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Thomas Seidenstein  
International Auditing and Assurance  
Standards Board  
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529 Fifth Avenue  
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Our ref SRA/288

2 October 2020

Dear Mr Seidenstein

**Re: IAASB**

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB. We have consulted with, and this letter represents the views of, the KPMG network.

We recognise the significant work effort of the IAASB with respect to this project to date and we are supportive of the Board's overall aim to ensure that the standard remains fit for purpose. We support, in particular, the enhancements made by the introduction of the new "risk-based approach", which we consider will help drive greater focus by the group engagement team on their responsibility to identify and assess the risks of material misstatement of the group financial statements and to design and perform further audit procedures to respond to those risks, in order to obtain sufficient appropriate audit evidence in respect of the group audit as a whole. This is a fundamental responsibility of the group auditor and therefore we welcome the increased emphasis placed on this within the revised standard.

We also consider the changes proposed regarding the definition of a group and component to be helpful, as these clarify the applicability of the standard to reflect the wide range of group structures that exist, as well as the introduction of material to drive the application of professional scepticism throughout the group audit. We also welcome the enhancements to reinforce the need for clear and regular communication between group and component auditors.

However, we believe it is important that the proposed standard provide additional clarifications/ implementation considerations, in order to fully achieve its overarching objectives. These relate to certain aspects of the application of the risk-based approach, in particular, on larger and more complex group audit engagements, in respect of which we believe it likely that more extensive involvement of component auditors would be

necessary, recognising their important contribution to enable the group auditor to obtain sufficient appropriate audit evidence in respect of the group as a whole. In particular, we are concerned that the proposed standard appears to de-emphasise the role that an audit of component financial information may have in assisting the group engagement team with meeting their responsibilities, as an audit provides a robust framework setting out a component auditor's responsibilities with respect to the work to be performed over the financial information of a component at the direction of the group engagement team. The proposed standard, as drafted, may not give sufficient prominence to the important role and responsibilities of the component auditor and therefore we make certain recommendations regarding clarification of the proposed standard.

### **De-Emphasis of an Audit of Component Financial Information**

We recognise that the proposed standard continues to contemplate the involvement of component auditors both by emphasising that they are part of the group engagement team and by including commentary in the application material regarding their "more in-depth knowledge of the component" (A96), and "their direct knowledge and experience with the entities or business units" (A79).

However, we are concerned that an audit of the component financial information as an appropriate response appears to be somewhat de-emphasised in the revised standard. (Please refer to our response to Question 8 for further details).

We understand the Board's observations, as described in paragraph 48 of the Explanatory Memorandum (EM), that the extant standard may result in the group engagement team "defaulting" to an audit of the component financial information and concerns regarding possible "over-reliance" by the group engagement team on such an audit. Accordingly, we recognise the Board's intention, in the revised standard, to drive the group engagement team to focus on whether and how the assessed risks of material misstatement of the group financial statements are properly identified and addressed and to avoid "blind reliance" on the work of the component auditor.

However, we believe that an audit, performed by a component auditor, is often an appropriate solution from an audit quality perspective. This is because the component auditor performs an audit, which is a clearly defined and understood engagement type and which is required to be performed in compliance with all other ISAs, as relevant. It provides a robust framework for a component auditor's responsibilities with respect to the work to be performed at the direction of the group engagement team, including communication with the group engagement team. These features do not diminish the responsibilities of the group engagement team. Instead, they help to ensure that the component auditor is clear as to their remit and takes appropriate responsibility for their involvement, which may be critical in view of the underlying reasons for their involvement.

As a result, we suggest that the application material expand on the current content, regarding the component auditor's knowledge and experience, to clearly explain the

reasons as to why it may be optimal, from an audit quality perspective, to perform an audit over component financial information in certain scenarios.

### **When to Involve a Component Auditor**

In connection with the above, we recommend that the standard provide further clarity as to when it would be appropriate/ optimal to involve a component auditor, including greater acknowledgement that using the work of a component auditor may result in a more effective approach both to identifying and assessing risks and obtaining sufficient appropriate audit evidence, building on the material already included. This would be an enhancement over the extant standard, which is focused only on *whether* a group auditor may use the work of a component auditor.

To reinforce the importance of this, we suggest the establishment of a requirement for the group engagement team to update their preliminary considerations regarding the involvement of a component auditor, e.g. at paragraph 21, as part of considering whether the group engagement team overall (including component auditors) has the appropriate competence and capabilities to perform the group audit.

### **How to Involve a Component Auditor**

Whilst we recognise the IAASB's rationale for removing the binary classification of components as significant or non-significant and the resultant prescriptive responses, we recommend that the application material describe the different ways to involve a component auditor in terms of the nature, timing and extent of their involvement in performing procedures and, furthermore, that the standard provide a framework, including factors that the group engagement team would consider in making the determination as to how to involve a component auditor.

