INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

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Tom Seidenstein,
Chairman
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York
10017 U.S.A.

RE: Exposure Draft, proposed ISA 600 (revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Submitted via IAASB website

Dear Mr Seidenstein:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Auditing and Assurance Standards Board's (IAASB) Exposure Draft, proposed ISA 600 (revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600).

The IAIS acknowledges that group audits are complex and appreciates the IAASB's continued efforts to provide guidance that will enhance overall audit quality of group audits. Overall, the IAIS is supportive of the proposals in the consultation.

The following points are considered particularly important:

- The adoption of a risk based approach and increased linkages with other standards. The audit of group financial statements is an audit as any other, and so it is right to emphasise that the other standards are applicable (including ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*). Compared to the current standard, a risk-based approach should lead to a better assessment of the potential risks of material misstatement, and selection of procedures to address these risks.
- Emphasis on the application of the quality management standards to the engagement. There are many challenges in undertaking an audit of group financial statements. It is therefore essential that there is appropriate quality management of the audit, and that responsibility for quality management is clearly assigned. Linking to ISA 220 *Quality Control for an Audit of Financial Statements* and the International Standard on Quality Management standards should be beneficial in this regard.

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- Emphasising the responsibility of the Group Engagement Team and Partner to gather sufficient appropriate evidence and manage quality at the engagement level (including the group engagement team's responsibility to identify and assess the risks of material misstatement, and to design and perform further audit procedures). It is appropriate that the group engagement team can make use of component auditors to assist the different stages of the audit, but use of the component auditor should not diminish the responsibilities of the Group engagement team.

The IAIS also supports the proposals in the following key areas:

- Scalability
- Restrictions on access.
- Internal controls
- Documentation

Although the IAIS is supportive of the proposals in the consultation, we do have suggested improvements that would be useful for audits, including for those in the insurance sector.

In insurance group audits, experts are utilised to opine on the reserves, and it can be very important for auditors to be knowledgeable on the laws and regulations of the various jurisdictions where the group does business. The IAIS recommends that ISA 600 includes more guidance on how ISA 620 *Using the Work of an Auditor's Expert* and ISA 220 should be considered in group audits. Additionally, the IAASB may want to consider providing further guidance on other issues that may provide additional challenges or be particularly relevant in a group context. Such issues may include remote auditing, joint audits in a group context and how to avoid potential quality differences in the work carried out by group and component auditors, whether these are within the same audit network or not.

We have provided answers to the individual questions in Annex 1.

This response letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG). The AAWG`s membership represents a subset of all IAIS members. If you have further questions regarding this letter, please contact Jay Muska at the IAIS Secretariat (tel: +41 61 280 8953; email: jay.muska@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,

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Annex 1 - Comments on Individual Questions

Q1. 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?

Generally, we agree there are appropriate linkages to other standards and ED-600 captures the special considerations that apply to a group audit. We would however suggest further clarity is needed in relation to ISA 220 and ISA 620 as well as ISA 250 C*onsideration of Laws and Regulations in an Audit of Financial Statements* where the standard is currently silent.

ISA 220 – Quality management for an audit of financial statements

The IAIS is aware that differences in opinion can arise in a group audit context given their complex nature and this is especially the case given the complexities that exist in the insurance sector. Paragraph 34 of the ISA 220 Consultation paper (published February 2019) deals with how differences in opinion should be resolved, but ISA 600 does not seem to address how this would work in a group context, especially where a component auditor is not from the same audit network. The IAASB should consider providing greater guidance in this area, for example through the group engagement partner communicating the relevant policies and procedures for dealing with and resolving differences with the component auditor at an early stage.

ISA 620 - Using the work of an auditor's expert

In insurance group audits, auditors use specialists (actuaries, IT specialists) which are auditors' experts, in obtaining sufficient appropriate audit evidence.

1. Actuaries :
   a. actuaries can be used to challenge liabilities estimates (reverse product cycle) which have a certain degree of uncertainty (accounting estimates)
   b. auditors experts such as actuaries can be located at component level (domestic or not) or pooled in foreign countries (shared services centers).

2. IT specialists:
   a. due to the computerized environment in insurance business, and
   b. in the context of the IT development required in the future for the implementation of IFRS17.

Consistent with the above, the IAIS believes that ISA 620 can be very relevant for group audits where specialist knowledge and expertise is often required, especially in the insurance sector. As such, we recommend that ISA 600 address the group engagement team's responsibility in

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determining whether to use an expert. It should also consider the group engagement team's input into the nature, timing and extent of the expert's work for the group and the components audits. The use of experts and the interaction between the component and group auditor in deciding how to use these will be especially relevant in the context of the implementation of the new risk based approach.

ISA 250 Considerations of laws and regulations in an audit of financial statements

The IAIS believes that considerations of laws and regulations are crucial in a group audit as components might operate in different jurisdictions, which give rise to different laws and regulations, that may impact the group as a whole.

