

Please note this paper represents the ISA 600 Issues paper for the March 2020 IAASB meeting and is provided to the CAG Representatives for context, as appropriate. Specific questions for CAG Representatives are included in Agenda Item F.1 (ISA 600 Presentation)

**Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* — Issues and Recommendations**

**Objective of the IAASB Discussion**

The objective of this agenda item is to approve the exposure draft of proposed ISA 600 (Revised), and conforming and consequential amendments, as set out in **Agenda Item 3-B** (Proposed ISA 600 (Revised)) and **Agenda Item 3-D** (Conforming and Consequential Amendments) respectively.

**Material Presented**

<b>Agenda Item 3-A</b>	Discussion of Other Significant Changes to Requirements, Application Material, Appendices and Conforming Amendments
<b>Agenda Item 3-B</b>	Proposed ISA 600 (Revised) – Clean
<b>Agenda Item 3-C</b>	Proposed ISA 600 (Revised) – Marked
<b>Agenda Item 3-D</b>	Proposed Conforming and Consequential Amendments – Marked from January 23, 2020 Teleconference
<b>Agenda Item 3-E</b>	Proposed Conforming and Consequential Amendments – Marked from Extant

**Introduction**

1. This agenda item is organized as follows:
  - Section I explains the significant changes to the draft of proposed ISA 600 (Revised), as included in **Agenda Item 3-B**;
  - Section II describes the significant changes to the conforming and consequential amendments, as included in **Agenda Item 3-D**;
  - Section III describes the ISA 600 Task Force's (the Task Force) views on the exposure period and the effective date, and due process matters; and
  - Section IV describes the matters that the Task Force proposes to include in the explanatory memorandum accompanying the exposure draft of proposed ISA 600 (Revised).
2. **Appendix 1** summarizes recent Task Force activities, including outreach. The draft minutes of the December 2019 IAASB meeting are included in **Appendix 2**. The draft minutes for the January 23, 2020 IAASB teleconference will be distributed to the Board before the March 2020 IAASB meeting.

3. In developing the agenda materials, the Task Force took into account the comments from Board members from the December 2019 IAASB meeting and the January 23, 2020 IAASB teleconference, and comments received on the full turnaround draft of proposed ISA 600 (Revised) as distributed to the Board on December 21, 2019 (December 21, 2019 draft), as well as feedback received on outreach.

### Approach for the Discussion of the Agenda Items

4. The Task Force Chair will present the agenda items in the following order:
  - The revisions to the proposed standard, using **Agenda Item 3-B** as the basis for discussion. In walking through the standard, the Task Force Chair will refer to the matters highlighted in section I of this agenda item and the other significant changes as discussed in **Agenda Item 3-A**. The Task Force Chair will walk through the standard in sections and will take comments on the requirements together with the related application material. See below for an overview of the planned order of discussion of the sections.

Section	Paragraphs
Introduction, Objectives	1-6 and A1-A8
Definitions	7 and A9-A14
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit, Acceptance and Continuance	10-21 and A15-A48
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control	22-25 and A49-A69
Materiality, Identifying and Assessing the Risks of Material Misstatement	26-29 and A70-A84
Responding to the Assessed Risks of Material Misstatement	30-39 and A85-A106
Two-Way Communication Between the Group Engagement Team and the Component Auditor	40-43 and A107-A113
Subsequent Events, Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	44-47 and A114-A117
Auditor's Report, Communication with Group Management and Those Charged with Governance of the Group	48-52 and A118-A123
Documentation	53, A124-A130
Appendices 1, 2 and 3	

- The conforming and consequential amendments, as included in **Agenda Item 3-D**.

- The other matters in section III of this agenda item; and
  - The possible topics for inclusion in the explanatory memorandum in section IV of this agenda item.
5. **Agenda Item 3-C** may be useful in understanding the changes from the draft of proposed ISA 600 (Revised) that was sent to the Board on December 21, 2019, and, for the appendices, as presented for the January 23, 2020 IAASB teleconference.
6. Section I of this agenda item describes the most significant changes to the requirements and application material (as presented in **Agenda Item 3-B**). **Agenda Item 3-A** provides background information on other significant changes made by the Task Force to the requirements and application material and the conforming and consequential amendments, and the rationale for those changes.