In order to formalise such considerations and give appropriate prominence to their importance, we also suggest the establishment of a requirement for the group engagement team to determine how to involve a component auditor, linked to this guidance. Furthermore, we suggest that the Board consider whether to extend this to explicitly include consideration as to whether it would be appropriate to request a component auditor to perform an audit of the component financial information, or a part thereof, as we describe above.

### **Role and Responsibilities of the Component Auditor**

We support the changes in ED-600 and to proposed ISA 220 (Revised) which clarify and emphasise/ enhance the role and responsibilities of the (group) engagement partner. We note that paragraph 21(a) of the ED now places significant emphasis on the group engagement partner's responsibility for determining that component auditors have the appropriate competence and capabilities, including time, to perform the assigned audit procedures, and, at paragraph 20, for ensuring that component auditors are aware of,

understand and will comply with ethical requirements that are relevant to the group audit engagement, including independence. We recommend that the IAASB provide guidance as to how the group engagement partner may make the above determinations or consider allowing assignment of aspects of the above requirements to other group engagement team members (including the component engagement partner, if applicable), whilst the group engagement partner retains overall responsibility, to arrive at a more appropriate balance of responsibilities in this area.

Paragraph 19 requires the group engagement team to request the component auditor to confirm that they will “cooperate” with the group engagement team, which we do not consider to be a robust or sufficiently clear requirement when now considered in light of the significant shift in responsibility towards the group engagement partner. We suggest that the material at A35 be elevated and included in the requirement at paragraph 19, and extended to request that component auditors formally acknowledge certain key aspects of their responsibilities. (Please refer to Question 1b) for further information). We do not believe that such enhancements would in any way detract from the responsibilities of the group engagement team and group engagement partner, but rather would help to clarify and strengthen the important role of the component auditor in the group audit as a whole, and therefore support audit quality.

Please see our responses to the specific questions posed by the IAASB for a more detailed discussion of our concerns and suggested changes.

Please contact Sheri Anderson if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

## **Appendix - Specific Questions Posed by IAASB**

### **1. With respect to the linkages to other standards:**

#### **(a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?**

We consider that ED-600 generally has appropriate linkages to the other ISAs, including the proposed ISQMs and ISA 220 (Revised).

We acknowledge the changes made to align the overall audit approach, and individual requirements in respect of risk identification and assessment more specifically, with those of ISA 315 (Revised). However, we recommend that additional clarification be made regarding the importance of having the group auditor take a “bottom-up” approach to risk identification and assessment, as well as a “top-down” approach. By a bottom-up approach we mean that the standard should strengthen proposed A79 by emphasising:

- The need for the group auditor to ensure that the component auditors’ knowledge and experience is properly brought to bear in identifying and assessing risks; and
- The need for the group auditor to evaluate whether and to what extent risks identified by these component auditors at their components may have broader applicability to the group financial statements as a whole.

This may be necessary for certain group audit engagements, in particular, for large and complex groups, to ensure that the component auditors’ knowledge and experience is properly brought to bear in identifying and assessing risks and in responding appropriately to these, especially given the “in the aggregate” concept of risks of material misstatement. Please refer to our response to Question 8. We suggest, in our response to that question, that the IAASB consider clarifying the important role of the component auditor in this regard, which paragraphs 54 and 61 of the EM describe clearly, and which we do not believe to be incompatible with ISA 315 (Revised), noting that ED-600 would focus instead on the special considerations relating to risk identification and assessment in a group audit and the evaluation by the group engagement team as to whether, based on the work performed by the group engagement team and the component auditor, sufficient appropriate audit

evidence has been obtained to identify and assess the risks of material misstatement to the group financial statements.

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

We believe that, in many areas, ED-600 sufficiently addresses the special considerations in a group audit with respect to the application of requirements and guidance in other relevant ISAs.

We suggest that ED-600 be more clearly aligned to ISA 315 by following a similar structure and layout, including use of subheadings, to facilitate more specific direction as to how to apply the requirements of ISA 315 (Revised) in the specific context of a group audit.

In connection with this, we note that the revised standard would benefit from further clarity regarding the special considerations for the group engagement team regarding the understanding of IT at the components in a group audit. The requirements, as drafted, appear rather high-level, e.g. paragraph 24(a)(i)c refers to “the extent to which the group’s business model integrates the understanding of IT”, and lack related guidance as to the purpose of this, which appears to result in a disconnect with ISA 315 (Revised) in terms of its application on a group audit. The requirements, as drafted, also seem to be much less detailed than the other requirements that complement ISA 315 (Revised), which may therefore give rise to inconsistent implementation in practice.

