB should seek to have group engagement teams empower component auditors, rather than seeking to have group engagement teams micro-manage them, which leads to the next issue of the nature of the requirements to perform procedures in relation to significant risks below.

Replacement of audits of the financial information of significant components with combinations of individual procedures

Extant ISA 600 requires group engagement teams to identify significant components. When a component is significant due to its individual financial significance to the group, extant ISA 600 also requires that a "full-scope" audit of the financial information of a component be performed. When under extant ISA 600 a component is regarded as being significant due to likely including significant risks of material misstatement, extant ISA 600 requires a full scope audit, an audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks of material misstatements, or specified audit procedures relating to the likely significant risks of material misstatement.

A full scope audit implies not only that further audit procedures are performed on the entire financial information of the component – it also implies that risk assessment procedures and the identification and assessment of risks of material misstatements are performed on the entire component financial information in accordance with ISA 315 (Revised 2019) to form an appropriate basis for the determination of those further audit procedures. Likewise, an audit of one or more account balances, classes of transaction or disclosures implies not only that further audit procedures are performed on these – it also implies that risk assessment procedures are performed in relation to, and the identification and assessment of risks of material misstatement are performed

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on, those account balances, classes of transactions or disclosures to form an appropriate basis for the determination of those further audit procedures. As noted in our treatment of the centralized, top-down approach in the draft to group audits above, such risk assessment procedures and identification and assessment of risk of material misstatement at component level (whether for the entire financial information of the component or elements thereof) will often need to be done by component auditors for the reasons noted in that treatment, which implies that such audits would often be performed by component auditors, rather than by the group engagement team.

The draft, on the other hand, appears to take a rather eclectic approach to the issue of risk assessment procedures and the identification and assessment of risks of material misstatement performed at component level for significant and other components: the group engagement team can choose the components for which risk assessment procedures and the identification and assessment of the risks of material misstatement will be performed, as well as the nature, timing and extent of those risk assessment procedures and the identification and assessment of risks of material misstatement to be performed at component level and who performs these.

We are **deeply concerned** with the approach taken by the IAASB on this matter. The main problem with the proposed approach is the fact that in the vast majority of cases, significant risks of material misstatement for the group financial statements arise from the financial information of significant components due to their financial information being significant to the group financial statements. Without a full scope audit of the financial information of significant components, in which it is often the component auditors who perform risk assessment procedures and the identification and assessment of risks of material misstatements on the entire component financial information in accordance with ISA 315 (Revised 2019) to form an appropriate basis for the determination of those further audit procedures, the group engagement team will largely “be in the dark” as to what the assessed risks of material misstatements ought to be to which further audit procedures ought to respond. This is particularly the case for risks of material misstatement due to fraud and non-compliance with laws and regulations, and risks of material misstatement in relation to the valuation of component assets included in the group financial statements due to the going concern basis of accounting not being appropriate for the component financial information. Furthermore, for full-scope audits, under the current requirements in the ISAs, component auditors have a framework by which they deal with the noted issues and report back to the group engagement team. In particular, when component auditors only perform

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specified procedures on significant components, there is no framework within which component auditors would be able to identify and assess risks of material misstatement due to fraud (including indications of management bias) or non-compliance with laws or regulations, consider and report deficiencies in internal control, etc. at component level.

The potential effects on competition for group audits and the effect on audit quality also need to be addressed. Without a requirement to identify and perform a full-scope audit on significant components, those group engagement teams that forego having full-scope audits performed by component auditors and either perform specified procedures themselves or through group auditors are likely to be able to translate the lesser audit effort (at the cost of audit quality as noted above) into a competitive advantage when tendering for group audits. This could also lead to a “race to the bottom” in the nature, timing, and extent of specified audit procedures at significant components, with the concomitant detrimental effects on audit quality.

For these reasons, eliminating the concept of significant components resulting from financial significance of the financial information, for which a full-scope audit of the financial information of a component is required, will significantly reduce audit quality for group audits.

