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Subject: IAASB ED Proposed ISA 600 (Revised), Audits of Group Financial Statements (Including the Work of Component Auditors)

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the Proposed ISA 600 (Revised), Special Considerations - Audits of Group Financial Statements.

We understand the objectives of the revision of the extant ISA 600 as a way to encourage a risk-based audit approach to group audits. However, we would like to highlight some serious concerns we have about the proposed ISA (ED-600):

– Centralised approach vs approach by components

The centralised approach, as prescribed by the ED-600, appears to be systematically favored as the privileged route to audit group financial statements. We believe in some cases, especially for complex groups, an approach using component auditors may be better and more efficient. A pure centralised approach bears the risk of reducing the ability of the group engagement team to properly identify risks of material misstatement and to exercise its professional skepticism with respect to the group financial statements. Because the group engagement team will have as its main source of information, the group management, it will not be able to corroborate the information obtained with other sources of information it would have obtained from the component auditors. We therefore consider that the ED 600, which main element of scalability is the possibility given by the ED not to use component auditors, can make it inappropriate for larger complex group audits. Scalability should work towards less complex situations but also towards more complex situations. We believe that ED-600 is scalable to audit smaller, simpler groups but not to audit larger, more complex groups. We recommend to add a requirement in the ED for the group auditor to justify the appropriateness of the decision to use or not use component auditors.

– Risk of a hidden re-introduction of the concept of “related auditors”

Extant ISA 600 was designed after long discussions and several re-exposures with the firm willingness not to favour the use of components auditors from the same network as the group auditor (i.e. “related auditors”) as opposed to component auditors who are not from the same network as the group auditor (i.e. “unrelated auditors”).

ED-600/ ISA 220 by considering component auditors as members of the group engagement team makes it almost impossible to use component auditors who are not from the network of the group auditor. Indeed the group engagement team will have to direct, supervise and review the work of component auditors, just the same as all engagement team members. This will make it impractical or even impossible, to use non network component auditors and may even reduce the use of component auditors at all. This implicit reintroduction of the concept of unrelated auditors is even made more obvious or explicit by the new ISQM 1 which implies that component auditors who are not from network of the group auditor are, in fact, service providers.

– Risk of not considering the statutory audit of components


In Europe, entities above certain thresholds are subject to statutory audit. Therefore, many components of groups are subject to statutory audit. The fact that the ED-600 does not recognise that component entities can be subject to statutory audit and does not deal with the way the group auditor shall take into account the work done by the statutory auditors, entails the risk of a loss of efficiency of the group audits, where the group engagement team would not benefit from the work done by the statutory auditors at component level. We believe that our recommendation expressed in the first bullet point to add a requirement for the group auditor to justify the use or not of component auditors’ work, especially in the case where there is a statutory auditor in the component, would help prevent that risk.


The conjunction of those factors (Centralised approach, advantage given to using component-auditors of the group auditors’ network, lack of recognition of statutory audit) may lead to forcing SMPs or even medium-sized networks out of the audit market and to increase concentration.

Responses to specific questions raised in the Public Consultation are set out below.

If you have any questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Jean Bouquet
President of CNCC


Charles-René Tandé
President of CSOEC

Questions for respondents

Overall Questions

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?*

With respect to the linkages to other standards, we have a concern about the discrepancy in the schedule for the entry into force of the proposed ISA 600 and the other ISAs or the proposed ISQMs. The proposed ISA 600 includes conforming amendments of the ISA 220 (Revised) to take into account the specifics of group audits in applying ISA 200 (Revised). We consider that this interconnection of the standards with different application dates will generate text conflicts and difficulties to implement ISA 220 for group audits, especially with the change in the definition of engagement team since ED-600 states that component auditors are now members of the engagement team performing the group audit. Practical difficulties are expected to be significant when component auditors are not part of the same audit firm or network. Cases would not be that rare. This may be the case, for example, when, within a network, it is necessary to use the services of non-related auditors in certain countries because the network does not have the required expertise on site. This may also be the case if there is a change of audit firm at the parent company level only.