We also recommend that it would be helpful for the ED to include similar “bridges” in respect of the special considerations in a group audit, including the involvement of component auditors, when applying the requirements of other standards, in particular, ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*; ISA 250 (Revised), *Consideration of Laws and Regulations In An Audit of Financial Statements*, and ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*, as these are critical areas of an audit. Additionally, as a result of the shift in responsibility at a more granular level to the group engagement team in the revised standard, it would be helpful to emphasise the important

role of component auditors in these areas, since many of the detailed requirements in these ISAs likely would need to be performed at a component level.

***ISA 220 (Revised)***

We recognise that the changes in ED-600 and to proposed ISA 220 (Revised) together aim to clarify and emphasise/ enhance the role and responsibilities of the (group) engagement partner, in particular, in respect of their responsibility to pro-actively manage and achieve audit quality at the engagement level (complementing ISQM 1 and ISQM 2).

We note that paragraph 21(a) now places significant emphasis on the group engagement partner's responsibility for determining that component auditors have the appropriate competence and capabilities, including time, to perform the assigned audit procedures, and, at paragraph 20, for ensuring that component auditors are aware of, understand and will comply with ethical requirements that are relevant to the group audit engagement, including independence requirements. The application material refers to factors to consider in making these determinations and recognises the ability to depend on common network policies and procedures in accordance with ISQM1.

We note that later requirements regarding performance of procedures may be assigned by the group engagement partner to other members of the group engagement team, as long as the group engagement partner retains ultimate responsibility (A49). However, such flexibility does not seem to be permitted in respect of the above requirements. We therefore recommend that the IAASB consider allowing assignment of aspects of the above requirements to other group engagement team members (including the component engagement partner, if applicable) on the same basis, whilst the group engagement partner retains overall responsibility, to arrive at a more appropriate balance of responsibilities in this area.

In connection with this, we suggest that the IAASB provide guidance as to how the group engagement partner may make such determinations. For example, they may request a component auditor to perform an initial evaluation of the capabilities and competencies, including time, of the component engagement team members (including specialists/ experts that are involved in work performed at the component) which could also include

confirmation that he/she believes the level of competence and capabilities of the component engagement team is appropriate.

We also highlight that paragraph 19 continues to require the group engagement team to request the component auditor to confirm that they will “cooperate” with the group engagement team. We do not consider this to be a robust or sufficiently clear requirement when now considered in light of the significant shift in responsibility towards the group engagement partner. We are concerned that a requirement of “cooperation” in the revised standard may detract from actual or perceived responsibility on the part of the component auditor, which the ED and the EM, nevertheless, acknowledge is an important role. (Please refer to our response to Question 8 for further information).

We suggest, therefore, that the application material at paragraph A35, which indicates that the group engagement team may consider requesting more explicit confirmation from the component auditor that the component auditor will “conduct its work as directed by the group engagement team”, be elevated and included as part of the a requirement at paragraph 19. We also recommend that it be extended to request that component auditors formally acknowledge that they understand the importance of their role as part of the group engagement team; that they will comply with the requirements of the other ISAs, as relevant; that they understand the use that the group engagement team intends to make of their work, and that they understand their responsibility to communicate matters relevant to the group engagement team’s conclusion, set out in paragraph 44. (Please refer to our response to Question 8).

Such communication could also address the component auditor applying their professional judgement in considering whether the risks identified by the group engagement team and any further audit procedures they are requested to perform to respond to those risks are appropriate and complete, to the best of their knowledge, knowing the use that the group engagement team intends to make of their work. We do not believe that such enhancements would in any way detract from the responsibilities of the group engagement team and group engagement partner, but rather would help to clarify and strengthen the important role of the component auditor in the group audit as a whole, and therefore support audit quality.



In respect of the group engagement partner taking responsibility for the work of component auditors, paragraph A50 notes that when component auditors are from another network, firm's policies and procedures may differ, including regarding actions to take in relation to the nature, timing and extent of direction and supervision of team members. Proposed ISA 220 (Revised) provides examples to clarify/ provide guidance as to the actions that a group engagement partner may take, however, we recommend that additional material, specific to a group audit, be included in proposed ISA 600 (Revised) to focus on the special considerations to be made in a group audit scenario.

### ***Communication with Those Charged With Governance***

Paragraph 56 sets out matters that a group engagement team is required to communicate to those charged with governance of the group, in addition to those required by ISA 260 (Revised), *Communication with Those Charged With Governance*. We question whether the matter set out at point b) would be relevant to those charged with governance of the group, as we consider that concerns regarding the work of a component auditor would be a matter that a group engagement team would address, for example, by performing the work themselves, or by being more closely involved, if they had concerns about the quality of that work. The requirement itself notes that these matters are already "addressed" and therefore we assume do not impact the group audit opinion itself. We suggest, therefore, that the IAASB clarify the intended purpose of such communication or consider deletion of this point.

