



Tel: +1 212 885 8000
Fax: +1 212 697 1299
@: bdo@bdointernational.com
www.bdo.global

BDO International Limited
Contact:
100 Park Avenue
New York, NY 10017
United States of America

2 October 2020

Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue
New York 10017
USA

Re: *Proposed International Standard on Auditing 600 (Revised)*

Dear Mr. Botha,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft (ED) in respect of 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.

Overall, we are supportive of the IAASB's efforts to continue to improve how group auditors approach planning and performance of group audits. We recognize that consideration of group audits has been something the IAASB has been working towards since 2016 and appreciate the outreach conducted with various stakeholders, including the Forum of Firms, that the IAASB has performed to date.

Our responses below describe those areas with which we are in agreement with the IAASB's approach as outlined in ED-600, and those matters or terminology that may require some further consideration, guidance or implementation support in order to provide for a successful implementation of the revised standard.

Matters of significant concern

There are some matters of concern outlined within our responses below that we wish to draw your attention to; we believe these matters will require further IAASB consideration in order to avoid unintended consequences.

Engagement team definition and implementation of quality management processes

As explained in detail in our response to question 1b) below, we have concerns with including component auditors in the revised definition of engagement team set out in the proposed ISA 220 (Revised). We believe that ED-600 correctly requires group auditors to be satisfied with the independence, competence, time, due care, performance and documentation of component auditors, and that the group auditor should adequately direct, supervise and review the component auditor's work. But we do not believe the group auditor should be

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expected to force their quality management processes on component auditors that they have no legal jurisdiction over, which is what would be required if the component auditor is part of the engagement team.

Consideration of financial significance

The move away from the classification of components as financially significant and replacement by a wholly risk-based approach may have a detrimental impact on the information available to group engagement teams to make informed decisions about group risks of material misstatement (RMMs) and how they plan to respond to them at the group level. In our response to Question 8, we have proposed consideration of a stand-back mechanism to ensure the informational value attributable to financial significance is not overlooked within proposed ISA 600.

Scope of proposed ISA 600

We are concerned with the removal of extant ISA 600.2 as it currently allows the concepts in this standard to be applied in situations that are not audits of group financial statements when an auditor involves other auditors. See examples in the response to Question 4. There is currently very limited guidance available when auditors encounter these circumstances and we recommend that this paragraph be retained in the new standard.

Responses to Specific Questions

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?

We believe that the numerous references to other ISAs throughout the requirements and the application material do provide appropriate linkage and help to convey the general principle that ED-600 deals with special considerations that apply to an audit of group financial statements over and above all other relevant ISAs.

We also agree with the approach used in structuring ED-600 paragraphs 12 - 23 to align with the main elements of proposed ISA 220 (Revised). This again emphasizes that ED-600 relates to applying the quality management standards in the context of an audit of group financial statements.

However, the current approach in ED-600.1, ED-600.A1 to ED-600.A10 provides a broad reference to other ISAs and proposed ISQMs but does not provide sufficient application guidance for the group engagement team to implement the requirements of the other ISAs in the context of a group audit. For example, it is quite challenging in ED-600.A9 for the group auditor to remain alert to unconscious auditor biases of the component auditors located in other geographic regions. It would be better if ED-600 provided clearer or more specific application guidance on the proposals made in ED-600.A1 to ED-600.A10 to facilitate consistent understanding of the application of ED-600.

- 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 have concerns that component auditors who perform audit procedures on the group audit engagement are captured under the revised definition of engagement team in proposed ISA 220 (Revised)². We believe that there could be a number of practical difficulties and unintended consequences from making component auditors part of the engagement team.

For example, meeting the requirements in proposed ISA 220 (Revised) related to the implementation of quality processes for engagement team members such as performing certain procedures to ensure independence, competence, capabilities and time, and the direction, supervision and review of the component auditors' work, will prove difficult for group engagement teams in practice, particularly for component auditors in a different country or from a different firm. In addition, if the component auditor is part of the engagement team, there is a higher degree of direction, supervision and review expected which the group auditor may not be able to achieve when the component auditor is from a different firm and/or a different country, is operating under a different system of quality management, or is not legally accountable to the group engagement team particularly if legal impediments exist. With respect to documentation of the component auditor's work in the group file, the level of documentation expected with respect to engagement team members' work would be higher than the flexibility offered in ED-600 paragraph A127 for component auditors.

