



# ISA 600 – Group Audits

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IAASB CAG Meeting March 2020

Agenda Item F.1



International Auditing  
and Assurance  
Standards Board

# Objectives

- Report back on the September 2019 meeting
- Update on the work of the Task Force since the September 2019 meeting
- Obtain views on proposed ISA 600 (Revised)



# Overview

**December 2019 Board Meeting and January 2020 Board Teleconference**

**Role of Component Auditors**

**Restructuring**

**Restrictions on Access to People and Information**

**Materiality Considerations in a Group Audit**

**Documentation**

**Exposure Period and Effective Date**

**Matters for the Explanatory Memorandum**

# December 2019 Board Meeting and January 2020 Board Teleconference

## December 2019 Board Meeting and January 2020 Board Teleconference

- Presented first complete draft (excluding appendices) to the Board in December 2019
- General support for direction and principles of risk-based approach
  - But wording doesn't always describe what is intended
  - Need to better explain and highlight that the group engagement team (GET) has overall responsibility for identifying, assessing and responding to RoMM of the group financial statements, but Component Auditors (CA) may be involved (and, in many cases, may need to be involved)
- Questions and concerns about
  - Consistency between requirements and application material
  - Consistency of terminology (e.g., engagement team, GET, CA)
  - Expectations of the GET or group engagement partner
  - Clarity scope: Definitions 'component' and 'group financial statements' (see section I-C of **Agenda Item F.3**)
- More clarity or guidance in certain areas (e.g., common controls, use of SSC)
- Presented appendices and conforming amendments to the Board in January 23, 2020 teleconference
  - General support, suggestion to further align appendices 2 and 3 with ISA 315 (Revised 2019)

# Group Engagement Team's Responsibilities and Involvement Component Auditors

## Key Changes Since Sept. 2019: GET's Responsibilities and Involvement CA

- The GET takes responsibility but may assign procedures to CA
  - Paragraph 4 explains 'shall take responsibility' construct
    - Similar to construct used in proposed ISA 220 (Revised)
  - CA may be involved given that they may have a more in-depth knowledge of the component and the component's business activities
- CA may be involved throughout the audit
  - Risk assessment procedures
  - Identifying and assessing RoMM
  - Responding to assessed RoMM
- Responding to RoMM: GET may request CA to
  - Design and perform further audit procedures on the entire financial information of the component
  - Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures
  - Perform specific further audit procedures as identified and communicated by the group engagement team

## Key Changes Since Sept. 2019: Engagement Performance and Two-Way Communication

- Engagement Performance
  - Added requirement on the group engagement partner's responsibility for the nature, timing and extent of direction and supervision of CA and review of their work
- Two-Way Communication
  - Emphasized in a requirement the importance of communicating on a timely basis
  - Added application material based on guidance in ISA 260 (Revised)
    - Matters that may contribute to effective two-way communication
    - Factors that may influence the form of communication
    - Appropriate timing for communications
  - Added application material on possible need to communicate with CA regarding non-compliance or suspected non-compliance with laws and regulations



## Matter for IAASB CAG Consideration

### Question 1

The Representatives are asked for their views on how ED-600 addresses the responsibilities of the group engagement team, and the involvement and interaction with component auditors, under the risk-based approach

# Restructuring

## Key Changes Since Sept. 2019: Restructuring

- Considerations when CA are involved
  - Based on Board input, TF reconsidered structure of special considerations when CA are involved
  - Task Force decided to include in each section of the standard a sub-section on considerations when CA are involved
  - Advantages are
    - Clarifies the interactions between GET and CA throughout the different stages of the group audit
    - When CA are involved, clearer that they are an integral part of the engagement team
    - Enhances scalability as it is easier to see which requirements apply when CAs are not involved
- Going concern, related parties and subsequent events
  - December 2019 draft: based on comments of the IAASB and IAASB CAG, added paragraphs on going concern and related parties
    - March 2020 draft: Integrated paragraphs on going concern and related parties into Risk Assessment and Response to Assessed RoMM sections
    - Subsequent events paragraphs not moved – consistent with the location in extant ISA 600