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

We recognise the IAASB's intention to facilitate scalability of the standard by placing sub-sections addressing involvement of component auditors throughout the standard, to highlight the requirements applicable to each "stage" of the group audit, for ease of use, recognising that different group engagement teams will involve component auditors on different aspects of the audit, as well as the fact that, in certain cases, component auditors will not be involved at all. We also understand that this approach mirrors the iterative nature of their intended involvement, to drive a more focused approach and to avoid defaulting to an audit of component financial information.

This structure/ layout, together with the new “risk-based approach”, and the fact that the group engagement team may involve the component auditor as they consider most appropriate, rather than following the traditional, required “scoping” decisions, which led to defined response routes, may be viewed as more flexible, and more efficient/ scalable.

However, we have concerns regarding the scalability of the revised standard for larger/ more complex groups, as we describe in our response to Question 5. In connection with this, we highlight that the proposed layout, with the responsibilities of component auditors interspersed throughout the standard, may exacerbate these concerns, as it may further detract from the role and responsibilities of a component auditor.

We recommend, therefore, that the requirements for component auditors be set out together in a specific section that is clearly marked in relation to component auditors, to give more prominence to this important role. We also recommend that these requirements be further strengthened/ clarified appropriately. (Please see our response to Question 1b).

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

We believe that the Board has struck an appropriate balance in terms of appropriately emphasising professional scepticism within the proposed standard, highlighting the particular aspects of group audits for which exercise of professional scepticism is most relevant, whilst not establishing overly prescriptive requirements, recognising that professional scepticism is fundamentally a behaviour/ mindset.

We believe the introductory material at paragraph 5, together with the related application material, is helpful to set the scene regarding the exercise of professional scepticism and give greater emphasis to the importance of exercising professional scepticism throughout the group audit.

We also welcome the inclusion of the “stand back” requirement at paragraph 49, linked to ISA 330.26, to evaluate whether sufficient appropriate audit evidence has been obtained, including with respect to the work performed by component auditors, and, in connection with this, the requirement at paragraph 45(c), to

evaluate whether the communications with the component auditors are adequate for the group engagement team's purposes.

We consider the related application material at A9 to be helpful, in particular, the commentary which discusses evaluation of contradictory evidence as well as the material to raise awareness of the impacts of cultural differences of component auditors and the biases to which they may be subject. We recommend that the "standback" at paragraph 49 also be cross-referenced to this application material, as such matters may most appropriately be considered, and, in fact, may only become apparent, when procedures have been performed and audit evidence has been obtained across all the components.

We also recommend that the stand back requirement at paragraph 49 be linked specifically to the evaluation requirements in ISA 240 and ISA 540 also. Please refer to our response to Question 1b).

- 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 welcome the amended definitions of "group", "component", and also the introduction of the definition of "group financial statements" to provide additional clarity as to when the standard applies. We are supportive of the proposal that this continue to hinge on whether there is a "consolidation process" to prepare the financial information, but with this core concept broadened to refer to different forms of "aggregation" and which also recognises more clearly the requirements of the applicable financial reporting framework in this area.

We believe the revisions provide greater clarity regarding the entry point to the standard and avoid the current "chicken and egg" confusion whereby a group is defined in relation to whether there are components and components in relation to whether they form part of a group.

Please refer also to our response to Question 6 regarding the revised definition of a component and the "auditor view" of this.

We note that the extant standard, at paragraph 2, permits its application by analogy to a situation that is not, technically, a group audit but where there are similarities and it is helpful to do so in the context of using the work of another auditor, which is not addressed in other ISAs. We highlight that this is not retained in the revised standard, although the broader definition of a group may now encompass many of these situations. We suggest, therefore, that the Board consider whether it may be helpful to reintroduce this paragraph, or to include additional material in proposed ISA 220 (Revised) regarding using the work of another auditor, to address such circumstances.

- 5. Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognising 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 acknowledge the Board's intentions to facilitate scalability of the standard for smaller/ less complex groups. However, we are concerned that certain of the changes introduced, as drafted, may detract from the importance of the role and responsibilities of the component auditor, including the apparent de-emphasis on performance of an audit over component financial information. Please refer to our responses to Question 1b) and Question 8 for further details, including our recommendations for additional enhancements/ clarification to address these concerns. These include additional emphasis of the importance of the role and responsibilities of the component auditor and the performance, by the component auditor, of an audit over component financial information.

- 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 proposed revision to the definition of "component" will allow a more tailored approach to be taken by group engagement teams when planning their audits, in particular, that this permits group engagement teams to decide whether a "location, function or activity" represents a component. We believe this broader definition will permit the designation of shared services centres and other functions as components, which will enable group engagement teams to develop audit procedures that respond more specifically to the underlying activities of these components.