When privacy or other regulations prohibit providing component auditor working papers to the group auditor or to audit regulators in the group auditor's country, the group auditor is put in an impossible situation of needing to meet supervision, review and documentation requirements for engagement team members but being prohibited from doing so by laws and regulations.

We believe that one of the unintended consequences of making component auditors part of the engagement team is that it may lead to increased selection of component auditors from the group auditor's network firm as this reduces the practical impediments related to quality management processes, even when it may not be the most appropriate choice when selecting component auditors.

In addition, given the recent public concerns about concentration of firms in the audit profession, a group audit standard that encourages firms to not involve other firms as their component auditors just exacerbates the concentration problem. This could create market inefficiencies (such as reduced competition among firms) which, from a public interest perspective, could inhibit audit quality in the longer term.

We believe that the group audit standard correctly requires group auditors to be satisfied with the independence, competence, time, due care, performance and documentation of component auditors, and that the group auditor should adequately direct, supervise and review the component auditor's work. But we do not believe the group auditor should be expected to force their quality management processes on component auditors they have no legal jurisdiction over, which is what would be required if the component auditor is part of the engagement team.

In addition, the group audit standard can still require compliance by component auditors with ethical and quality requirements without making the component auditors part of the engagement team. We fully support ethical and quality requirements for component auditors but we would prefer that such requirements

² Proposed ISA 220 (Revised), paragraph 12 (d), IAASB September 2020 meeting papers: *'All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert engaged by the firm or a network firm and internal auditors who provide direct assistance on an engagement.'*

for component auditors be included in ISA 600 rather than being enforced through quality management requirements relevant to engagement team members.

If the IAASB does not want to include requirements for component auditors in the group audit standard, another alternative would be to develop a separate standard for component auditors. Such requirements for component auditors would help ensure quality without the unintended consequences arising from making them part of the engagement team.

In addition, to deal with the unintended consequence of auditor concentration, it might be helpful to include wording in revised ISA 600 or specific examples in implementation support materials that demonstrate the involvement of non-network component auditors.

We also believe that linkages to the following additional ISAs would be useful to include:

- ISA 580 - *Written Representations* as it relates to audits of group financial statements specifically. For example:
 - that group management has not imposed any restrictions on access; and
 - that management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the applicable financial reporting framework and such internal control it determines as necessary to enable the preparation of such financial statements to be free from material misstatement, whether due to fraud or error.

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?

Feedback from our outreach indicates that the sub-sections throughout ED-600 relating to involvement of component auditors are easily identifiable and useful for group engagement teams - both those that intend to use component auditors (to ensure all key requirements are covered) and those that do not intend to use component auditors (i.e., helps with scalability when applying ED-600).

Conversely, the component auditor requirements and application guidance are spread throughout ED-600, making it difficult for component auditors to understand the requirements that the group engagement team will apply to them. As mentioned in question 1b) above, including a summary of requirements relevant to component auditors all together in the group audit standard, or in a separate standard, would help resolve this issue.

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?

The references to professional skepticism in the requirements (ED-600.5) and application material of ED-600 do reinforce the general principle, particularly related to applying professional skepticism when applying other ISAs. The application material does discuss some challenges to exercising professional skepticism in a group audit situation but does not provide much guidance to the group engagement team on overcoming those challenges. For example, much of the knowledge of the local legal and cultural environment rests with component auditors, making it challenging for

the group engagement team to exercise appropriate professional skepticism. A strong link between the group engagement team and the component auditors is critical for the group engagement team to have the necessary knowledge to exercise professional skepticism.