Specifically, insurance business is highly regulated and products, activities or processes may be subject to specific local requirements. Activities are often subject to authorisations and ongoing supervision.

The group engagement team should obtain an understanding of the legal and regulatory framework that may affect the group (including any components) and the sectors in which it operates. This will allow this team to identify and assess the risks of material misstatement. In addition, understanding how the components are complying with that legal and regulatory framework may also aid the group engagement team in understanding the risks of the firm and how these have been addressed by the component auditor. Indeed, local regulations can affect many areas like policyholders' protection and underwriting processes across countries and may have direct consequences for the liabilities booked in the accounts.

As an example, in France, 10 year liability insurance coverage related to building damage insurance is compulsory by law and can be offered by foreign insurance companies (within the European Union context of the freedom of services). When a foreign insurance company proposes such cover, it may be important that the group engagement team have knowledge of the French legal requirements related to this cover.

As such, we suggest that the application material in paragraph A56 "relevant regulatory factors"[1] is included in the standard paragraph 24(a)(i)(new d). We also agree that two-way communication between the group engagement team and component auditors will be important to help to identify and mitigate audit risks (eg as noted in paragraph 4 of the exposure draft.)

Q2. 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 IAIS agrees that the structure of the standard is appropriate. It helps reinforce the responsibilities of the Group Engagement Team for the overall audit and highlights the role of the component auditor as part of that team.

[1] 4th bullet point

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Q3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements?

The IAIS agrees that the draft standard appropriately reinforces the exercise of professional scepticism.

Q4. 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 IAIS believes the scope is relatively clear. However, it may be useful to retain paragraph 2 in the current ISA 600 (which has been deleted in ED-600). This paragraph indicates that the principles in the standard may be relevant to other scenarios outside the scope of the standard (eg when the audit involves other auditors in the audit of financial statements that are not group financial statements).

For example, in the case of a subsidiary entity within a group (especially where the group has a high degree of centralisation) then the principles from ISA 600 may still be relevant and useful to apply. In this case, from the perspective of the subsidiary auditor, the group audit team has some characteristics of a component auditor. As with a group audit, a two-way communication between the subsidiary and group auditor would be important.

Q5. 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 IAIS believes the ED-600 is scalable to groups of different sizes and complexities, in particular due to the introduction of the risk-based approach and the strengthening of the responsibility assigned to the group engagement team in identifying and addressing the risks of material misstatements in the group financial statements.

Q6. 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 IAIS supports the revised definition of a component to focus on the "auditor view". The reason for identifying components is for the purpose of the audit and so it seems appropriate that there should be scope for the auditor to deviate from the view of management if required.

Q7. 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,

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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 IAIS supports the enhanced requirements for acceptance and continuance of group audit engagements (including addressing the restrictions on access to information). The practical guidance is helpful (including the types of restriction and approaches to deal with these). We welcome that the standard does not alleviate the group engagement team from its responsibility to gather sufficient appropriate evidence where restrictions may exist.

Q8. 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 IAIS supports the risk-based approach and considers that it will result in an appropriate assessment of the risks. The IAIS also believes that the respective responsibilities of the group and component auditor are clear (eg the standard is clear that the group engagement team has overall responsibility). We note there are a number of practical challenges to undertake a risk-based approach – but do not believe these mean the risk-based approach should not be applied.

For example, additional challenges in a group context may include increased complexity of group structures and operations that makes it difficult to understand and assess the risks (eg risks are spread across entities, complex intra-group transactions can obscure risks). These practical challenges may mean that it is challenging for the group engagement team to have a comprehensive understanding of the environmental factors affecting the group (eg different laws, regulations, economic conditions).

This is particularly the case for certain sectors (eg insurance sector) that are subject to extensive and detailed regulations.

In these special contexts, the IAIS believes that the group engagement team may need to make use of the expertise and local knowledge of the component auditors to properly understand and assess the risks. An effective two-way communication between the group engagement team and component auditor will be important in this regard. Such communication may also help to mitigate possible challenges for the group engagement team in assessing the adequacy of the component auditor's work.

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Furthermore, where a risk of material misstatement is spread across a number of jurisdictions, it is the responsibility of the group engagement team to identify, assess and determine the procedures that need to be undertaken.

Q9. Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?

The IAIS agrees with the additional material on controls and centralised activities.

Q10. 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 IAIS supports the approach to component materiality, including that there is a definition of aggregation risk and that component materiality is determined by the group engagement team.

Q11. 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 IAIS supports the enhanced requirements for documentation and appreciates the IAASB's efforts to address the challenges that could arise in an audit of group financial statements (eg access restrictions to the components auditor's documentation).

Q12. Are there any other matters you would like to raise in relation to ED-600?

With respect to current and former cases of fraud and abuse, we welcome the number of references to ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* in ED-600. Nevertheless, we would welcome discussing the topic of fraud with the IAASB in the future.

Q13. 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.

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(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 IAIS welcomes the earlier adoption option and has no comments on translation.

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