

August 31, 2020

SENT ELECTRONICALLY

International Auditing and Assurance Standards Board

Dear Sirs/Mesdames:

RE: Proposed International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (“ED-600”)

Thank you for the opportunity to comment on the above Exposure Draft.

Overall, we support the International Auditing and Assurance Standards Board’s project to revise ISA 600. We agree that it is important to clarify the existing requirements in the standard to promote consistent application.

We have reviewed ED-600 and have provided our responses to the specific questions below.

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?

Yes, the linkages to other ISAs and the proposed ISQMs are appropriate.

(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?

Yes, ED-600 sufficiently addresses the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs.

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?

Yes, we support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved. However, we are concerned that the application of the definition of “component auditors” may be difficult in some circumstances. Paragraph 9 of ED-600 states a component auditor is “an auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component

auditor is a part of the engagement team”. We recommend adding examples of this concept to ED-600 to provide clarity to auditors in applying the revised definition. For example, we suggest clarification regarding the group auditor’s use of third-party auditors to perform inventory counts at specific locations and provide working papers to the group auditors. In this situation is the third-party auditor considered a component auditor whereby the additional requirements noted in the sub-sections within the ED-600 would apply? Would there be any situation in which a third-party auditor is engaged in a group audit but would be excluded from the definition of a component auditor?

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 support the requirements and application material related to the appropriate exercise of professional skepticism in relation to an audit of group financial statements. However, we believe additional implementation guidance on what constitutes appropriate evidence of the application of professional skepticism would be helpful in documenting professional skepticism within the audit engagement file.

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).

Yes, we support the definition of group financial statements, including the linkage to a consolidation process, and believe that the applicability of ED-600 is clear. We support the IAASB’s efforts to clarify the scope and applicability of ED-600.

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, we believe the proposed standard is scalable to groups of different sizes and complexities.

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.

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?

Yes, we support the enhancements to the requirements and application material with respect to the acceptance and continuance of group audit engagements, and we believe that ED-600 appropriately

addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions.

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?

Yes, 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?

Yes, 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 have not identified any practical challenges in implementing the risk-based approach.

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 that the application 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?

Yes, we support the focus on component performance materiality and the additional application material. However, professional judgement will be required by audit firms to determine audit methodologies related to the calculation of component performance materiality and we believe that implementation guidance regarding the determination of component performance materiality would be helpful in ensuring consistency.

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?

We believe that paragraph 57 sufficiently describes the specific matters that should be documented. We support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230.

(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 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.

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

Paragraph 21 (b) of ED-600 requires that when information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, the group engagement partner shall determine the relevance of such information to the group audit and determine its effect on the group audit.

We expect that there will be challenges with obtaining the results of the monitoring and remediation process or external inspections with respect to component auditors' firms. We note that there is no obligation for component auditors to provide this information to the group engagement team, and typically these reports are confidential or only limited information is available publicly. Further, it may be especially challenging to obtain this information regarding component auditors in foreign jurisdictions, where additional restrictions on access to information may exist.

We believe additional guidance on the expected nature and extent of procedures relating to information about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm should be provided.

Request for General Comments

13. The IAASB is also seeking comments on the matters set out below:

(a) 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.

We believe that ED-600 should be effective for financial reporting periods beginning approximately 24 months after approval of a final ISA to allow a sufficient period for effective implementation.

ED-600 is a substantive revision and will require firms to complete a detailed analysis of the group audit changes to update: internal policies; supplemental guidance; templates; and allow time for appropriate training. Further, group audits are a complex area and the changes will require significant time for group engagement teams to plan and implement with their clients and component auditors.

Additionally, other substantive revisions to ISAs, such as ISA 315 *Identifying and Assessing the Risks of Material Misstatement*, will also require updates to internal policies, supplemental guidance, templates and training material during this period.

We would be pleased to offer our assistance to the IAASB in further exploring issues raised in our response and in helping to find alternative solutions which meet the needs of the financial statement users.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous, medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies, including many with significant operations outside of Canada.

Yours truly,

MNP LLP

A handwritten signature in cursive script, appearing to read 'MBalmer', written in dark ink.

Michelle Balmer, CPA, CA
Vice President, Assurance