ED-600.A9 uses the words ‘*remain alert*’ which implies more of a passive requirement for the group engagement team. Perhaps there should be a more proactive requirement for the group engagement team to communicate to the component auditor about remaining alert for contradictory audit evidence, information that brings into question the reliability of documents and responses to inquiries that are used as audit evidence, etc.

We do recognize that providing practical guidance on exercising professional skepticism may be more appropriately placed in implementation support materials than in the application material of the standard.

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 generally support and agree with the scope and applicability of ED-600. We also support the clarification in the definition of group financial statements. However, we feel that the requirements relating to applying the definition of group financial statements and the use of the term ‘*consolidation*’ are not clear.

- ED-600 refers to the consolidation process in the definition of group financial statements and relates the consolidation process with the applicable financial reporting framework (ED-600.11).
- The term ‘*consolidation*’ is also referred to in ED-600.A17 relating to instances where ‘*...the accounting for branches or divisions may be performed centrally and there is no separately prepared financial information for the branches or divisions that requires aggregation*’.
- Therefore, in these circumstances, if the financial information is not ‘*subject to the consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore this ISA does not apply*’. ED-600.A17 is somewhat confusing in trying to explain when branches or divisions are within the scope of ED-600 and may result in inconsistencies in applying the scoping requirements.

We recommend that ED-600 be amended to include additional guidance to clarify the ‘*consolidation process*’.

Further, we suggest an alternative to the proposed scope and applicability of ED-600. ED-600 seems to allow for an ‘auditor’s view’ in identifying components and therefore we propose the scope of ED-600 include the situation whereby the group auditor determines that there is more than one component.

We also suggest that the IAASB consider retaining the existing concepts in extant ISA 600.2 regarding situations when an auditor involves other auditors in the audit of financial statements that are not group financial statements. There are currently situations where the concepts in extant ISA 600.2 are applied; for example:

- Audits of subsidiary financial statements whereby the processing and accounting of transactions is conducted at a central processing location or a

shared service center. The auditor of the subsidiary financial statements relies on the results of procedures performed by the auditor of the shared service center.

- Audits of an entity registered in one country that has its operations located in another country. The auditor of the registered entity is required by law to issue the auditor's report but they do not have legal rights to conduct the audit in the other country (i.e., a mailbox audit). Therefore, the auditor of the registered entity has to rely on the audit work of its operations performed by another auditor.
- Using other auditors to attend inventory counts.

If extant ISA 600.2 is not retained in ED-600, we recommend additional guidance be developed to discuss situations described in the above examples.

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 that ED-600 needs to provide additional guidance on how it is scalable to groups of different sizes and complexities. Based on additional information presented during the webinars, we understand that the intent was for the scalability requirements to be applied through references to ISA 315 (Revised) and in the requirements when component auditors are involved. Including this explanation in the application guidance may be helpful in applying the scalability provisions in the standard.

Further, as ED-600 is written, there may be instances when the group audit work may be performed by a separate team to the team performing the statutory audit which may not lead to an effective or efficient audit from an entity or stakeholder perspective.

Also, as the risk assessment and responses to the risks are performed over the group financial statements as a whole, there may be work required on business units of an entity that would not otherwise have been considered significant. We recommend reconsidering whether the current approach under existing ISA 600 whereby the group engagement team identifies significant components and allocate resources to those significant components may be more appropriate (see also our responses 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?

We generally support the revised definition of a component that is focused on the 'auditor view'. We believe this provides more flexibility in determining how to structure an audit of group financial statements. In many cases, we expect the identification of components by the group engagement team will still be aligned with the structure used by management, but allowing a departure from management's structure may be appropriate in some circumstances.

There may, however, be some inconsistencies in what the auditor defines as a component versus how management reports on the different business units within the entity (for example in accordance with IFRS 8 Operating Segments). We recommend additional guidance on the application of ED-600 when the auditor's definition of a component is different from how management structures the group or manages the business. We suggest the guidance also consider other implications where the

auditor's view is different, such as communications to those charged with governance. ED-600.A15 also refers to component management based on what the auditor has defined as a component, but such component management may not exist.