When a component is not significant due to not being individually financially significant to the group, the issue of whether or not the component is likely to include significant risks of material misstatement would be addressed, as contemplated in the draft, through the risk assessment procedures and the identification and assessment of risks of material misstatement at component level. As noted in our treatment of the centralized, top-down approach in the draft to group audits above, such risk assessment procedures and identification and assessment of risk of material misstatement at component level will often need to be done by component auditors for the reasons noted in that treatment. In many circumstances, the determination and performance of the further audit procedures in response to those significant risks would also be performed by component auditors. For these reasons, under the proposed requirements in the draft, there would be no need to identify such a component as a significant component, unless the risks were pervasive to the component financial information (e.g., risks of material misstatement in relation to the valuation of component assets included in the group financial statements due to the going concern basis of accounting not being appropriate for the component financial information). However, if, as noted, it is often the component auditors performing the risk assessment procedures and identifying and assessing the

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risks of material misstatement, as well as determining the further audit procedures on the significant risks and performing these procedures, then component auditors are in effect performing an audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks of material misstatements in components.

In summary, we are convinced that retaining the concept of full scope audits for financial information of significant components (where that significance is determined based upon the significance of the financial information of the component to the group financial statements) is needed to maintain audit quality and should therefore be retained in ISA 600. Furthermore, when component auditors or the group engagement team believe that there is reasonable possibility that particular significant risks of material misstatement to the group financial statements in classes of transactions, account balances, or disclosures of the component financial information exist, then an audit of the relevant account balances, classes of transactions or disclosures ought to be required to maintain and augment audit quality. This is particularly important when risks of material misstatement in component financial information become more complex and hence become significant risks and more involvement is needed by component auditors. This in no way unduly reduces the involvement of group auditors (direction, supervision and review) needed in the work performed by component auditors in this respect.

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?

Based on our general response to Question 8 above, we believe that the respective responsibilities of the group engagement team and component auditor are not clear, and we do not believe them to be appropriate.

As noted in our general response to Question 8 above, ISA 220 (Revised) and the draft collectively leave group engagement teams in the dark as to how their direction, supervision, and review of component auditors needs to be qualitatively different for component auditors from a firm or network different from that of the component auditors from the same firm. Consequently, the responsibilities of group engagement teams are not clear in this respect.

Furthermore, based on the noted response, we believe that the respective responsibilities are particularly inappropriate for components that are financially significant and components that are not financially significant, but whose

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financial information has a reasonable possibility of containing a significant risk. On the basis of that response, we also believe that the draft will inappropriately mislead group engagement teams in other situations to seek to perform risk assessment procedures, identify and assess the risks of material misstatement, design further audit procedures, and perform these, for component financial information in situations where the group engagement team does not have the competence to do so, but may not be aware of its lack of competence in this regard.

(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?

We believe that the basis for the nature, timing and extent of interactions between the group engagement team and component auditors throughout the different phases of the group audit, including sufficient involvement of the group engagement partner and group engagement team, is not sufficiently clear and are not appropriate.

The unclear and inappropriate basis relates to 1. when component auditors are to be involved, 2. when component auditors are involved, the nature, timing and extent of their involvement, and 3. the nature, timing and extent of the group engagement team's involvement in the work of the component auditor. Our general response above to Question 8 deals with the first two issues. With respect to the third issue, we note that paragraphs 30 and 31 of extant ISA 600 provide fairly clear requirements on the nature, timing and extent of involvement of the group engagement team in the work of component auditors for certain situations and factor in the group engagement team's understanding of the component auditor (dealt with in paragraph 19 of extant ISA 600, the related application material in paragraph A33 of which includes a discussion of the various factors similar to those in paragraph A42 of the draft). In contrast, paragraph 23 in the draft only requires the group engagement team to "take into account" higher and significant assessed risks of material misstatement and areas of significant judgment in the financial statements without considering the group engagement team's understanding of the component auditor. Paragraphs A50 and A 51 provide some additional potential factors that the group engagement team may consider in determining the nature, timing and extent of its involvement, but, unlike in extant ISA600, there is no reference to the group engagement team's understanding of the component auditor.