However, we note that there may be a lack of clarity as to when it would be appropriate to apply an auditor view that differs from management's. The ED itself highlights that in these circumstances there may not be a management/governance function at the "component" and therefore certain aspects of the standard may be difficult to apply. We suggest that the Board further explore this situation and provide guidance as to how to apply such requirements in this scenario, and whether a group engagement team should consider whether there is identifiable "component" management as one of the factors in designating entities and business units as components.

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

We consider the material regarding restrictions on access to people and information that are beyond the control of group management, e.g. in respect of a non-controlling interest in an entity accounted for by the equity method, or restrictions in transferring audit documentation across borders, to be helpful in describing the different types of restrictions and ways they may be overcome as well as considerations/ actions that may be taken if they cannot be. This area causes practical difficulties for a number of audit engagements and therefore the inclusion of this material is helpful and will also drive group engagement teams to better consider this upfront at the audit acceptance/ continuance stage and in early planning.

- 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?**

We support the development of the risk-based approach, in particular, to drive greater focus by the group engagement team on their responsibility to identify

and assess the risks of material misstatement of the group financial statements and to design and perform further audit procedures that are responsive to those risks, in order to obtain sufficient appropriate audit evidence in respect of the group as a whole.

However, we note that this revised approach may be considered by some to require a “top-down” and more “horizontal” view of the group audit overall, with very granular upfront involvement by the group engagement partner without necessary involvement of component auditors, which may be challenging in certain circumstances. The ED itself recognises this, at paragraph A78, where it states that the group engagement team’s process *“may be challenging, particularly where the component’s business activities are complex or specialised, or when there are many components across multiple locations”*. The contrasts with the current approach of initial “high-level” risk assessment by the group engagement team, with classification of components as significant or non-significant (by size or by risk area), with that classification being the mechanism to drive an appropriate and defined risk-based response.

We understand that changes in this area aim to align the requirements of the standard more closely with those of ISA 315 (Revised) and we are supportive of this intention. However, we do not consider it to be incompatible with ISA 315 to recognise more clearly the importance of the role of component auditors in identifying and assessing risks of material misstatement at the component level and therefore that there may often be a need to involve them, from an audit quality perspective. Such a “bottom up” and “vertical” approach is also critical in identifying and assessing risks, and in determining which components should be in or out of scope in respect of further audit procedures, especially given the “in the aggregate” concept of risks of material misstatement. It is therefore vital that component auditors have a more clearly defined role and responsibilities in this area, given the importance of their contribution to the group audit.

Please refer to our responses to Question 1a) and 1b), 2, and 8b) below, which include recommendations in this regard. These focus on clarifying and strengthening requirements and guidance in respect of the role of the component auditor, which we do not consider would detract in any way from the role and responsibilities of the group engagement team, but rather would better support them in fulfilling these responsibilities.

**(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?**

As we note above, we are supportive of the introduction of the new “risk-based approach” in the ED, which we consider will help drive greater focus by the group engagement team on their responsibility to identify and assess the risks of material misstatement of the group financial statements and to design and perform further audit procedures to respond to those risks, in order to obtain sufficient appropriate audit evidence in respect of the group as a whole.

However, in terms of the interactions between the group engagement team and component auditors, we are concerned that the standard does not make direct reference to the responsibilities of the component auditors and that it does not address the special considerations associated with being part of the “group engagement team”.

It is very important that component auditors, as part of the group engagement team, have a clear understanding of the important role they play in a group audit and the responsibilities they have as a result of being members of the group engagement team. We are concerned that component auditors from a network that is different from the group engagement team’s network, in particular, may not necessarily understand the implications, especially given the de-emphasis of an audit of component financial information in the ED.

To avoid differing interpretations in practice, we believe it is important for the standard to include requirements that address the special considerations for component auditors who are part of the group engagement team. Please refer also to our response to Question 1b) and 2) for our recommendations to address this concern.

***De-Emphasis of an Audit of Component Financial Information as a Response***

We recognise that the ED continues to contemplate the involvement of component auditors both by emphasising that they are part of the engagement team and by including commentary in the application material

regarding their “more in-depth knowledge of the component” (A96), and “their direct knowledge and experience with the entities or business units” (A79).

However, when considering the requirements and related application material as a whole, there is relatively little direction as to the audit procedures that group engagement teams, or component auditors on their behalf, would perform as the most appropriate response to the risks identified. We are concerned, in particular, that an audit of component financial information as an appropriate response to assist the group team in meeting their responsibilities appears to be somewhat de-emphasised in the revised standard, addressed only later in the application material, or in respect of using an audit already performed over a component for statutory or other purposes, within the standard itself.