Further, under the 'auditor view' of entities and business units, there may be inconsistencies in how different engagement teams perform an audit and in deciding whether to use a component auditor. For example, in the situation where one group engagement team determines that there are no components using the 'auditor view', they would not need to set component performance materiality and work would be performed using the group performance materiality level. However, in situations where the group engagement auditor disaggregates the group financial statements across components, the audit work is performed using component performance materiality which is lower than group performance materiality. We believe additional guidance is needed in these circumstances.

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 generally support the enhancements to the requirements and the application material with respect to the acceptance and continuance of group audit engagements.

We appreciate the acknowledgement of the issue of access restrictions, including the distinction between access restrictions to information and people outside the control of group management and those imposed by group management, as well as the application guidance on overcoming such restrictions. However, even with the enhancements to the application material, we believe that there will be continued challenges arising from restrictions on access to information particularly for equity-accounted investments.

We recommend additional guidance and examples regarding restrictions on access to information and people with an emphasis on challenges related to equity-accounted investments. We would support this additional guidance being presented outside of the ISA by way of an IAASB Staff Alert in order that more practical examples or scenarios can be outlined.

8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:
- a. Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
 - b. Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?
 - c. What practical challenges may arise in implementing the risk-based approach?

Notwithstanding the 'Matters of significant concern' we have identified on page 1, we are broadly supportive of the new risk-based approach as outlined in ED-600. From an

audit and public interest perspective, there are clear benefits in having an updated approach to auditing groups that:

- Builds upon and aligns closely with ISA 315 (Revised 2019) and extant ISA 330
- Provides increased clarity about respective responsibilities (especially those of the group auditor)
- Encourages the group engagement partner and wider group engagement team to focus on the nature of their role and the needs of the group audit, particularly through:
 - Identification and assessment of group RMMs
 - Seeing the group audit as an audit in its own right rather than a collection of smaller audits with top-up risk assessment or audit procedures performed purely for group purposes.

The new risk-based approach as set out in ED-600 has the *potential* to positively affect how both group and component auditors perform their respective roles and we support steps that can be taken to encourage more in-depth thinking about the nature of the risks affecting the group and how the group engagement team can best direct, supervise and/or review the work performed (whether by components or the group engagement team) for group audit purposes. We also recognize that the IAASB is having to wrestle with the practical challenge of outlining an approach to performing group audits in ED-600 that can reflect the disaggregated nature of a group (whether considering sources of data, management decision-making, accounting policies, location, etc.) while also emphasizing the importance of approaching the audit as if were a single entity engagement.

As noted in our ‘Matters of significant concern’, we are concerned that complete removal of the requirement for a significant component to have ‘...an audit of the financial information...’ or some element of consideration regarding financial significance may impact the information provided to group engagement teams. Potential impacts could include:

- Creation of an overly-centralized approach that encourages group engagement teams to focus only on risks at the expense of other (financial) information about the group when making scoping decisions.
- An inability to access valuable information from the audits of significant components (performed by a component auditor) that may have previously helped inform group engagement team identification and assessment of group RMMs.

As a result, we believe there may be a need for the IAASB to consider whether ED-600 needs some sort of stand-back mechanism (similar to how ISA 315 Revised has been developed). This stand-back may ensure that other factors may be considered by the group engagement team when identifying, assessing and responding to group RMMs (i.e., the horizontal scanning of risks across the group should be combined with a vertical consideration of significant classes of transactions and account balances in financially significant components). Our recommendation echoes a similar concern we raised at inception of the group audits project in our Invitation to Comment response³ in 2016.