With regard to 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), we consider that all of these considerations should be located in the ED-600 and not dispersed in the other standards. This is notably the case for the definition of the joint audit that has been removed from ISA 600 to be included in the application material of ISA 220 as conforming and consequential amendments arising from the proposed ISA 600. We believe that such a “sprinkling” is detrimental to the readability and the understanding of the standard.

In addition, we note that application material to ED-600 includes many examples of cases where common network policies, procedures, services can support the group engagement team. We are concerned about the interpretation of such developments. Indeed, it could suggest that the IAASB implicitly discourages the involvement of non-network component auditor in a group audit. We draw the IAASB’s attention to the negative impacts of such an interpretation, i.e. an audit market concentration and practical difficulties to perform group audits, as mentioned here above. We therefore recommend the IAASB to provide additional examples involving non-network component auditors, in order to promote a more balanced view.

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?*

We support the placement of subsections throughout ED-600 that highlight the requirements when component auditors are involved. This is particularly helpful for less complex group audits where component auditors are not involved.

However, as mentioned here above, we consider that the standard should promote a more balanced view. We therefore consider that the ED-600 should specifically state that the decision to involve or not involve a component auditor is a decision of the group auditor and that either option (involve or not involve a component auditor) may apply indifferently. We recommend to add a requirement in the ED for the group auditor to justify the appropriateness of the decision to use or not use component auditors.

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 consider that the requirements and application material of ED-600 do not reinforce the exercise of professional skepticism in relation to an audit of group financial statements. Indeed, the ED-600 focuses on a top-down approach, that is, in our view, opposite to a reinforcement of the exercise of professional skepticism.

With a centralised approach, the group auditor will have only one source of information (i.e. group management). He will not be able to corroborate the information obtained with other sources of information (i.e. component auditors), especially when there is a large number of components in several jurisdictions. We believe that the stand-back at component level is essential to be able to obtain an overview of the entity and to be able to fully exercise the required professional judgment at group level.

We therefore recommend that the IAASB promote a combined approach (top-down and bottom-up approach). Please also refer to question 8.

Specific Questions

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).

We consider that the scope and applicability of ED-600 is not clear enough.

We have a concern with the "entry point"/ scope of ED-600, i.e. the information system/consolidation process and the related concept of aggregation of information. We consider that this approach is not sufficiently clear and leave room for different interpretations. The notion of "financial information" included in the definition of group financial statements, i.e. "Financial statements that include the financial information of more than one entity or business unit through a consolidation process", is not clear enough and should be further clarified. The example given in A17 should be clarified, in particular with regard to the notion of "no separately prepared financial information".

Let's take as an example a retirement home with several branches. According to paragraph A17, we could understand the following:

- if the financial information of the branches is maintained centrally (via an ERP), the resulting financial statements do not imply a consolidation process;
- if, on the other hand, a chartered accountant prepares the financial information for each branch and such information is then aggregated, then the corresponding financial information results from a consolidation process.

Thus, according to the IT organisation of the retirement home, in one case, we would have to apply the ED-600 and, in the other case, we would not, for the same financial statements at the end.

We therefore recommend to IAASB to provide practical cases illustrating the "entry point" of the proposed standard. Clarifying this issue is essential. Otherwise, it could lead to inconsistent application of the standard.

In addition, we note that the concept of multi-location has been removed from the ED-600. We believe that it would be appropriate to reintroduce this concept by retaining paragraph 2 of the extant ISA 600, i.e. "An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed

assets at a remote location." As a matter of fact, auditors may find ED-600 useful when they involve other auditors in the audit of financial statements that are not group financial statements.

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?

Although we consider that the ED-600 can, in some cases, provide improvement to the extant ISA 600 in terms of scalability (e.g. in the different approaches possible to respond to the assessed risks of material misstatements), we still consider that the standard is not sufficiently scalable.