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We believe that, similar to extant ISA 600, and based upon the changes we think need to be made as discussed in our general response above to Question 8, the draft needs to introduce clearer requirements on the nature, timing and extent of the group engagement team's involvement in the work of the component auditor. We believe this can be best achieved by setting forth clear requirements based upon the requirements in extant ISA 600 for situations in which component auditors perform full scope audits of the financial information of components and perform audits of classes of transactions, account balances or disclosures in component financial information that have a reasonable possibility of containing a significant risk. Furthermore, to the extent that various factors need to be taken into account in this determination, we believe that, similar to the requirement in paragraph 8 of ISA 620, there needs to be a requirement that sets forth those factors (including those related to the complexity of the risks of material misstatement) that the group engagement team needs to take into account, including those factors related to the group engagement team's understanding of the component auditor.

(c) What practical challenges may arise in implementing the risk-based approach?

In addition to the matters we address in our general response above to Question 8 and our responses to (a) and (b) above, all of which relate to our concerns about the approach in the draft being detrimental to audit quality of group audits, we also note a number of severe practical challenges that will arise in implementing the risk-based approach in the draft. Some of the practical challenges will arise from varying rotation regimes across different jurisdictions, which will invariably lead to situations in which the group engagement team will be from a different network than the component auditors.

Our general response to Question 8 notes the difficulty with which group engagement teams will seek to direct, supervise and review component auditors from different firms, or network firms, that are therefore not subject to the same quality management system applicable to the group engagement team. This applies particularly to issues related to objectives, risks, and policies and procedures related to incentives and disincentives. This issue is exacerbated when dealing with component auditors from other jurisdictions, where certain kinds of measures may not be permitted.

We also believe that seeking to apply the centralized, risk-based, top-down approach to group audits as set forth in the draft will prove to be impracticable when component auditors are not from the same firm or network as the group engagement team and therefore do not use the same quality management

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resources (audit methodologies, tools etc.) as component auditors. The level of granularity required for risk assessment in ISA 315 (Revised 2019) and ISA 540 (Revised) and the granular responses to risks required in ISA 540 will exacerbate the impracticality of the detailed risk-based approach in the draft. Furthermore, paragraph A83 in the draft refers to the group engagement team communicating its “preferred approach” to component auditors, which suggests that component auditors would be asked to implement parts of the audit methodology of the firm or network of the group engagement team, even though the component auditor may be from another firm or network.

The consequent level of granularity of the involvement of the group engagement team in the work of component auditors would lead to the need for communications between the group engagement team to increase by an order of magnitude, which would also likely prove to be impracticable in situations when component auditors from firms or networks other than the firm or network of the group engagement team use different methodologies and tools to communicate.

Overall, we believe that the IAASB needs to consider more closely the practical implications of implementing the draft in situations where the group engagement team and component auditors are from different firms or networks (and in particular, from different countries) with different quality management systems, different audit methodologies and different tools, because the proposals in the draft do not appear to be practicable in these situations.

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

We support the additional application material on the commonality of controls and centralized activities and believe that with one exception noted below this application material is clear and appropriate.

The third sentence in paragraph A63 refers to “all transactions”, which is not correct because only certain kinds of transaction might be processed at a shared service center. We suggest that the term “all transactions” in both places be replaced with “those transactions being processed by the shared service center”.

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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?

To the extent that group engagement teams assign to component auditors the performance of risk assessment procedures, the identification and assessment of risks of material misstatement, the design of further audit procedures, or the performance of further audit procedures, we support the focus in the draft on “component materiality” (which the draft refers to as “component performance materiality”), including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality. However, given the potential for confusion among members of the profession and audit regulators, we believe that the IAASB needs to change the term “component performance materiality” back to “component materiality” – recognizing that the current definition of component materiality in extant ISA 600 is equivalent to the proposed definition of component performance materiality.

More importantly, on the basis of the recommendation in our response to Question 8 to reintroduce the concept of full scope audits of the entire financial information of significant components and the concept of audits of classes of transactions, account balances and disclosures components for which there is a reasonable possibility of a significant risk, we believe that the reintroduction of the concept of and requirement for “component performance materiality” as originally defined in extant ISA 600 is also needed, since in these circumstances component auditors providing such “interoffice opinions” need to deal with the aggregation risk affecting those opinions.

We note that paragraph A74 refers to the engagement team considering “whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate”. Aside from our comment above that the reference being made here ought to be to “component materiality”, we note that both the component materiality for the component financial information as a whole and the lower component materiality for one or more classes of transactions, account balances or disclosures need to be communicated to the component auditor. Consequently, the phrase “lower than the amount communicated to the component auditor” ought to be changed to “lower than the amount for the component financial information as a whole”.