### Coordination Activities

#### *ISA 220 Task Force*

7. The Task Force continued its liaison with the ISA 220 Task Force. The goal of the liaison is to make sure that proposed ISA 600 (Revised) is aligned with the changes made to proposed ISA 220 (Revised).<sup>1</sup> Given the close relationship between the two standards, the Task Force wants to make sure that there is a proper linkage between the standards, i.e., that the requirements and guidance in proposed ISA 600 (Revised) build on, and are consistent with, the principles and requirements in proposed ISA 220 (Revised). Two members of the Task Force are also members of the ISA 220 Task Force.

#### *Quality Management Standards*

8. To make sure that proposed ISA 600 (Revised) is aligned with changes made in the other quality management standards, the Staff of the Task Force continued to participate in a quality management coordination call. In this call, staff of the ISQM 1,<sup>2</sup> ISQM 2,<sup>3</sup> ISA 220 and ISA 600 Task Forces discussed matters of mutual interest.
9. In addition, Staff of the Task Force liaised with staff on the ISQM 1 and ISQM 2 Task Forces on matters that require coordination, including the wording used in the requirements and application material (e.g., paragraphs A38–A39 and A42–A43 of **Agenda Item 3-B**). One staff member on the Task Force is also staff on the ISQM 2 Task Force.

#### *Professional Skepticism Working Group*

10. Staff of the Task Force liaised with staff of the Professional Skepticism Working Group on how to further emphasize the importance of professional skepticism in proposed ISA 600 (Revised). See **Appendix 3** of this agenda item for how the Task Force has addressed the key public interest matters, including fostering an appropriately independent and challenging skeptical mindset of the auditor.

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<sup>1</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>2</sup> Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>3</sup> Proposed ISQM 2, *Engagement Quality Reviews*

### *International Ethics Standards Board for Accountants*

11. Since the December 2019 meeting, the Chair and staff of the Task Force liaised with the International Ethics Standards Board for Accountants' (IESBA) Engagement Team – Group Audits Task Force to make sure that proposed ISA 600 (Revised) is aligned with the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). In January 2020, IESBA's Engagement Team – Group Audits Task Force provided the Task Force with suggestions to enhance the standard. Generally, the IESBA's Engagement Team – Group Audits Task Force was supportive of the changes made to proposed ISA 600 (Revised). An updated draft was shared with that Task Force in February 2020, and any remaining suggestions were addressed.

### **ISA 315 (Revised 2019)<sup>4</sup>**

12. In making revisions, the Task Force has taken into account the changes made to ISA 315 (Revised 2019). As an important foundational standard to ISA 600 (Revised), the Task Force further aligned the requirements and application material with ISA 315 (Revised 2019) and added and enhanced requirements and application material after liaising with members of the ISA 315 Task Force (e.g., paragraphs 22, 29, 34, A52–A60, A75–A78, A81–A83 of **Agenda Item 3-B**)

### **Public Interest Issues**

13. The Task Force discussed how the exposure draft of proposed ISA 600 (Revised) addresses the key public interest issues as identified in the project proposal.<sup>5</sup> **Appendix 3** sets out the key public interest matters, a description of the changes made to address the identified key interest issues and the relevant paragraphs in proposed ISA 600 (Revised).

## **Section I: Explanation of the Proposed Changes**

### **I-A – Restructuring**

#### *Considerations When Component Auditors Are Involved*

##### **Background**

14. In the September 2019 draft of proposed ISA 600 (Revised), the Task Force placed all requirements related to using the work of component auditors in a separate section. The Task Force had the following rationale for doing so:
- For a group engagement team that performs the work on all the components of a group and therefore does not involve component auditors (e.g., in less complex group structures), it will be easier to see which requirements apply and which do not.
  - In extant ISA 600,<sup>6</sup> the section on the communications with component auditors is included later in the requirements section, and some Board members noted that communications with component auditors should be included throughout the standard. Having a section that is applicable only when component auditors are used (i.e., conditional) addresses this concern

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<sup>4</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>5</sup> [http://www.iaasb.org/system/files/meetings/files/20161205-IAASB\\_Agenda\\_Item\\_9A-GA-and-QC-Project-Proposal.pdf](http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal.pdf)

<sup>6</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

as all special considerations related to the use of the work of a component auditor would be in one section.

