

2 October 2020

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, 10017 USA

Dear Mr. Willie Botha,

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)
EXPOSURE DRAFT, PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 600
(REVISED), SPECIAL CONSIDERATIONS - AUDITS OF GROUP FINANCIAL
STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)**

The Auditing and Assurance Standards Board (“AASB”) of the Malaysian Institute of Accountants (“MIA or the Institute”) welcomes the opportunity to provide its comments on the International Auditing and Assurance Standards Board’s (IAASB’s) proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*.

There is a clear need to update ISA 600 to strengthen the auditor’s approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs. We agree with the objectives for revising ISA 600 and we appreciate the IAASB’s efforts to continue to provide a foundation for high quality global audits.

In evaluating whether the proposals are likely to address key public interest issues and have the intended impact on audit quality, we took into consideration some guiding principles:

- The design and scope of a group audit engagement should correspond to the changes in global corporate reporting and operating structures, in particular, the centralisation of activities and emergence of shared service centres (SSCs) for an effective and efficient audit. This includes where permissible, the sharing of audit evidence performed by other auditors on centralised activities and SSCs by group and statutory auditors, avoiding duplication of efforts.
- Accordingly, audit quality is best achieved when accountability for different aspects of the audit is assigned to those best placed to influence them. We are of the view the role of component auditor is critical and the collaboration with the group engagement team (“GET”) is necessary, recognising that the ultimate responsibility for the group audit lies with the GET.
- The responsibilities specifically assigned to the group engagement partner must be practicable and implementable and the GET must be able to design the audit approach in a way that best meets audit quality given the circumstances of the group engagement.
- A sufficiently detailed understanding of the group, its operations, financial reporting process and controls is crucial for a risk-based audit to ensure that sufficient appropriate audit evidence has been obtained.

The proposed revision of ISA 600 does address a number of these principles, including the ability to design the group audit approach to better reflect differing group structures, in particular, those with centralised activities. However, we are of the view that not all of the above principles are fully addressed and set out our views and suggestions on areas we believe are necessary to provide the safeguards to audit quality.

- **Involvement of component auditors in risk assessment**

We believe a stronger requirement for the GET to determine the need to involve component auditors in performing risk assessment procedures at the component level is necessary to underpin audit quality. Application material that reinforces the importance of two-way communication and effective collaboration between the GET and component auditors would ensure that the knowledge and insight into those component entities and the potential sources of risk are fully understood. In addition, we recommend guidance on factors to consider or a framework in determining the extent of involvement of component auditors. We have further elaborated in questions 5 and 8 on this matter.

- **Scoping - determination of components**

We believe there is a lack of clarity with regards to the identification of components. To be able to determine the risks of material misstatement, and hence, determine the classes of transactions, account balances and disclosures that are significant to the group financial statements, the GET will need to make judgements about what they believe to be the components of the group in order to identify component auditors that they need to engage to ensure a robust and effective risk assessment as described above.

The current ED is premised on the new risk-based approach under ISA 315 (Revised 2019) in driving the determination of components. However, with the removal of the concept of significant components, there should be practical guidance to allow for consistent application.

- **Application of ISA 220**

While we acknowledge the concept in proposed ISA 220 that the group engagement partner “shall take responsibility” for certain matters and can assign tasks, actions or procedures to others, we remain concerned about the practical operability of proposed ISA 220 when applied to large/complex group audit engagements. The emphasis on the overall role of the GET for audit quality in a group audit may have diluted the sense of ownership by component auditors for the judgments and decisions made. There may be unintended consequences on professional skepticism and professional judgement including fraud risk.

- **Shared evidence**

With the increase in centralisation of activities within groups, the standard needs to address considerations relating to circumstances and conditions when it is justified to share audit evidence across the group to support the audit work that may be needed across components as well as the associated implications for direction, supervision and review. This includes considerations for SSCs.

We enclose in **Appendix 1** our detailed comments to the questions contained in the Exposure Draft and possible ways of addressing these comments.