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

We support the enhanced requirements on documentation as proposed. We also support the enhanced application material as proposed, with the exception of the way the application material is linked to ISA 230, which we explain further in our response to (b) below, and the need for some adjustments in wording in paragraph A126 of the draft.

The third and fifth bullet points in paragraph A126 refer to the communication of matters and changes, respectively. In our view, only significant matters discussed in teleconferences or videoconferences with component auditors or component management (third bullet) and significant changes in the planned nature and extent of involvement with component auditors, and the reasons why (fifth bullet), need to be documented. For this reason, both the third and fifth bullets should begin with the word “significant”.

In particular:

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

There are no specific matters that we believe should be documented other than those described in paragraph 57 of the draft.

(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 noted above in our response to Question 11 before 11 (a), we do not agree with the way the application material in paragraph A130 is linked to ISA 230 because the reference will likely be interpreted in an inappropriate way by audit regulators.

The last sentence of A130 states that the group engagement team uses professional judgment in determining the nature and extent of such documentation (as explained in the previous sentence, a description of the audit procedures performed by the component auditors on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditors with respect to

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those matters) to include in the group engagement team's audit file, *in view of the requirements of ISA 230*.

The words "in view of the requirements of ISA 230" would effectively lead to regulators taking the position that, due to paragraphs 9 to 13 in the requirements in ISA 230, but in particular paragraph 9, almost the entire audit documentation of the component auditor needs to be reproduced in the engagement team's audit file, including, among other matters, the identifying characteristics of the specific items or matters tested, who performed the audit work and the date such work was complete, and who reviewed the audit work and the date and extent of such review. We suspect that audit regulators are seeking this detailed level of documentation in the group engagement team's file to alleviate their issues with access to documentation in other jurisdictions, which is a matter that they need to resolve with their regulatory counterparts and is therefore not an issue for the IAASB to resolve.

This level of documentation in the group engagement team's audit file is inconsistent with the assertion in the definition of component auditor that component auditors are a part of the engagement team, because by definition the documentation in the audit files of component auditors is therefore a part of the audit documentation of the group audit. Rather, the audit file of the group engagement team ought to reflect the work that the group engagement team actually performed in relation to the work of the component auditors – that is, it should reflect the direction and supervision, and the review of the work (including the review of documentation) undertaken by the group engagement team. To this effect, only a summary of the audit procedures performed by the component auditor significant to the group audit, the evidence obtained, as well as of the significant findings and conclusions reached by the component auditor may need to be included in the group engagement team's audit file. We suggest that therefore the final sentence of paragraph A130 of the draft read "The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file by considering the importance of the matters documented by the component auditors to the group audit."

Furthermore, we also believe that the reference in the second sentence in paragraph A130 of the draft to include "a description of the audit procedures performed by the component auditors on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditors with respect to those matters" may also lead to the misinterpretation by audit regulators that detailed

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descriptions of these matters are required in the group engagement team's documentation. In consonance with our views in the previous paragraph above, we suggest changing the wording to read "... include a summary of the audit procedures performed by the component auditor on matters significant to the group audit and of the evidence obtained from performing the procedures, as well as the significant findings and conclusions reached by the component auditor with respect to those matters".

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

As an international standard setter, the IAASB needs to consider the economic and market impact of its proposals and whether these impacts may lead to undesirable consequences or consequences that are inconsistent with the political policies of the jurisdictions affected.

When extant ISA 600 was being developed, it went through three exposure drafts because it was so difficult to find solutions that did not have undesirable consequences and consequences that are inconsistent with the policies of the jurisdictions affected. In particular, a prime aim of extant ISA 600 was to ensure that group engagement teams are not unduly hindered in using the work of component auditors from other firms and networks as long as the work performed by component auditors is in accordance with the ISAs. This aim was consistent with the policies of the European Commission, national governments in the EU and national regulators – policies which were established to help ensure that competition for the work of component auditors between firms within a national market are not based on membership in a network alone.

Furthermore, these policies were designed to help ensure that small and medium-sized practices (SMPs) are not unduly disadvantaged in the market for the work of component auditors, which is often inextricably linked to the competition for work on audits of component financial statements, often performed for statutory, but also performed for other, reasons. The objective of those policies was, and continues to be, to help prevent further concentration in the audit market.