15. The discussion at the December 2019 IAASB meeting and the comments received on the December 21, 2019 draft, informed the Task Force that the description of the required interactions between the group engagement team and the component auditors could be enhanced. The Board noted, for example, that the role of component auditors could be clarified in performing risk assessment procedures and in determining the nature, timing and extent of further audit procedures to be performed.
16. The Public Interest Oversight Board (PIOB) observer at the December 2019 IAASB Meeting also suggested clarifying the role of component auditors and the interactions between component auditors and the group engagement team under the risk-based approach. Subsequent to the December 2019 meeting, the PIOB included the following public interest issue for the project to revise ISA 600 in their report to the IAASB:  
  
*“The standards should make clear that close cooperation between the group auditor and the component auditors is required throughout the audit.”*
17. The Board also noted that several requirements relating to the involvement of component auditors were not included in the ‘When component auditors are involved’ section. This was deemed to be confusing. For example (all paragraph references are to the December 21, 2019 draft):
  - In the ‘Acceptance and Continuance’ section, paragraph 11D(b) required the group engagement partner to evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
  - In the ‘Materiality’ section, paragraph 17B required the group engagement team to communicate to component auditors.
  - In the ‘Identification and Assessment of Risk of Material Misstatement’ section, paragraph 20A required the group engagement team to communicate the risks of material misstatement of the group financial statements that are relevant to the work of the component auditor.

#### Task Force Discussion and Recommendations

18. Based on the above, the Task Force reconsidered the decision to place all requirements related to using the work of component auditors in a separate section. The Task Force considered the pros and cons and concluded that the structure of the standard could be enhanced.
19. The Task Force decided to include in each section of the standard a sub-section that describes the considerations when component auditors are involved, if applicable. The advantages of this approach are that:
  - This approach makes it clearer which interactions are needed between the group engagement team and the component auditors throughout the different stages of the group audit engagement.
  - This approach also makes it clear that when component auditors are involved, they are an integral part of the engagement team and should be involved throughout the group audit.

- For a group audit where the engagement team does not involve component auditors, it is still easy to see which requirements apply and which do not.
20. As a consequence of including component auditor considerations in each section of the standard, the Task Force also made the following changes:
- Moved certain paragraphs that were included in the ‘When Component Auditors Are Involved’ section to the Acceptance and Continuance section; and
  - For paragraphs that were not previously included in the separate ‘When Component Auditors Are Involved’ section but that included a requirement related to component auditors (as described in paragraph 18 above), the Task Force split the requirement so that the part that relates to when component auditors are involved is included in a sub-separate section (see for details **Appendix 4**).
21. **Appendix 4** provides an overview of the restructuring of the requirements relating to the involvement of component auditors.

### *Going Concern, Related Parties and Subsequent Events*

#### Background

22. In the December 2019 meeting, the Board suggested placing the paragraphs on related parties, going concern and subsequent events elsewhere in the standard, for example, after the section ‘Response to the Assessed Risk of Material Misstatement’ or integrating these paragraphs in the section ‘Two-way communication Between the Group Engagement Team and the Component Auditor.’

