



September 26, 2020

Mr. Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

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

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) proposed International Standard on Auditing (ISA) 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs* ("ED-600" or the "proposed standard").

The AICPA is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. Specifically, the ASB sets U.S. auditing standards (generally accepted auditing standards or GAAS) as well as Statements on Standards for Attestation Engagements for private companies, nonprofit organizations, and federal, state and local governments (nonissuers).

The ASB supports the IAASB's project to revise ISA 600 to strengthen the auditor's approach to planning and performing a group audit, clarify the interaction between ISA 600 and other relevant ISAs, and provide guidance to auditors on applying those ISAs in a group audit.

For the IAASB's consideration, we have provided responses to certain questions presented in the exposure draft. For those questions that we have not provided a response, we have no further observations or comments.

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

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

The linkage in ED-600 to other ISAs and to the proposed ISQMs is appropriate. We also believe that ED-600 sufficiently addresses 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), *Quality Control for an Audit of Financial Statements*. However, it is the ASB's understanding that proposed ISA 220 (Revised) may be effective prior to ED-600 and as such there may be a period during which auditors will be performing group audits under extant ISA 600 and an effective ISA 220 (Revised). Because of the interplay between proposed ED-600 and proposed ISA 220 (Revised) and the need for these standards to be aligned, we question the efficacy of having the auditor apply extant ISA 600 in conjunction with ISA 220 (Revised). One example of an issue that might arise in doing so is reconciling the difference in the definition of *engagement team* included in each of these standards. To address this situation, the IAASB might consider providing nonauthoritative guidance in the form of frequently asked questions and answers to assist auditors during the transition period until such time as ED-600 is finalized and becomes effective.

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

*Subsections That Highlight Requirements When Component Auditors are Involved*

For the most part, we believe the new format is appropriate and allows ED-600 to be easily scalable in instances in which component auditors are not involved. We did however note that certain activities such as two-way communication between the group engagement team and the component auditor are not addressed under the subsection heading "Considerations When Component Auditors Are Involved." That topic is only addressed in the requirements in paragraph 43, yet this ongoing interaction is fundamental throughout the proposed standard as noted in paragraph 4 of ED-600.

*Evaluating Component Auditors: In Network and Out of Network Firms*

Paragraph A13 states that "[r]eferences in this ISA to the engagement team include members of the group engagement team and component auditors. The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider." In several of the application paragraphs, the proposed ISA refers to situations in which the group engagement partner's firm and the component auditor's firm are members of the same network and notes that the extent of work performed by the group engagement partner may be impacted by the common quality management policies or procedures, for example in paragraph A44 which states:

A44 The group engagement partner's firm and the component auditor's firm may be members of the same network and may be subject to common network requirements or use common

networks services. When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools.

There should not be a distinction in the overall nature and extent of the work required (in this case, evaluating whether component auditors have the appropriate competence and capabilities to perform the assigned audit procedures at the component) based on whether the component auditor is from a firm that is part of the same network that the group engagement team is from. Doing so implies that more work is needed when the firm is a non-network firm. However, guidance should be added indicating that some of the work required of the engagement team may already have been addressed at the network level. Additionally, paragraph A13 should be modified to make it clear that the reference to “a network firm” is intended to mean a network firm that is from the same network as the group engagement team.

*Example of Involvement in the Work of Component Auditors*

Paragraph 18 states “In applying proposed ISA 220 (Revised), the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.” Paragraph A34 provides an example of what it means to be involved in the work of the component auditors, but it addresses only access to the component auditor (such as access to documentation) and whether audit evidence in another language will need to be translated. We suggest that the application material in paragraph A34 be expanded to indicate that involvement also extends to the ability to appropriately direct and supervise component auditors.

*Determining if Component Auditors Have Sufficient Time to Perform Assigned Procedures*

Paragraph 21(a) requires the group engagement partner in applying proposed ISA 220 (Revised) to “[d]etermine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component.” Having sufficient time is not a subset of having competence and capabilities, accordingly, if this requirement is retained, we suggest the following edit to paragraph 21(a).

21(a) Determine that component auditors have the appropriate competence and capabilities, as well as including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)

To assist the auditor in complying with this requirement, the proposed standard should clarify how the group engagement partner determines whether component auditors have sufficient time to perform the procedures. Paragraph 21(a) of the September 2020 draft of proposed International Standard On Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, indicates that in assigning the roles identified in paragraph 20 of ISQM 1 (for example, responsibility and accountability for the system of quality management) “the firm shall determine

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that the individual(s) has the appropriate experience, knowledge, influence and authority within the firm, and sufficient time to fulfill their assigned responsibility...”