If you have any queries or require clarification of this submission, please contact Mr. Simon Tay at +603 2722 9271 or email at simontaypiteu@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS



DR NURMAZILAH DATO' MAHZAN

Chief Executive Officer

Our comments to the questions are as follows:

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?**
- (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?**

While the enhancement on the linkages to other ISAs and with the proposed ISQMs are appropriate, the AASB is of the view that it may be helpful to the auditors in understanding the standards by including an explicit statement of the context for certain requirements within the wording of the requirement, rather than providing a footnote cross-reference back to the base requirement of the related ISAs. While we recognise the challenge in maintaining that fine balance of not making the standard too lengthy, we believe this aids the understanding of the standard, rather than flipping between the pages of standards.

ISA 220

While the AASB recognises that the group engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement, the AASB believes that the role and responsibilities of the group engagement partner must be practical when applied to large and complex group audit engagements.

The emphasis on the overall role of the GET for audit quality in a group audit may have diluted the sense of ownership by component auditors for the judgments and decisions made. There may be unintended consequences on professional skepticism and professional judgement. Specified procedures to the component auditors may be perceived to be tasks needing completion with less ownership and accountability.

The AASB believes there is a lack of clarity around the principles established in ISA220 on what may constitute the 'provision of information by the firm or others in the engagement team' and what may constitute the assignment of responsibility to someone else in the engagement team. An example would be the assessment of competence and capabilities when the GET expects to use an auditor's expert at the component. In such a situation, the component auditor would be best placed to make that assessment instead of being the provider of relevant information to the GET for their evaluation.

Perhaps additional enhancements or clarifications could be included to the effect that notwithstanding the GET's planned approach for the group audit including scoping decisions at component level, it would not preclude component auditors from applying the necessary professional judgments and other planning decisions including the use of experts at the component level for separate component financial reporting purposes given the component auditors' greater familiarity with the component and component management. Moreover, in certain of these components there may be sub-group audits that are necessary for statutory purposes for which the component is obliged to perform the sub-group audit at component materiality with the added complication of sub-group component auditors. The AASB is of the view there could be significant risk with regulatory challenge as to compliance with the proposed requirements of ISA 220. Similar concerns apply when considering how group structures are making increasing use of centralisation and shared services.

The AASB also emphasises the importance of cascading the responsibility and accountability for the quality of work to component auditors, while achieving a fine balance in the roles, responsibilities and accountability between GETs and component auditors. We are of the view that the concept of assigning responsibility for aspects of quality on the GET, for example, to component partners or a partner overseeing audit work performed at an SSC, is consistent with the principle of ISQM 1.

The AASB recommends the IAASB to further assess the practical operability of ISA 200 when applied to group engagement structures and how the Board seeks to achieve consistent alignment between the two standards with respect to specific responsibilities of the group engagement partner. Further clarity in the proposed ISA 600 is needed in the application of 'shall determine' requirements in the proposed ISA 220, taking into account varying circumstances of group engagement structures, for example, as in the context of paragraph 21.

ED-600 should place additional emphasis on the ability of the GET in relying on the firm's policies and procedures as established in ISQM 1 to allocate and assign appropriate roles and responsibilities to individuals. These may be more practicable in situations where the group audit is performed by a single network firm. There could be various practical challenges in situations where the group audit is performed across several firms that are not part of the same network as the GET may not be able to appropriately assess the ISQM 1 compliance of other firms that are not in the same network.

The proposed revisions to the definition of engagement team, which would include component auditors, will affect the compliance with independence and ethical requirements as all component auditors will be expected to follow the independence and ethical requirements that apply to the GET. The AASB recommends that the IAASB work closely with the International Ethics Standards Board for Accountants ("IESBA") to assess the impact to the Code of Ethics.

ISA 240, ISA 550 and ISA 570

The AASB welcomes the IAASB added requirements that address the aspects of related parties and going concern when component auditors are involved. However, consistent with our earlier point, these need to form part of the risk assessment considerations at the component level involving component auditors.