One of the biggest challenges of auditing a group is the likelihood that there are multiple applicable financial reporting frameworks in operation across different components - which requires additional consideration by group engagement teams when planning their audit strategy. We note that ISA 315 (Revised) emphasized the importance of understanding the applicable financial reporting framework and our

³ BDO Response - IAASB’s Invitation to Comment: Enhancing Audit Quality in the Public Interest, May 2016 - ‘With reference to the potential to adopt a ‘top-down’ approach to risk assessment outlined in paragraph 197, we would also ask that the IAASB consider incorporating a ‘step-back’ approach by group engagement teams to ensure that not only do they identify the risks of material misstatements that have been identified in the components (that could affect the group financial statements), but also that by stepping back to look at the distribution of balances or amounts and risks of material misstatements, the group engagement team can ascertain whether sufficient coverage of key financial statement areas is likely to be achieved.’

expectation was that this concept would have had more prominence within ED-600. Specifically, there should be more content for those situations (perhaps by way of application guidance) when component auditors are used by the group engagement team and the component auditor may (1) not be as aware or familiar with the group's applicable financial reporting framework, or (2) the applicable financial reporting framework may be so different as to require more active direction, supervision and review by the group engagement team.

There are a number of additional practical impediments that could result in ED-600 not having the desired outcome as set out by the IAASB in their exposure draft. We have noted these impediments within each section below.

a. Respective responsibilities

By focusing the ED-600 directly at the group engagement team and presenting requirements that relate to those situations when a component auditor is being used by the group engagement team separately at the end of each section, this structural approach aids understanding of respective responsibilities.

We are also supportive of the clarity that the ED-600 brings with respect to responsibilities within the group engagement team through use of '*group engagement partner shall*' and '*group engagement partner shall take responsibility for*' requirements. Although this does add to the list of group engagement partner responsibilities, it also lays out a clear separation between different types of roles and responsibilities that may be performed by the wider group engagement team and/or component auditors. However, given that component auditors may be used by group engagement teams for different purposes (depending on the nature of each group audit, work allocated to component auditors, etc.) we did note that the '*shall take responsibility for...*' requirements raised further questions about:

- To what extent tasks may be delegated to component auditors, and
- Whether there would still need to be minimal procedures performed by the group engagement partner (to ensure sufficient direction, supervision and review had been performed) in order that delegated tasks been properly carried out.

This may be an area where ED-600.A49-A52 may require further content or examples (or the provision of implementation support materials) to show how group engagement partner delegation may need to be flexed depending on the nature of tasks being delegated to component auditors.

We also support the continuing drive within ED-600, which builds on the principles of ISA 315 (Revised) towards ensuring the group engagement team develops an improved understanding of the group. In our view, having this deeper understanding of the entity that is being audited is a critically important factor in enabling group engagement teams to be able to perform their role as group auditor.

Clarity of the group engagement team's responsibilities, however, does come with some costs - specifically there is a risk that this expanded set of requirements have become even more directive and prescriptive in order to outline what is expected of a group engagement team; this could be seen as a move away from a principles-based standard and may of itself be less helpful when considering the complexity of a group audit situation, which needs to be even more flexible than a single entity audit, in order to address different facts and circumstances.

One area that may require further clarification is that of the role of component auditors. We appreciate that ED-600 is drafted through the lens of the group engagement team and we note the clearer signposting, within each section, of requirements that apply when a group engagement team is using component auditors.

One way of alerting both group and component auditors to the nature of their roles could be to highlight those situations when a group engagement team may need to actively follow up with component auditors to confirm component auditors' (1) understanding of what is expected of them and/or (2) progress on an allocated task/action. For example:

- In ED-600.A34-A35 where we consider the nature of access by the group engagement team, this application material could be expanded to indicate the two-way nature of the relationship (i.e., the expectation placed on component auditors to support access to information by the group engagement team, to confirm there will be access provided to component auditor working papers (when there are no legal impediments), etc.)
- ED-600.A82 could be expanded to reflect that the group engagement team proactively engages with component auditors to ensure potential risks affecting the group financial statements are being communicated to the group engagement team
- ED-600.A96-A101 could be enhanced to emphasize that previous insights obtained by the component auditor about the entity may help inform the group engagement team's approach to determining what evidence is likely to be required
- ED-600.A110 could be extended to note the importance of component auditor timely response and/or engagement with the group engagement team.