We believe that the proposals in the draft will not only be detrimental to audit quality for group audits but will also have a negative impact on the audit market. In particular, the top-down, detailed, risk-based approach to be applied by the group engagement team in the context of the granular risk assessment required by ISA 315 (Revised 2019) and ISA 540 (Revised), and the detailed responses

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required in ISA 540 (Revised), will lead to group engagement teams seeking to perform the audit work themselves rather than to use the work of component auditors (see our general response to Question 8). When group engagement teams do use component auditors, the need for granular direction, supervision and review and the resultant detailed communication will lead group engagement teams to chose component auditors from the same firm or network because those component auditors are subject to the same or similar quality management, and use the same or similar audit methodologies and tools. This would inevitably lead to greater concentration not only in the work for component auditors, but also lead to greater concentration for other work at those components, such as for the audit of the financial statements of components for statutory or other reasons. These effects will be exacerbated through the replacement of required full-scope audits of component financial information for components that are significant because of their financial size with a purely risk-based approach.

Furthermore, the noted “race to the bottom” in specified procedures at component level as described in our general response to Question 8 above will cause less full-scope audits to be performed by component auditors at components. This will in turn likely cause the synergies between full-scope audits of the financial information of components for purposes of group audits and the audits of financial statements for statutory or other reasons to decline considerably, which means that there will be a shift in costs from group engagement teams to component auditors performing audits for statutory or other reasons. While such a cost-shift might be justified if audit quality were to be improved for group audits through the approach in the draft, given our comments that the approach taken in the draft will often lead to a decrease in quality, we believe such cost-shifts are not justified.

For these reasons, the proposals in the draft are not in consonance with policies in the EU and national governments and regulators that seek to prevent further concentration in the audit market and may be viewed as anti-competitive.

Request for General Comments

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,**

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the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.

We have not identified any issues with respect to translations. However, generally such issues are identified upon translation – not prior to translation.

- (b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.**

As this standard would have a major impact on the group audits of the largest corporate groups in the world, as well as a major impact on other group audits, we believe that a two-year effective date after issuance would be preferable to 18 months.

Appendix 2: Additional Comments by Paragraph

Although we believe that the draft needs to be substantially re-written, we have provided these comments on particular paragraphs in the draft beyond our comments in the letter and in our responses to the questions posed in the Explanatory Memorandum so that the matters addressed here are addressed any rewrite.

8. Since the standard deals with the responsibility of the group engagement team (and in some cases, the group engagement partner as a member of the group engagement team), at variance with the other ISAs, we believe that the objective should be written as the “objectives of the group engagement team”. This leads to 8(b) needing to be changed to read that the group engagement team “Take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, and take responsibility for the planning and performance of further audit procedures to appropriately respond to those risks”.
22. The wording in this paragraph “does not meet the independence requirements” is not in line with that in paragraph 20 (b), which refers to whether the component auditor “are independent”, which is not the same as complying with every independence requirement. We therefore suggest that the words in paragraph 22 be changed to “is not independent in accordance with ethical requirements”.
23. In (b) the words “audit of the” should be inserted prior to “group financial statements”, since it is the exercise of auditor judgment that is relevant here.
24. In (b), because the applicable financial reporting framework does not include the accounting policies of the group, we suggest that the word “including” be replaced with “and”.
28. In (b), the word “about” needs to be inserted in between “auditors” and “events” because one communicates with someone about something, not communicate with someone something.
34. Since the group engagement team will often not be in a position to design and perform further audit procedures on sub-consolidations itself,