In addition, the AASB believes that fraud could equally be emphasised in the consideration. There may be challenges to address the risk of fraud faced by component auditors if they are seen to be only performing certain procedures or tasks. This may give rise to practical inability to apply the full spectrum of professional skepticism on fraud. For example, paragraph A9 presents challenges for the group auditor to remain alert to unconscious auditor biases of the component auditors located in various geographic regions.

In those circumstances when the GET chooses not to involve component auditors, it is essential that the GET gives appropriate due consideration to the risk of fraud, related parties, local laws and regulations that the GET may not be as familiar with and matters related to going concern that may exist at the component level and affect the risks of material misstatement or going concern evaluation at the group level. This could be further emphasised in the application material.

ISA 330

The AASB supports the requirements in paragraph A115 which acknowledge the requirement in ISA 330 for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosures which may be helpful for purposes of evaluating the sufficiency and appropriateness of audit evidence in the context of the group financial statements.

The application material could be enhanced by having responses to assessed risks of material misstatement at the assertion level being also considered at the level of the group financial statements as those balances/transactions may be disaggregated across components. The aggregation risk increases especially for a large and complex group engagement as the number of components increases.

ISA 580 and ISA 701

We also believe further linkage to ISA 580, for example, obtaining written representations that the group management has not imposed any restrictions on access to information and linkage to ISA 701 relating to the assessment of the impact of key audit matters at the component level on the group financial statement as another example, would be useful for inclusion within the standard. Additionally, the GET may need to consider the efficacy of the written representation from group management to cover aspects that may arise at the component level.

ISA 315 (Revised 2019)

We recommend that in applying ISA 315 (Revised 2019), the GET should be required to make an initial determination of the components of the group based on the preliminary understanding obtained of the group. This would then form the basis for the group audit to request for a more in-depth understanding and further risk assessment procedures to be performed by the component auditors to enable the GET to make fully informed decisions about the final determination of components.

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?

The AASB supports the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved. The placement of sub-sections supports the clarity of which requirements apply in certain circumstances and aid the scalability of the standard. This makes it easier for the GET to identify which requirements apply and which do not and may be particularly helpful to smaller group audit engagements that are performed entirely by the GET.

Despite our support of the placement of sub-sections throughout ED-600, the AASB would expect that there be a framework on the involvement of component auditors, in particular, with respect to risk assessment when component auditors are involved.

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 AASB is of the view that 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 emphasis on the importance of professional skepticism and professional judgement as well as new “stand-back” requirements are useful reminders to the GET.

However, the changes in risk assessment and basis for scoping may undermine professional skepticism as component auditors may only perform the procedures necessary to audit the specified account balances or line items and give insufficient consideration to the risks relating to the component.

Further, the emphasis on the overall role of the GET for audit quality in a group audit may have diluted the sense of ownership by component auditors for the judgments and decisions made. There may be unintended consequences on the professional skepticism and professional judgement.

In this case, further clarity is needed with respect to the involvement of component auditors in the risk assessment and articulation of the responsibilities of component auditors to highlight the importance of professional skepticism and professional judgment in performing a group audit engagement.

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).**

The AASB supports the intent of the change in definition of group financial statements, including the linkage to a consolidation process although further clarification on what constitutes the term “financial information” would be helpful.

The current focus on a consolidation process in paragraph 11 in defining group financial statements is unclear in relation to the aggregation of divisions of large entities that are not a parent entity of a group. Paragraph A17 would seem to exclude certain activities from the scope of ISA 600 if there is no separately prepared financial information for these components and if these are performed centrally.

Additional clarity and implementation guidance would be helpful with regards to group audits involving an SSC where activities of branches or divisions are performed centrally which may not have separate financial information, or in the case of various branches and outlets within an entity (e.g., banks and restaurants) and real estate investment trust (REIT).