The main scalability proposed by the ED-600 is the possibility to involve or not involve component auditors in the group audit, regardless of the group structure. However, we draw the IAASB's attention to the fact that a centralised approach (i.e. audit procedures performed centrally) is only relevant for groups with a centralised organisation (e.g. the less complex groups); such an approach does not reflect the evolution of today's economy in which groups are increasingly complex. In such groups, the audit cannot be fully performed centrally. The complexity of today's world requires, in the case of high complex group, an approach at local level with the involvement of component auditors. We therefore recommend that the IAASB revisit the scalability considerations to emphasize a more combined approach (top-down and bottom-up approach) and provide more guidance to explicit how the standard can be scaled up or down in the extreme scenarios, i.e. less complex group or very complex group structures.

As far as the risk assessment is concerned, we consider that the formalisation of the risk assessment is not clear enough. Further guidance should be provided on how to document the risk assessment according to the group's organisation (i.e. sub-groups, conglomerate ...). We are particularly concerned about the volume of documentation required, especially in the case of very complex groups. Moreover, we have a concern with an overly centralised approach which, in our opinion, could result in a lack of efficiency and confidence in the audit approach.

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?

Yes, we 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.

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?

With respect to the acceptance and continuance of group audit engagements, we support the enhancements to the requirements and application material.

Question 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?

We consider that with a top-down approach, as proposed in the ED-600, the group engagement team may not identify certain risks that can only be identified locally, especially risks related to tax, fraud or going concern. For example, if there is a problem in the local market with potential impact on the group's going concern, the group may not be aware of it. We therefore recommend that the IAASB emphasize the importance of having sufficient local knowledge to obtain an appropriate assessment of the risks of material misstatement of the group financial statements.

Concerning the point b of the question, i.e. whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, we consider that it would be useful to propose concrete examples of interactions between the group engagement team and a component auditor, in particular a non-related auditor.

With regard to point c of the question, i.e. practical challenges that may arise in implementing the risk-based approach, we consider that the challenge is the relevance of the risk assessment if it is carried out only by the group engagement team. We are convinced that risk assessment also requires a bottom-up approach. Please refer to question 3. Another practical challenge is to assess whether sufficient appropriate audit evidence has been obtained to respond to the assessed risks of material misstatement of the group's financial statements. We are particularly concerned about the expected work effort on residual items that will not be covered by an audit or by further audit procedures in accordance with the provisions of ED-600. In the extant ISA 600, the residual population is subject to analytical procedures at the group level. The ED-600 is silent on this area, we therefore recommend that the IAASB clarify this point.

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 support the additional application material on the commonality of controls and centralised activities which are two different types of group-wide controls. We consider that this application material is clear and appropriate. However, we consider that more guidance should be provided, including practical cases, to further explain the difference between these two concepts of commonality of controls and centralised activities. We also believe that the expected work effort on these controls and activities should be clarified. This is why the application material should be enriched by providing more examples on factors to be considered when deciding on whether to rely on the controls and how to test them in practice and the scope of the tests.

Question 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 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, i.e. materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit. The terms "component materiality" and "component performance materiality" are both used in extant ISA 600. Under the risk-based approach in ED-600, there is no longer a requirement for the group engagement team to identify significant components, nor is there a requirement to perform an audit of those significant components. Rather, the group engagement team now determines the appropriate approach to obtain sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements. With this change in approach, we believe that further guidance should be provided to explain how to determine the component performance materiality and its interaction with the group materiality.

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?

Yes, we support the enhanced requirements and application material on documentation and have no specific comment to report.

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

We have a comment on the positioning of the ISA 600 in the handbook. The extant ISA 600 is part of section 6 of the handbook entitled "using the work of others". With the change in the standard, we consider that the ED-600 should be included in section 3 of the handbook, entitled "risk assessment and response to assessed risks". Indeed, the ED-600 appears more as a core auditing standard, i.e. an audit approach for entities with a consolidation process (which may or may not be a group) rather than a standard on using the work of others.

Request for General Comments

Question 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.

The only recommendation to the IAASB is to allow sufficient time to firms, especially smaller firms, to implement the ED-600.