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- the words “taking responsibility for” should be inserted prior to “designing”.
42. The wording in the first sentence appears to disconnect the audit performed from the auditor’s report issued: both the audit – and not just the issuance of the auditor’s report – is for statutory, regulatory or other reasons. We therefore suggest that the words “has been” prior to “issued” be deleted.
44. In the first sentence, reference is made to the group engagement team’s “conclusion” with regard to the group audit. It is unclear to us what conclusion is being referred to – if the audit opinion is meant, then that is what should be referred to.
46. In line with the usage in paragraph 44, we suggest that the word “insufficient” be replaced with “inadequate”.
- A12. In the latter part of the sentence, the words “that are” should be replaced with “whose financial information is”.
- A24. Since language issues are not simply matters related to translation, we suggest that the word “translation” be replaced with “language”.
- A29. In the second last bullet point, the word “restricts” should be “restrict”, since outbreaks restrict.
- A37. In our view, the application material in ISA 700 paragraph A39 ought to be included here – and failing that, at least a reference thereto, since the impression ought to be avoided that the ethical requirements relevant to the group engagement team are the same as those that are relevant to the component auditors.
- A42. In the second sub-bullet of the fourth bullet, the word “the” prior to “engagement” should be deleted.
- A43. In the fourth bullet, the word “competency” should be changed to “competence”.
- A47. In line with our comments on paragraph 22 the words “does not meet the independence requirements” should be changed to “is not independent in accordance with ethical requirements”.

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- A51. In the first sentence, “by” should be inserted in between “tailored” and “taking”. Furthermore, in the first bullet, the word “more” should be inserted prior to the word “detailed”, since a detailed review in an absolute sense is not required.
- A52. In line with our comment on paragraph 28, the word “about” should be inserted prior to “identified”, since the communication of risks etc. can be two-way.
- A67. In the second sentence, it is unclear to us why both uniformity and comparability of financial information are addressed – only one or the other can be relevant at the same time.
- A78. The first sentence suggests that the group engagement team identifies and assesses the risks of material misstatement, which is not in line with the requirement in paragraph 31, rather than taking responsibility for them, which would be fine. The second sentence suggests that the group engagement team will develop initial expectations about the potential risks of material misstatement etc. but refers to ISA 315 (Revised), paragraph 22, which does not require this.
- A79. The first sentence appears to be written like a requirement.
- A85. We suggest that the order of paragraphs A86 and A87 be reversed, since the latter is the usual case.
- A89. There appears to be a disconnect in the logic in this paragraph: just because a class of transactions, account balance or disclosure in the group financial statements is significant does not mean that it contains a risk of material misstatement that has been assessed as needing to be responded to (the risk could be acceptably low). We suggest that the wording of this paragraph be amended accordingly.
- A93. Another possible revision of the audit plan is to increase the number of items tested in the test of operating effectiveness of control, because if the initial sample of items was small, a rogue sample may have caused the auditor to conclude the control is not effective when in fact it is.
- A99. The first bullet point is not really understandable on its own – it actually relates to risks of material misstatement in the group financial statements resulting from the inappropriate use of the going concern basis of

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accounting at component level. We suggest that the bullet be reworded as follows: "... that may cause the inappropriate use of the going concern basis of accounting at a component and thereby affect the response to risks of material misstatement relating to the valuation of the assets and liabilities of such a component included in the group financial statements; or..."

A102. The latter part of the sentence appears to presume that all financial reporting frameworks require that the consolidated component financial information use the same accounting policies as those for the group financial statements. While many financial reporting frameworks do require this, not all do. We suggest that another example be used.

Appendix 1

5. In both this paragraph and paragraph 6, there appears to be a presumption that whether or not the group engagement team involves the component auditor is entirely within the discretion of the group engagement team. This does not take into account the fact that often laws and regulations may bar members of the group engagement team from entering certain jurisdictions (like the U.S.) to do audit work and that in other circumstances the group engagement team may not obtain direct access to component information. We suggest that both paragraphs be rewritten to take this into account.
6. A new bullet point needs to be inserted after the first bullet to clarify that component auditors may also identify and assess the risks of material misstatement (the first bullet point only deals with the risk assessment procedures needed to be able to do that).

Appendix 3

The first sentence of this appendix states that the appendix "provides examples of controls that may be helpful". However, the matters discussed under the control environment, the risk assessment process, etc. are not "controls", but represent policies or procedures for those components. We suggest that the

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wording be changed to read “provides examples of matters related to internal control that may be helpful”.

5. In the third bullet, in line with IAASB usage as defined in the Glossary of Terms and the clarity conventions, the word “assessing” should be changed to “evaluating”.
6. The first bullet point in this paragraph, as well as fourth, fifth and sixth last bullet points do not relate to internal control – they relate to other matters over which controls may be established. We suggest that these be rephrased to relate to internal control over these matters.