The AASB would also recommend that further guidance be developed to clarify the role of an SSC to help the GETs in designing and performing audit procedures at an SSC. For example, guidance could be given on consideration of when an SSC may be deemed to be a component and how shared audit evidence obtained from the audit of an SSC is leveraged across audits of components of the group. Similar considerations should be made for business process outsourcing or equivalent where certain processes are outsourced to external parties and not part of a formal SSC.

- 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?**

The AASB believes the proposed standard is scalable to groups of different sizes and complexities as outlined in our response to question 2 above.

The separate sections for considerations when component auditors are involved make it easier for the GET to identify which requirements apply and which do not and may be particularly helpful to smaller group audit engagements that are performed entirely by the GET.

ED-600 has given GETs the flexibility in identifying, assessing and responding to the risks of material misstatement and will likely enhance the efficiency of the audit work by reducing unnecessary audit procedures. The AASB is supportive of different scopes of work that the GET may request component auditors to perform, which are largely consistent with the extant standard.

There may be challenges for the GET in applying paragraphs 31 to 39 as the complexity and the diversity of the group increases particularly in larger group audits. There are multiple conditions that the group engagement partner personally perform the actions to satisfy the requirement and is not able to delegate to other members of the engagement team. The AASB believes that greater collaboration with component auditors, auditor's experts and specialists at all stages of group audit is desirable in identifying, assessing and responding to the risks of material misstatement.

Further, the elimination of the concept of "significant components" and the requirement that such components be audited may lead to greater confusion about what work needs to be done and in which locations. The IAASB may want to consider additional guidance to help GETs in identifying when an audit of the component's financial information is necessary.

We recommend that in applying ISA 315 (Revised 2019), a GET should be required to make an initial determination of the components of the group based on the preliminary understanding obtained of the group. This would then form the basis for the group audit to request for a more in-depth understanding and further risk assessment procedures to be performed by the component auditors to enable the GET to make fully informed decisions about the final determination of components. This could be an interactive and continuous interactive process with the component auditors throughout the audit.

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?

The AASB generally supports 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. The additional flexibility provided by the revised definition enables auditors to adopt a group structure without restricting the ability to adopt alternative approaches for purposes of planning and performing the group audit.

However, there could be some inconsistencies arising from the revised definition of a component because it is a departure from the requirements of IFRS 8 Operating Segments on the need for management to disclose segment information in accordance with the view of the identified Chief Operating Decision Maker ('CODM'). The imposition of an 'auditor view' could be contrary to the CODM view, which poses challenges during the audit of segment information. Paragraph A15 refers to component management based on what the auditor has defined as a component, but such component management may not exist. At the same time this could be alleviated by requiring a stand back approach by the GET to reassess if their assessment of components under the 'auditor view' would provide sufficient appropriate audit evidence over the group's consolidation process and the audit of segment information.

Under the risk-based approach in ED-600 which closely aligns with the principles in ISA 315, the GET will need to make a preliminary determination of the risks of material misstatement of the group financial statements to determine components, but the GET may not be able to do this by itself and therefore, may need to involve component auditors as component auditors often have a more in-depth understanding of the component than the GET.

In doing so, there may be a need for greater clarity to ensure sufficient component auditor involvement to perform risk assessment procedures in identifying, assessing and responding to risks of material misstatement when the GET considers such involvement appropriate. The AASB would expect that there would be a framework on the involvement of component auditors, in particular, with respect to risk assessment when component auditors are involved.

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, the AASB supports the enhancements to the requirements and application material and, in particular, the restrictions on access to information and people and ways in which the GET can overcome such restrictions. The differentiation between restrictions on access to information and people that are outside the control of group management and those that are imposed by group management is helpful to the GET.

Paragraph A34 states that in evaluating whether the GET will be able to be involved in the work of the component auditor to the extent necessary, the GET may obtain an understanding of whether the GET will have unrestricted access to the component auditor, including relevant audit documentation sought by the GET.

The language usage of “may obtain” an understanding of whether the GET will have unrestricted access to the component auditor makes it seem optional and not mandatory. There should be an understanding at the outset as suggested by paragraphs 15 and A26, about the ability to have unrestricted access to the component auditor.