Firstly, as drafted, some may interpret that the standard no longer appears to clearly contemplate an “end to end audit” (described as such) of component financial information, which recognises the iterative and interconnected nature of risk identification procedures and audit procedures that respond to those risks, throughout the entire audit, by the component auditor. Instead, the standard describes their involvement as a response to risk assessment in the form of audit procedures assigned by the group engagement team (on the entire financial information of the component). Such procedures may appear to be somewhat disconnected from the risk assessment procedures, at the component level itself, such that responses may be understood by some to be more similar to “specified audit procedures”.

Furthermore, even when the proposed standard seems to refer to an “audit”, it appears in places to avoid the use of this term, instead referring to it being more effective to obtain evidence over “the entire financial information of the component”, but without further elaboration, or, at paragraph 42, in respect of using an audit already performed over a component for statutory or other purposes, within the standard itself.

We acknowledge the Board’s observations, as described in paragraph 48 of the Explanatory Memorandum (EM), that the extant standard may result in the group engagement team “defaulting” to an audit of the component financial information and concerns regarding possible “over-reliance” by the group engagement team on such an audit. Accordingly, we recognise the Board’s intention, in the revised standard, to drive the group engagement



team to focus on whether and how the assessed risks of material misstatement of the group financial statements are properly identified and addressed and to avoid “blind reliance” on the work of the component auditor.

However, we have concerns regarding the resulting de-emphasis of an audit of component financial information as we believe that an audit is often an optimal solution from an audit quality perspective. This is because the component auditor performs an audit, which is a clearly defined and understood engagement type and which is required to be performed in compliance with all other ISAs, as relevant. It provides a robust framework for a component auditor’s responsibilities with respect to the work to be performed on a component at the direction of the group engagement team, including communication with the group engagement team. These features do not diminish the responsibilities of the group engagement team. Instead, they help to ensure that the component auditor is clear as to their remit and takes appropriate responsibility for their involvement, which is critical in view of the underlying reasons for their involvement. This rationale is recognised in the ED itself, and includes the component auditor’s greater understanding of the local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/ practices, which may be especially important when the component is in a jurisdiction that is considered to be “higher risk”, because, for example, it involves a rapidly changing regulatory and business environment, and is subject to heightened fraud risks.

As a result, we suggest that the application material expand on the current content, regarding the component auditor’s knowledge and experience, to clearly explain the reasons as to why it may be appropriate, from an audit quality perspective, to perform an audit over component financial information in certain scenarios and why, in such circumstances, it may pose a risk to audit quality when a component auditor is not appropriately involved.

#### ***When to involve a component auditor***

The revised standard permits the group engagement team to involve a component auditor during the audit, including in risk assessment procedures. (For example, A71 sets out factors that may influence the group engagement team’s decision as to whether to involve component auditors, including number, location and complexity of components. Furthermore, the

application material also acknowledges the benefits of using a component auditor, e.g. A96 states that “component auditors may have a more in-depth knowledge of the components”).)

However, we consider that the revised standard could place greater emphasis on the *benefits* of involving a component auditor, from an audit quality perspective.

Accordingly, we recommend that the standard provide further clarity as to *when* it would be appropriate/optimal to involve a component auditor, including greater acknowledgement that using the work of a component auditor may result in a more effective approach to identifying and assessing risks and to obtaining sufficient appropriate audit evidence. We suggest that the standard could go further in terms of discussing the importance of the component auditor role, from an audit quality perspective, building on the material already included, e.g. at paragraphs A79 and A96, which goes some way towards describing their contribution. This would be an enhancement over the extant standard, which is focused only on *whether* a group engagement team may use the work of a component auditor.

To reinforce the importance of the component auditor role, we suggest the establishment of a requirement for the group engagement team to determine whether to involve a component auditor at paragraph 21, building on any preliminary determinations at paragraph 13), as part of considering whether the group engagement team overall (including component auditors) has the appropriate competence and capabilities to perform the group audit. We recommend that related application material also be further enhanced, setting out relevant considerations in making this determination, including matters specific to the component jurisdiction, such as understanding the local language, prevailing business culture, risks, laws and regulations, ethical standards, corporate governance standards, and established business customs/ practices. This may be particularly pertinent in jurisdictions that are considered to be “higher risk”.

### ***How to involve a component auditor***

As we note above, there is relatively little direction as to the procedures that group engagement teams, or component auditors on their behalf, would perform as the most appropriate response to the risks identified.

This is in significant contrast to the extant standard, which prescribes clearly defined responses (an audit, an audit of an account balance, class of transactions, or disclosure, specified audit procedures and/or review of the component financial information) according to a component's classification as significant by size, significant due to risk, or non-significant.

Whilst we recognise the IAASB's rationale for removing the binary classification of components as significant or non-significant and the resultant prescriptive responses, we recommend that the standard describe within the application material the different ways to involve a component auditor in terms of the nature, timing and extent of their involvement in performing procedures and, furthermore, that the standard provide a framework, including factors that the group engagement team would consider in making the determination as to how to involve a component auditor.