It may also be appropriate for the IAASB to consider developing implementation support materials that describe to component auditors the changed nature of their role as a result of ED-600 while also highlighting other potential impacts on how component auditors perform their role (such as the expectation of increased two-way communication or likelihood of being subject to a more 'directed' approach by the group engagement team).

b. Clearer and appropriate interactions

As we note in answer to 8a, the structural approach adopted by the IAASB in drafting ED-600 is helpful. This should enable both group engagement teams and component auditors to have greater clarity about the extent of their interactions. Having these requirements included within each section is also useful as it helps to highlight interactions that may be required at each stage of the engagement. This may encourage additional interaction throughout the audit on the part of both group and component auditors.

We also support Appendix 1 which provides helpful information to group engagement teams to think through the nature and type of involvement they may require from component auditors. The range of scenarios makes it clear that group engagement teams have to flex their approach to using component auditors based on the needs of the group audit.

We agree with the emphasis the IAASB has placed on the importance of two-way communication - we see this as being core to group engagement teams being able to lead, manage and achieve quality within the group audit. The positioning of the two-way communication set of requirements midway through the requirements (i.e., after acceptance, risk assessment and responses to risk) could potentially result in this set of interactions being considered 'after the event'. As communication and interaction is important to all stages of the audit, we would recommend moving this section to immediately follow on the 'engagement performance' section to send a stronger message about its relative importance.

c. Practical challenges of the risk-based approach

Scoping decisions

As noted in our 'Matters of significant concern' on page 2 and our introductory responses in question 8, the extant approach in ISA 600 of identifying significant components may still be an effective approach in scoping a group audit. An important factor is ensuring that such decisions are based on responding to RMMs at the group financial statement level.

- One way for the IAASB to promote this concept could be to build on and promote the content captured in ED-600.A98-A101, where overall financial significance of the component may drive a group auditor to at least initially conclude it is more effective to request the component auditor to design and perform an audit on the entire component financial statements, or we may ask the component auditor to perform specific procedures based on assessed group RMMs and the need for additional audit evidence to be obtained on one or more financial statement areas.
- We would also ask that additional application guidance is provided to clarify how a group engagement team can determine:
 - The sufficiency of its group audit scoping (building on ED-600.A85-A90); and
 - Whether sufficient appropriate audit evidence has been obtained to provide a basis for the group audit opinion; particularly where there are a large number of components or the group financial statements are highly disaggregated.

Adopting these recommendations may aid completeness of identified and assessed group RMMs (which ultimately helps determine the amount of work that needs to be planned to address the risks). This may also eliminate the concern that even under the new approach, the majority of group RMMs will likely reside within those components that have financial significance. Such a combined approach might also assist engagement teams, firms and jurisdictions in their adoption and implementation of a revised group audits ISA rather than causing a radical shift in approach which generates minimal perceived benefits.

Risk Assessment

- As we noted earlier (in 8a), it is helpful to have greater alignment between ED-600 and the concepts outlined in ISA 315 (Revised). One area that we would encourage the IAASB to reconsider is provision of implementation support materials to help describe or demonstrate how the spectrum of risk concept (which is not referenced anywhere in ED-600) might apply in a group scenario (i.e., typical types of group risks that may sit somewhere along the spectrum - whether identified at component or group levels).
- The emphasis on developing a greater understanding about the nature of the group, the consolidation process and also potential impact of newer ways of accounting within a group context (i.e., shared service center) or centralized activities are all welcome advances in the context of a group audit.
- Some of the application and explanatory materials in ED-600 do a good job of highlighting what is different about the group audit situation; however:
 - The emphasis on group engagement team as being the director of all group audit activity creates an expectation that they will be able to micro-manage engagements at the component level (despite operating in

completely different jurisdictions, with potential cultural, language and access barriers). It may be helpful to provide expanded scenarios, perhaps in implementation support materials, that can explore how the group engagement team flexes their approach based on different situations.