The AASB also recommends additional guidance for situations where the GET is unable to obtain sufficient appropriate evidence which may give rise to tension between not accepting an engagement at the onset and accepting the engagement with potential legal risks.

While we acknowledge the enhancements to the application material, we believe that there would be continuing challenges arising from restriction of access to information of equity-accounted components. Therefore, we recommend that additional guidance and examples be provided regarding restriction on access to information and people with an emphasis on challenges related to equity-accounted components.

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?

Please refer to our comments in question 1 in respect of ISA 220 with regards to the respective responsibilities of the group engagement team and component auditors.

The AASB believes that greater collaboration with component auditors at all stages of a group audit is needed in identifying, assessing and responding to the risks of material misstatement. For example, paragraph A110 could be expanded to note the importance of timely response and communication by the component auditor.

While it is important to indicate the importance of the GET’s accountability for an appropriate assessment of the risks of material misstatement on a group audit, for the GET to be effectively scoping the risks, it has to have a thorough and complete understanding of the business including inherent risks, major processes and internal controls. This can be challenging in the larger and more complex group audits.

There may be concerns regarding the possibility of insufficient involvement of component auditors resulting in an incomplete or inaccurate assessment by the GET as the GET may not have full familiarity of local risks and regulatory matters in the components. The component auditors may perform only the procedures necessary to audit the specified account balances or line items, giving insufficient consideration to the risks relating to the component.

With the above changes and elimination of the concept of "significant components", there may be a need for greater clarity to ensure sufficient component auditor involvement in performing risk assessment procedures to identify, assess and respond risks of material misstatement when the GET considers such involvement appropriate. The emphasis on the importance of having a thorough and complete understanding of the group and articulation of the responsibilities of component auditors in the standard would be helpful. Additional application materials could help to emphasise the importance of the role of the component auditor in identifying, assessing and responding to the risks of material misstatement and, working in collaboration with the GET. Paragraph A96-A101 could be enhanced to emphasise that previous insights obtained by the component auditor about the entity may assist the GET's approach in determining the audit evidence likely to be required.

Further, paragraph 42 states that the engagement team may use audit evidence from statutory audits of components if the GET is satisfied that the work is appropriate for the GET's purposes. The paragraph may undermine the group engagement partner's responsibility and accountability for the identification and assessment of risks of material misstatement, and design of further audit procedures and evaluation of the sufficiency of audit evidence obtained.

The proposed approach may compromise audit quality as the GET may not identify and assess the risks of material misstatement at the component level, especially for those components with higher assessed risks of material misstatement that could result in risks of material misstatement at the group financial statement level, and may not be able to design appropriate responses to address those risks. As such, the IAASB could consider expanding paragraph A82 to reflect that component auditors should proactively relay potential risks of material misstatements to the GET.

However, the AASB believes further guidance could be provided to clarify regarding circumstances when the use of audit evidence from an audit performed for another purpose will be appropriate. As examples, paragraphs A34 and A35 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 GET, to confirm that there will be access provided to component auditor documentation, etc).

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

The AASB supports the additional application material on the commonality of controls and centralised activities.

We believe further clarity is needed with respect to the audit within an SSC. Further guidance on the role of an SSC would be helpful to the GETs in designing and performing audit procedures at an SSC. For example, consideration of when an SSC may be deemed to be a component and how shared audit evidence obtained from audit of an SSC is leveraged across audits of components of the group given the increasing expectation of clients for work done at an SSCs to be shared across various audits across the group.

There may be circumstances when audit evidence obtained at an SSC is necessary to enable a component auditor to perform and conclude on further audit procedures assigned to the component auditor by the GET. As such, the AASB believes that greater collaboration with an SSC and component auditors at all stages of group audit is desirable to ensure sufficient component auditor involvement in evaluating the sufficiency and appropriateness of shared audit evidence obtained from audit of an SSC. The ISA should address considerations relating to circumstances and conditions when it is justified to share audit evidence across the group to support audit work needed across components as well as the associated implications for direction, supervision and review. It may seem incomplete for the IAASB to ignore or defer consideration of the practical reality in the design and performance of the group and statutory audits in the broader context of a group audit engagement. We note that further changes to ISA 220 are likely needed in this regard.