In order to formalise such considerations and give appropriate prominence to their importance, we also suggest the establishment of a requirement for the group engagement team to determine *how* to involve a component auditor, linked to this guidance. Furthermore, we suggest that the Board consider whether to extend such a requirement to explicitly include consideration as to whether it would be appropriate to request a component auditor to perform an audit of the component financial information, or a part thereof, as we describe above.

### ***Iterative Nature of Involvement of Component Auditors***

The application material, in describing the work that may be performed over component financial information, including by a component auditor when requested to do so by the group engagement team, appears, in places, to "divide" this into risk assessment procedures, including developing an initial expectation, and performing further audit procedures, assigned by the group engagement team, in response to those risks (e.g. paragraph A97). This may be interpreted by some as a preference for involvement of component auditors in a way that is more similar in nature to specified audit procedures, especially given the apparent de-emphasis of an audit of component financial information.

The overarching intention and focus of the standard is on a dynamic and iterative approach to such involvement, as further information is obtained during the course of the audit, which we support. However, the performance of procedures in this highly iterative way would likely involve multiple issuance/ updating of component auditor instructions which, as we note in our response to part a) of this question, may be challenging to operationalise, in practice, especially for larger/ more complex groups or when a component auditor is from another network.

We recommend, above, that the standard be enhanced to provide a clearer framework to group engagement teams regarding when and how to involve component auditors, building on the material currently included. Accordingly, we suggest that such a framework include matters such as the number of components, the locations of these and whether these are in “higher risk” jurisdictions, as factors to consider when determining whether to assign procedures to/ request assistance from component auditors in identifying and assessing risks, and in designing and performing further audit procedures in response to those risks.

### ***Two-Way Communication***

The proposed standard emphasises the importance of two-way communication between group and component auditors throughout the audit, e.g. at paragraph 43 in terms of the audit as a whole, and elsewhere in relation to specific aspects of the involvement. However, since this is a group audit standard, requirements are worded in respect of the group engagement team rather than the component auditor. Whilst we do not disagree with this approach, and we note that this is the approach taken in the extant standard, we recommend that certain requirements be strengthened in respect of expectations of the component auditor, to complement these paragraphs. For example, we suggest in our response to Question 2 that paragraph 19 be strengthened to emphasise the importance of the role of the component auditor, and to require them to acknowledge their role and responsibilities more formally. We also suggest the introduction of similar requirements for the group engagement team to request that the component auditor consider whether procedures assigned to the component auditor are appropriate/ complete, recognising that such procedures are performed for group engagement team purposes.

We also suggest that there be greater emphasis on the importance of communication from the group engagement team to the component auditor when the component auditor is using the work of the group engagement team e.g. when the group engagement team is performing procedures over “group wide controls” that the component auditor will use for purposes of reporting to the group engagement team. Additionally, it would be helpful for the standard to highlight the importance of communication by the group engagement team in respect of matters such as going concern assessment, when this is performed by the group engagement team for the group as a whole, or when certain procedures are coordinated by the group engagement team for the group as a whole, but will be relevant for an audit of the financial information of the component that is performed for statutory purposes.

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

As we describe above, we believe that the new “top-down” and centralised approach to a group audit, as drafted, may create challenges such as significant pressure on reporting timelines especially for large/ complex groups with many heterogenous components. Furthermore, there may be particular challenges when component auditors are from another network and therefore the highly iterative nature of performance of procedures, involving multiple issuance/ updating of component auditor instructions, which would be necessary in order to implement the new approach, may be more difficult.

We also note that the revised approach, as drafted, may create practical difficulties for group engagement teams, in certain cases, in providing clear, upfront instruction to component auditors, regarding the intended nature, timing and extent of their involvement in the group audit, when the group audit will be a highly iterative process, with the scope of work intended to develop more gradually and continually evolve as the audit progresses. Consequently, there may be equivalent difficulties for component auditors to be able to understand the intended nature of their involvement and therefore to accept this at the start of the engagement, and to be able to plan and allocate resource to such engagements. This may have a significant impact, in particular, on component auditors located in jurisdictions where “referred work” forms a majority of the business model.

Please refer to our recommendations elsewhere in this letter, which we believe would address these concerns.

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

We are supportive of the removal of the terminology of “group-wide controls” from the proposed standard, as we believe there may have been inconsistency in interpretation of the concept. We welcome the additional material to address controls more broadly, including the application material addressing special considerations in a group audit regarding commonality of controls and centralised activities relating to financial reporting.

We believe the application material is helpful and paves the way for addressing performance of audit procedures in respect of functions such as shared services centres. We agree that many of the considerations in this area are of a more practical nature in terms of coordination of performance of procedures across the group and we are supportive of the Board’s stated intention to develop FAQs as part of implementation support materials.