Quality management policies and procedures at the relevant firm would include policies and procedures designed to ensure that a component auditor who had been assigned audit procedures by the group engagement team would have sufficient time to perform the assigned work. We are uncertain about how the group engagement partner would determine whether the component auditor has sufficient time to perform the work without the burden of performing procedures that address adherence by the relevant firm to its quality management policies and procedures. Requiring the group engagement partner to inquire of the component auditors about whether they have sufficient time to perform the assigned work may also be of limited value because this would be a “point-in-time” inquiry.

#### *Subsequent Events*

The subheading above paragraph 48, “Considerations When Component Auditors Are Involved,” is not correct because there is no requirement for component auditors to perform subsequent events procedures. The work to be performed by the component auditor depends on the procedures the group engagement team asks the component auditor to perform. The heading above paragraph 48 should be deleted and paragraph 48 should be moved to follow paragraph 44 which addresses communications that the group engagement team is required to request from component auditors

#### *Communicating Concerns About the Quality of the Component Auditor’s Work*

Paragraph 56(b) requires the group engagement team to communicate with those charged with governance of the group “[i]nstances where the group engagement team’s review of the work of a component auditor gave rise to a concern about the quality of that component auditor’s work, and how the group engagement team addressed the concern.” We recommend that this paragraph be either (1) deleted because if the group engagement team had concerns, but had taken the necessary and appropriate action to address the facts and circumstances giving rise to the initial concerns, communication would not be necessary, or (2) moved to application material and reworded as a communication the group engagement team “may consider.”

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

We believe the incorporation of requirements and application material related to professional skepticism is appropriate and agree with the approach taken in ED-600.

**Question 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).

The definition of group financial statements in paragraph 9(k) which states that these are “financial

statements that include the financial information of more than one entity or business unit through a consolidation process” is appropriate. However, adding a cross-reference in paragraph 9(k) to paragraph 11 so that the definition is linked more closely with detail about what constitutes a consolidation process would better provide necessary clarity.

**Question 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?

Yes, the proposed standard is scalable because it provides for situations in which component auditors are extensively involved or not involved at all. The risk-based approach in ED-600 enables the group engagement team to focus on the significant classes of transactions, account balances, and disclosures in the group financial statements and on identifying and assessing the related risks of material misstatement of the group financial statements. In addition, the subheadings that highlight requirements that are applicable when component auditors are involved allows for easy identification of applicable requirements. Finally the new definition of component, which enables the group engagement team to plan and perform the audit using the location, function, or activity as determined by the group engagement team (i.e., the ‘auditor view’), allows for an approach that can be tailored to the group and provides for a more effective and efficient audit.

**Question 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 support the revised definition of component to focus on the ‘auditor view’ for purposes of planning and performing the group audit. The use of the phrase ‘location, function or activity’ in this definition accommodates the many ways in which the group engagement team might view the group structure in designing the overall group audit strategy and group audit plan. The first two sentences of paragraph 3 should be moved to paragraph 2 because those sentences address how a group may be organized by management. Paragraph 3 would then become a standalone paragraph that focuses on the approach the auditor takes when planning and performing procedures.

*Determining the Components for Which Audit Procedures Will be Performed*

Paragraph A12 addresses the group engagement team’s process for determining the components for which audit procedures will be performed and how entities or business units may be combined when performing a group audit. It would be helpful to the auditor if that paragraph included an example, such as the following, to further illustrate the practical application of the guidance in paragraph A12.

A group has a number of locally managed standalone operating entities in North America, Europe, and Asia; however, the financial information is aggregated regionally for reporting purposes. The group engagement team has determined that the components will be the geographical regions for the purposes of planning and performing the group audit. Goodwill

has been recorded on the books and records of the standalone operating entities. When performing audit procedures related to impairment of the aggregated goodwill balance on the group financial statements, the group engagement team determines that it will perform the further audit procedures at the components, because the impairment analysis is performed by management regionally.

**Question 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 do not have any observations specific to restrictions of access to information and people, however, please note the following response related to acceptance and continuance.

*Required Understanding of Group to Identify Components and Determine Whether to Involve Component Auditors*

Paragraph 13, which is under the heading “Acceptance and Continuance” requires, in part, that the group engagement team “obtain an understanding of the group that is sufficient to identify components and make a preliminary determination about whether to involve component auditors.” We question whether the group engagement team would have a sufficient understanding of the group at the acceptance stage of the audit to identify all the components. For that reason, we suggest that the word “preliminary” be inserted before the word “understanding” to indicate that this is only a preliminary understanding.

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

We do not have any observations specific to commonality of controls, however, please note the following response related to centralized activities.