In addition, further clarification would be helpful about the controls that are designed and operated specifically at the group level (i.e., not “common controls” across the group).

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

The AASB supports 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.

However, with the elimination of the significant component concept, the AASB sees challenges in determining performance materiality of the components. There may be a need for more specific guidance or a methodology for the assignment of performance materiality to components. Although ED-600 is clear that component performance materiality should be set at an amount lower than group performance materiality to address aggregation risk, the IAASB may want to consider additional application material or implementation guidance via examples of how a determination or allocation might be made. The determination of an appropriate component performance materiality may require the involvement of the component auditor.

We believe that the application material could be improved by providing additional details and clarity surrounding component performance materiality in light of the disaggregation example in paragraph A75.

ED-600 needs greater clarity for situations involving joint ventures, associates and shared service centres to provide guidance for GETs on component materiality considerations in ED-600.

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?

The AASB supports the enhanced requirements and application material on documentation. The guidance relating to the GET's audit documentation when access to component auditor documentation is restricted is helpful.

One of the significant changes being made to the requirements of ISA 300, which will apply to all audit engagements is that the planned direction, supervision and review of the engagement team (including all components) need to be documented as part of the planning documentation. This will give rise to significant increase in the planning documentation, especially for those large and complex group audit engagements.

However, the documentation requirement in relation to the planned direction, supervision and review of the engagement team is unclear on whether or not the documentation requirement could be satisfied through signing off planning documentation or there is a need for more detailed documentation outlining the rationale for assigned work, individuals and reviewers. Further consideration on the nature and extent of audit documentation will be helpful to clarify the current requirement. Further clarity relating to the extent of evidence that is expected to be retained in the group audit documentation where a component auditor is involved in the risk assessment process would be helpful.

12. Are there any other matters you would like to raise in relation to ED-600?*Determination of components with higher assessed risks of material misstatement*

In developing ED-600, the AASB is of the view that the IAASB will need to evaluate the implications of this proposed standards to the group management. The lack of clarity in the determination of components may result in conflicting views between how the management and GET identify components with higher assessed risks of material misstatement. There may be increased pressures from group management to perform the minimum work necessary to address the risks of material misstatement in an audit of group financial statements which will potentially compromise audit quality. In our view, ED-600 could include various factors to consider in determining components with higher assessed risks of material misstatement.

Access to information

Another challenge that is somewhat still common in a decentralised group structure is that the GET's access to information may be limited especially in an SSC situation. Further guidance on the sharing of information on a group audit will benefit those group audits involving an SSC.

Communications

ED-600 places additional emphasis on the importance of two-way communication between the GET and component auditors, which includes matters relevant to risk assessment and this is helpful to assist the GET to communicate and involve component auditors in all the phases of the audit.

External audit quality inspection results/reports of the component auditor

A further challenge to the GET may arise in obtaining an understanding of the component auditor if concerns regarding the quality of the component auditor exist, in particular, with respect to the limited access of information about external audit quality inspection. We would welcome further clarification on the extent of the required documentation and proposed source information for obtaining external inspection results/reports particularly those that are not publicly available as well.

International Consensus

We would encourage the IAASB to work closely with the Public Company Accounting Oversight Board (PCAOB) to ensure that ED-600 is internationally harmonious. It is positive and in the public interest that the IAASB and PCAOB take a relatively similar approach in an audit of group financial statements.

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.
- (a) Not applicable.
- (b) As there are substantive revisions to the standard, the AASB is of the view that a period of 24 months after approval of a final ISA would be preferable for the AASB to support effective implementation of the final revised standard. Notwithstanding that, earlier application should be permitted and encouraged.