## Matter for IAASB CAG Consideration

### Question 2

The Representatives are asked for their views on the restructuring of ED-600

# Restrictions on Access to People and Information

## Key Changes Since Sept. 2019: Restrictions on Access to People and Information

- Added requirement that group management needs to acknowledge and understand its responsibility in accordance with ISA 210 to provide the engagement team with unrestricted access to information and, to the extent possible, relevant persons within the group
  - Clarified that access restrictions can be management-imposed or can arise due to law, regulation or other conditions. When restrictions are imposed by management, it may result in other implications for the audit (e.g., concerns about management integrity)
  - Clarified that laws and regulations may prohibit access to persons within the group
- Added application material on how the GET may be able to overcome restrictions on access to people and information
  - Includes guidance on how to overcome restrictions related to an equity accounted investee

## Matter for IAASB CAG Consideration

### Question 3

The Representatives are asked for their views on how ED-600 addresses restrictions on access to people and information

# Materiality Considerations in a Group Audit



## Key Changes Since Sept. 2019: Materiality Considerations in a Group Audit

- Added new definition of aggregation risk
  - Addresses calls for greater clarity about the concept of aggregation risk
  - Aggregation risk is particularly important to understand and address in a group audit
    - Greater likelihood that audit procedures will be performed on accounts, classes of transactions or disclosures that are disaggregated across components
- Changed definition of ‘component materiality’ to ‘component performance materiality’
  - Both terms are used in extant ISA 600, but Task Force believes this may have led to confusion
- Enhanced requirements and application material
  - GET determines component performance materiality and communicates it to CA
  - Component performance materiality must be lower than group performance materiality
  - Clearly trivial threshold at component level cannot exceed threshold at group level
  - Factors to take into account in setting component performance materiality

## Matter for IAASB CAG Consideration

### Question 4

The Representatives are asked for their views on how ED-600 addresses component performance materiality in a group audit

# Documentation

## Key Changes Since Sept. 2019: Documentation

- Task Force considered issues identified in the ITC and highlighted by respondents to the ITC
- Key enhancements made include the following
  - Added a new requirement to document significant matters related to access to people and information, and how those matters were addressed
  - Deleted the requirement relating to an analysis of components and the type of work to be performed on components (addressed by ISA 300)
  - Added a requirement for documentation of the GET's evaluation of, and response to, findings of the CA with respect to matters that could have a material effect on the group financial statements
- Expanded the related application material to address input from the Board and through outreach, including when the GET is restricted from including CA documentation in its audit file
- Issues with respect to documentation will be addressed in the Explanatory Memorandum
- Task Force also is considering FAQs/Staff guidance to address implementation issues related to the documentation requirements (including on restrictions)

## Matter for IAASB CAG Consideration

### Question 5

The Representatives are asked for their views on the requirements and guidance on documentation in ED-600

# Exposure Period and Effective Date

# Way Forward



## Matter for IAASB CAG Consideration

### Question 6

The Representatives are asked for their views on the exposure period and the planned effective date



# Matters for the Explanatory Memorandum

## Explanatory Memorandum

- Task Force has given preliminary consideration to matters it believes are useful to address in the Explanatory Memorandum accompanying the ED for proposed ISA 600 (Revised)
- Matters are listed in section IV of **Agenda Item F.2** and include
  - Public interest matters and how they have been addressed
  - Coordination with IESBA and IAASB Task Forces (ISQM 1, ISQM 2, ISA 220, ISA 315)
  - Explain scope of the standard
  - Explain decision not to develop a separate standard for CA
  - Describe risk-based approach, including the role of and interaction with CAs
  - Explain issues related to documentation and the enhanced documentation requirements and application material

## Matter for IAASB CAG Consideration

### Question 7

The Representatives are asked whether there are any other matters, not noted in paragraph 73 of **Agenda Item F.2**, that should be addressed in the Explanatory Memorandum



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