*Centralized Processing and the Consolidation Process*

Paragraph 11(b) states that “the “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of ... the aggregation of the financial information of branches or divisions...” Paragraph A17 states, in part, “... In some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore this ISA does not apply.” Paragraph A17 implies that the mere establishment of a centralized process for branch or divisional accounting such that there is no separately prepared financial information requiring aggregation may cause the aggregated information to be excluded from the “consolidation process” as contemplated by paragraph 11(b). In this instance the financial

information would not be subject to the provisions of ED-600. It would appear that the scenario in the paragraph is facts and circumstances driven, rather than principles-based. This paragraph is confusing and would benefit from clarification.

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

- (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
- (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?

#### *Review of the Component Auditor's Work*

Paragraph 57(d) requires the group engagement team, in applying ISA 230, *Audit Documentation*, to include in the audit documentation "the nature, timing, and extent of the group engagement team's direction and supervision of component auditors and the review of their work." As currently drafted, the requirement implies that review of the work of component auditors is always required; however, it is not clear whether this is the intent of the IAASB based on the related requirement in paragraph 45(b). If the intent of the IAASB is that review of the work of component auditors is not always required, then the requirement in paragraph 57(d) should be further clarified, for example as follows:

57 In applying ISA 230, the group engagement team shall include in the audit documentation: (Ref: Para. A124, A129–A130) ...

- (d) The nature, timing and extent of the group engagement team's direction and supervision of component auditors and if necessary, the review of their work. (Ref: Para. A125–A128)

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

#### *ISA Permits Delegation of Procedures*

The IAASB should consider the following edit to paragraph 6 to clarify what it is that permits the group engagement partner or group engagement team to delegate procedures.

...When ~~the~~ this ISA permits the group engagement partner or the group engagement team ~~is permitted~~ to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term "the group engagement partner shall take responsibility for..." or "the group engagement team shall take responsibility for..." is used.

#### *Concerns About Component Auditors*

Paragraph 22 states that "[i]f the group engagement partner has serious concerns about any of the matters in paragraphs 18–21, including if a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team shall obtain sufficient

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appropriate audit evidence relating to the work to be performed at the component without involving that component auditor.” The following edit to paragraph 22 should be made for clarity.

22. If the group engagement partner has serious concerns about any of the matters in paragraphs 18–21, including concerns about whether if a component auditor ~~does not~~ meets the independence requirements that are relevant to the group audit, the group engagement team shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. (Ref: Para. A47–A48)

*Using Audit Evidence From an Audit Performed for Another Purpose*

Paragraph 42 addresses matters the auditor should consider before using audit evidence from an audit performed for statutory, regulatory, or other reasons (another purpose) on the financial statements of an entity or business unit that is part of the group and for which an auditor’s report has been issued. While it is appropriate for ED-600 to acknowledge that the group engagement team may use evidence from an audit performed for another purpose, we are concerned that paragraph 42 may be misapplied given that the cross-reference to paragraphs 20-22 of ED-600 implies that in order to use the audit evidence from an audit performed for another purpose the group engagement team need only comply with these requirements; it is unclear which “other relevant requirements” (as stated in paragraph 42(c)) would also be applicable.

Paragraph A103 of ED-600 states, in part, “If an audit has been performed and an auditor’s report has been issued for statutory, regulatory or other reasons, the group engagement team may use audit evidence from that audit if the group engagement team is satisfied that the work is appropriate for the group engagement team’s purposes.” This sentence should be moved from the application paragraph and incorporated in paragraph 42 to indicate that the group engagement team may use evidence obtained from an audit performed for another purpose only if the group engagement team is satisfied that the work is appropriate for the group engagement team’s purposes. This would include procedures to determine whether an audit performed for another purpose addresses the risks identified in the audit of the group financial statements.

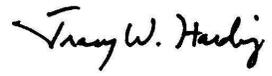
*Communicating Deficiencies in Internal Control*

Paragraph 53 indicates that in making the determination about which deficiencies in the group’s system of internal control should be communicated to those charged with governance of the group and group management, the “group engagement team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors.” This implies some optionality about which deficiencies in internal control are to be communicated. ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, specifies which deficiencies are to be communicated and to whom they should be communicated. Therefore, the second sentence should be clarified to align with the requirements in ISA 265.

Thank you for the opportunity to comment on this proposed standard. If you have any questions regarding the comments in this comment letter, please contact me at [tharding@berrydunn.com](mailto:tharding@berrydunn.com) or [Judith.Sherinsky@aicpa-cima.com](mailto:Judith.Sherinsky@aicpa-cima.com).

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Respectfully submitted,

A handwritten signature in black ink that reads "Tracy W. Harding". The signature is written in a cursive style with a large initial 'T'.

/s/ Tracy Harding

Chair, Auditing Standards Board