- If component auditors continue to be included within the definition of the engagement team (see our earlier response to question 1b), there may need to be more application guidance to outline how and to what extent component auditors are likely to be part of engagement team discussions. This is particularly important where component auditors are being used for different purposes (i.e., risk assessment, obtaining audit evidence or both), or component auditors are being engaged from outside the group engagement team's own network or jurisdiction. As a consequence, we would ask the IAASB to consider the challenges of communication in these types of scenarios.
- The emphasis on the group engagement team having a more directive approach could also mean key risks affecting the group, but originating in a component (particularly in areas such as non-compliance with laws and regulations, ability to identify potential fraud risks), may be missed by the group engagement team without sufficient independent (and potentially better informed) input from component auditors. One way of remedying this could be to include stronger requirements for involvement of the component auditor, especially where there is legacy knowledge from prior component entity audits, to be more involved in the risk identification and assessment phase of the group engagement planning (including, as we noted earlier, engagement team discussions).
- Practically, it could lead to a less effective and efficient approach. For example, irrespective of financial significance to the group, the risk-based approach 'cuts across' all components. As a result:
 - Where statutory audits are taking place at the component level, notwithstanding the content outlined in ED-600.42 and helpful materials in ED-600.A104-105, the amount of group engagement team required involvement in ED-600 to direct, supervise and review may result in two de facto individual audits being performed (one performed for group audit purposes, one performed for statutory purposes).
 - Group engagement teams may end up placing even less reliance on other audit firms (who may currently perform component audits) due to the increased responsibilities placed on the group engagement team to perform what is in effect a standalone audit. This may be because there are fewer perceived obstacles in complying with proposed ISA 220 (Revised) if the component auditor is from the same firm as the group engagement team.
- In earlier years of implementation, a wholesale move toward a risk-based approach may cause transitional issues as a result of group engagement teams having to continue to build-up their detailed knowledge of risks at the component level (in place of component auditors who may have had a more in-depth understanding of component level risks due to performance of a full audit). This could affect audit quality - resulting in less work being planned and performed in certain areas of the group than should have been the case.
- One of the biggest practical challenges is likely to be the change in mindset required of group engagement teams (and also on the part of component auditors

who will need to understand ‘why’ the group engagement team is making different or direct demands once ED-600 becomes effective) as they move from financially-driven to risk-based requirements. Specifically:

- The removal of financial significance as a determinant of a specific response (i.e., an audit of a significant component) may lead to some group engagement teams not knowing how/where to start with respect to initial scoping decisions.
- Although no field testing has been planned by the IAASB, we would ask the Board continue to engage with firms, of different types, sizes and structures, to establish the mindset and scoping decision issues that both group and component auditors are likely to struggle with during initial implementation. Sharing these types of insights may also support firms as they start to amend methodologies, audit tools and training materials to support implementation.

Given the change in required mindset, the IAASB will need to think through how implementation support materials can be developed to aid both group engagement and component auditors as they adopt and implement ED-600. For example, although ED-600 highlights the importance of two-way communication, in those situations where group and component auditors are based in different jurisdictions (i.e., using different languages, cultures) or are located in other firms (i.e., applying different methodologies, tools and techniques) the move away from financial significance to a wholly risk-based approach is likely to require a more concerted level of communication by the group engagement team with component auditors. Additional implementation support materials should be developed to alert group engagement teams that the nature, extent and timing of communications is likely to require increased planning, time and application in order to fully enable the group engagement team to direct, supervise and review the work of component auditors.

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

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

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?

While we understand the reasons for the focus on component performance materiality in ED-600, we believe the concept of component materiality should also be included in the standard. Since reporting to the group auditor will likely refer to material misstatements, the standard should include a requirement for the group auditor to set component materiality and communicate it to the component auditor. While we acknowledge that the requirements in all other ISAs apply to a group audit and therefore group materiality and performance materiality would be determined in accordance with ISA 320, we would support a stronger link to clarify that materiality and performance materiality must be set at both the group and component levels.

We appreciate the supporting application material giving additional guidance on aggregation risk and the factors to consider in determining component performance materiality. However, we believe that the application guidance could be improved by providing more details and clarity around component performance materiality particularly around the example about disaggregation in ED-600.A75.

