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GAO's Response to the International Auditing and Assurance Standards Board's Proposed ISA 600 (Revised), Special Considerations---Audits of Group Financial Statements (Including the Work of Component Auditors)

This letter provides GAO's comments on 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)*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the IAASB's efforts to improve its group audit standard and the exposure draft's approach of using a consolidation process as the focus for the group audit. The use of separate sub-sections to discuss the use of component auditors helps clarify and focus the role of the component auditor. In addition, the use of a risk-based approach to determine materiality is a useful method that would assist the group audit team identify materiality when component auditors are used.

The IAASB seeks comment on 13 specific questions. Our responses to the questions follow in the enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or wish to discuss any of our responses, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov.

A handwritten signature in black ink, appearing to read "James R. Dalkin".

James R. Dalkin
Director
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Enclosure

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Responses to Questions to the International Auditing and Assurance Standards Board's *Proposed ISA 600 (Revised), Special Considerations---Audits of Group Financial Statements (Including the Work of Component Auditors)*

- 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?**

Our review of the proposed International Standard on Auditing (ISA) 600 (ED-600) found that the International Auditing and Assurance Standards Board's (IAASB) linkage to other ISAs and International Standards on Quality Management (ISQMs) is sufficient. We 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.

- 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 inclusion of sub-sections highlighting the requirements when component auditors are involved is helpful to users of the standard. Additional measures can be taken to make the sub-sections related to component auditors clearer within the requirements, including use of icons, underlining, or other ways to visually highlight the component auditor sub-sections.

- 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 requirements of ED-600 appropriately reinforce the exercise of professional skepticism as it relates to an audit of group financial statements. We believe that an additional paragraph after the application material paragraphs on professional skepticism (A9 and A10) providing more focus for the component auditor would be helpful for component auditors.

- 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 scope and applicability of ED-600 is clear. We support the definition of group financial statements, including the linkage to a consolidation process.

- 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 scalability of ED-600 to groups of different sizes and complexities is appropriate.

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, as a focus on the “auditor view” is useful 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?

The enhancements included in the requirements and application material should be useful during group audits. The inclusion of paragraphs related to component auditors should be helpful. The requirements for addressing restrictions on access to information and people is straightforward. The application material for this section (A27-A31) is useful for identifying ways to overcome restrictions to information and people. The application material also provides useful information on how to address instances where the group audit team is not able to overcome the restriction.

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?

The risk-based approach has the potential to 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. We believe that a practical challenge may be with the two-way communication between the group auditor and the component auditor. However, we are concerned that there may be instances where the group auditor does not assign the design and performance of risk assessment procedures to a component auditor, but the component auditor nonetheless is aware of risks that may impact the group audit. We believe this can be addressed by providing an additional example in 44 (g) or an additional sub-sentence in paragraph 44 that discusses communication of risks to the group auditor. In addition, we suggest clarifying whether paragraph 44 is referring to all the component auditors or just the component auditors involved by the group auditor in the audit.

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 believe that the IAASB's addition of more application material on the commonality of controls and centralized activities is useful to auditors. The inclusion of a few more examples could further improve the application material in this area.

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 focus on component performance materiality will be helpful for the group auditor in addressing aggregation risk. The added application material provides useful guidance to apply the requirements and is clearer than the existing application material. It would be helpful to adjust the application guidance section to clearly discuss when component auditors are used, so group auditors can clearly identify the applicable application material.

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?

We support the enhanced requirements and application materials on documentation. We did not identify any additional matters that should be documented outside of those described in paragraph 57. We agree that the information in paragraphs A129 and A130 is helpful application material. We would recommend moving the first sentence in A130 to A129, as the information in the rest of A130 is a different scenario and should stand on its own.

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

We do not have additional matters to raise beyond what has been covered by our responses to the other questions.

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.

We are not providing a response to this question regarding potential translation issues. We find the 18 months sufficient for an effective date.