We refer also to our response to Question 1a) and 1b), in which we recommend that the IAASB establish more specific “bridges” between ISA 315 (Revised) and ISA 600 (Revised), such as the extent to which a group engagement team is expected to develop their “understanding” of components, including in respect of components that are not ultimately determined to be in scope for further audit procedures. The extent of such “understanding” needed is unclear in respect of controls, both direct and indirect, that are developed on a common basis across the group.

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

We acknowledge the Board’s efforts to provide greater clarity regarding the application of “component materiality” and “component performance materiality”. In this context, we support the new definition of “aggregation risk”, together with the application material at A75 that describes factors that may affect the setting

of component performance materiality, including greater disaggregation of classes of transactions, account balances and disclosures across multiple components.

We understand the rationale for communication of component performance materiality rather than component materiality to the component auditor when the scope of work requested of the component auditor is of the nature of specified audit procedures. However, this approach may present challenges when a component auditor is requested to perform an audit of the component's financial information, or an audit of account balances, classes of transactions or disclosures, as the group engagement team may need to communicate component materiality in such circumstances. We recommend, therefore, that the ED also include a requirement to communicate, or consider the need to communicate, both component materiality and performance materiality in this situation.

**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 58 of ED-600?**

We welcome the enhancements to the documentation requirements to emphasise the link to ISA 230, *Audit Documentation*. We note that the revised requirements are broadly similar to the requirements in the extant standard, for example, in relation to an analysis of the components, component materiality and involvement in the work of the component auditors.

We recommend that the IAASB also explore the inclusion of additional documentation matters regarding the determination of whether and how to involve component auditors, at A126, to complement our suggested enhancements in our response to Question 8.

We note that A124 sets out that audit documentation for the group audit includes documentation of the nature, timing and extent of the work performed by component auditors and that this may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.

This guidance is very helpful, especially in light of the changes to ISA 220 (Revised), as a result of which the group engagement team now also encompasses component auditors and therefore some may consider that all audit documentation is documentation of the group engagement team and therefore should be included in the group engagement team's audit file.

However, the paragraph further notes that the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file. The extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgement. Accordingly, we suggest that the application material provide factors to consider in making this determination, otherwise the guidance appears to be unclear and contradictory, and may lead to inconsistency in practice. In particular, it would be helpful to clarify whether the "original" component auditor documentation, or documentation that is similarly detailed, should generally be included on the group engagement team's file, with evidence that the group engagement team has reviewed such documentation. Alternatively, we suggest that the standard clarify that a more summarised form would be sufficient. Such summarised documentation may be primarily focused on the actions taken by the group audit team to understand significant risks and the audit procedures performed by component auditors in response to these, without necessarily including all the related detailed testwork itself.

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

We welcome the inclusion of the guidance at A129-A130, to address circumstances when laws and regulations in the component auditor's jurisdiction may limit the ability of the group engagement team to access the component auditor documentation or restrict the component auditor from providing documentation outside its jurisdiction. In particular, we consider it helpful that the guidance notes that the "*group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained... and the findings and conclusions reached*". The guidance acknowledges that the group engagement team exercises professional judgement in determining the nature



and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.

However, we note that this lacks clarity as to whether, for example, a memorandum from the component auditor providing more summarised details of the work performed and related findings would be appropriate, or whether the detailed testwork itself would need to be described.

The benchmark we apply in determining the nature and extent of documentation is *"to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the (group) audit"* [ISA 230.8-9]. However, there is a lack of further guidance in terms of the granularity that would be required for this "understanding", which is compounded by the lack of clarity as to what would be sufficient in terms of documentation that should reside on the group engagement team's file regarding work performed by the component auditor.

As a result of the above, there appears to be a suggestion of a preference for group audit documentation to include relevant parts of the actual component auditor documentation, with preparation of more summarised material being an acceptable but less desirable alternative. We suggest that further clarity be provided as to what constitutes group audit documentation and where this should reside.

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

We note that the extant standard is primarily directed towards using the work of a component auditor and therefore it is placed within the ISA 600 series, which addresses using the work of others.

However, the proposed revised standard is focused on the special considerations applicable to a group audit more broadly, in terms of describing how to apply other ISAs in the particular circumstances of a group audit, including ISA 220 (Revised), ISA 315 (Revised) and others. Although the standard continues to address involvement of component auditors, such material is included in the wider context of these special considerations.

As a result, we consider that continued inclusion within the 600 series may not best reflect the fundamental nature and intent of the standard, and therefore we recommend that this be located separately, within its own series, that is specifically focused on the special circumstances of group audits. We believe this would be appropriate in the shorter-term, in order to help clarify and embed the changes proposed to the standard. Furthermore, such placement would also pave the way, in the longer-term, for additional ISAs to be developed and included in this series if the IAASB considers this appropriate, for example an ISA that is specifically directed to component auditors and their role and responsibilities.