11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:
- Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
 - 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 agree with the clarification of the requirements around documentation in a group audit, including when access to component auditor documentation is restricted. However, we would also welcome additional guidance on the extent of expected documentation in terms of audit evidence obtained by component auditors in the group engagement audit documentation. This would be particularly useful when there are no restrictions on access to component auditor documentation; if ISA 230 is relevant on group audits, interpretations are needed about how much of the component auditor documentation to include in the group audit file as there seems to be a different expectation than on a single entity audit. Particularly if component auditors are part of the engagement team, the expectation could be that all component auditor documentation should be in the group audit file. This is clearly not practical and ED-600 specifically states in paragraph A124 that such documentation may reside in the component auditor's file and need not be replicated in the group audit file. The extent to which component auditor documentation is included in the group audit file is a matter of professional judgment but guidance would be helpful on factors to consider in making this professional judgment. We would support this additional guidance being presented outside of the ISA by way of implementation support materials.

ED-600 also stresses the importance of two-way communication between group and component auditors and highlights in the documentation requirements (ED-600.57(e)) matters to be documented in respect of communication with component auditors. While we are supportive of this approach, and notwithstanding the content in ED-600.A126, there may be a need to provide further guidance or implementation support materials to explain the extent of documentation that is likely to be necessary to corroborate ongoing two-way communication activities (i.e., not just communication events at key milestones).

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

We ask that the IAASB look again at some of the terms or wording used in the following sections:

- ED-600.23: '*takes into account*' is potentially vague as it relates to the group engagement team planning the direction and supervision of the component auditor (and arguably is less prescriptive than extant ISA600.30 and ISA600.31). This could result in less consistent application by different group engagement teams and a more confusing set of expectations for both group engagement and component auditors.
- ED-600.27 regarding communication of related parties '*that are relevant to the work of the component auditor*' pre-supposes that it is easy to establish the related parties that may apply to an individual component when it may be more effective and efficient to direct group engagement teams to share all potential related parties with all component auditors.

In addition, paragraph A108 allows various forms of communication from the component auditor to the group engagement team, which we agree with because it allows flexibility and scalability. However, when the component auditor reports in writing to the group engagement team on the work performed, guidance on the minimum content of such a report would help ensure some consistency of reporting. It would also help clarify what is expected from component auditors, even though ED-600 focuses on requirements for the group engagement team.

Further, we ask that consideration be given to including a section on ‘Related parties’ directly after the section on ‘Subsequent events’ in ED-600.47. A separate section on related parties and unusual transactions would highlight their importance at both the group and component levels.

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

Translations: We have long supported IFAC efforts to make ISAs and other IFAC pronouncements accessible to users through effective and timely translation. Many of the auditing terms and concepts contained in ED-600 are present in other ISAs or defined in the ED, so at this stage, we do not foresee any immediate issues in respect of translation. ED-600 is quite a lengthy standard which may limit the ability of some auditors to fully comprehend how the standard is intended to work, the interconnected nature of many of the requirements and links back to foundational ISAs such as ISA 315 and ISA 330. To aid accessibility, we would continue to ask the IAASB to consider making their package of professional standards as navigable as possible (borrowing from some of the technology and functionality used in the IESBA eCode and IFAC Accountancy Education eTool).

Effective Date: We would support an Effective Date which has a minimum of 18 months from the point at which the final ISA is published. Although many firms may choose to adopt the new standard earlier, this timeframe would allow sufficient time for many audit firms’ methodologies, tools, guidance and training materials to be updated. As ED-600 follows and builds upon ISA 315 (Revised) and the Quality Management set of standards - both of which become effective in years immediately prior to ED-600 - we would recommend that there be at least 1 year between effective date of the Quality Management set of standards and ED-600.



We appreciate the opportunity to comment on ED-600, which has proven to be a substantial piece of work undertaken by the IAASB and building on the previous ISA 315 (Revised) and Quality Management set of standards. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Chris Smith
Global Head of Audit and Accounting