#### Task Force Discussion and Recommendations

23. The Task Force discussed the placement of the paragraphs related to going concern, related parties and subsequent events and noted that, except for the paragraph related to subsequent events, all paragraphs related to communications between the group engagement team and the component auditors.
24. The Task Force therefore decided to make the following changes:
- Going concern: The Task Force was of the view that these procedures would often be performed as part of the communications with component auditors during the risk assessment. As a result, the Task Force placed the relevant paragraphs in the ‘Considerations When Component Auditors Are Involved’ sub-section under ‘Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control.’
  - Related parties: In the December 21, 2019 draft, the requirement related to related parties had the following two parts:
    - a) *Communicate with component auditors related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that is relevant to the financial information of the component; and*
    - b) *Request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team.*

The Task Force was of the view that the procedure in part (a) would often be performed as part of the communications during the risk assessment. As a result, the Task Force placed this paragraph in the 'Considerations When Component Auditors Are Involved' sub-section in the 'Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control' section. Part (b) was placed in the 'Response to the Assessed Risk of Material Misstatement' section as component auditors would often communicate related parties not previously identified by group management or the group engagement team during this stage of the audit.

- Subsequent events: The Task Force was of the view that this section was in the right place, which is also consistent with the location in extant ISA 600.

25. **Appendix 4** provides an overview of the restructuring related to the paragraphs on related parties, going concern and subsequent events.

#### *Acceptance and Continuance*

26. The Task Force discussed the placement of the paragraphs in the 'Acceptance and Continuance' section and decided to make the following changes:

- Restructured the order of the paragraphs that were included in the December 21, 2019 draft and added a new paragraph (paragraph 12 as included in **Agenda Item 3-B**). This paragraph addresses the situation when restrictions are imposed after the acceptance and continuance stage. Paragraph A21 of extant ISA 600 includes guidance on this matter (paragraph A21 in **Agenda Item 3-B**) and the Task Force was of the view that including a requirement would clarify the group engagement partner's responsibilities in this regard.
- Included a section on considerations when component auditors are involved, which includes paragraphs that were previously included in the 'When Component Auditors Are Involved' (see paragraphs 16–21 in **Agenda Item 3-B**).
- Included sub-headings to further clarify the structure of the section.

27. **Appendix 4** provides an overview of the restructuring related to the paragraphs that were in the 'Acceptance and Continuance' section in the December 21, 2019 draft.

#### **I-B – Objectives**

28. The wording of the Objectives in proposed ISA 600 (Revised) was presented to the Board in drafts of the proposed standard in September and December 2019. On both occasions, no comments or suggestions were raised by Board members during the plenary sessions. However, some Board members provided written comments on the December 2019 draft with suggestions to better align the wording of the objectives with the requirements in the proposed standard.

29. The Task Force agreed to revisit the objectives in view of the comments received. In doing so, the Task Force has proposed the following revisions:

- Changed the wording of paragraph 6(a) (previously paragraph 8(a)) to more closely align with the current wording of the requirement in paragraph 11. The revised wording also addresses comments received that there was some redundancy between the first and last objectives because both referred to involvement in the work of component auditors.

- Added a new objective in paragraph 6(b) to emphasize the importance, under the risk-based approach in proposed ISA 600 (Revised), of the group engagement team's responsibility for the identification, assessment and response to the risks of material misstatement of the group financial statements. The Task Force discussed whether this part of the objectives differs from ISA 315 (Revised 2019) (i.e., what the special consideration is for a group audit), but concluded that the engagement team's responsibility in this regard is a fundamental aspect of the revised standard and that this addition addresses an important public interest issue.
  - Changed the wording of paragraph 6(c) (previously paragraph 8(b)) to more closely align with paragraph 45 (and to make it more similar to paragraph 8(b)(ii) of extant ISA 600).
  - Changed the wording of paragraph 6(d) (previously paragraph 8(c)) to refer to 'sufficiently and appropriately' and 'throughout the audit engagement' to align the wording more closely with paragraph 10. Paragraph 6(d) addresses an important public interest issue by emphasizing the importance of sufficient and appropriate involvement by the group engagement team in the work of component auditors (when they are involved in the group audit).
30. The Task Force believes that the revised objectives are appropriately outcome-based and sufficiently address the key elements of the requirements in proposed ISA 600 (Revised).

#### **I-C – Definitions of 'Component' and 'Group Financial Statements'**

31. During the December 2019 IAASB meeting, and in written comments received on the updated draft of the standard circulated to the Board following the December meeting, Board members raised various comments and questions about the definition of 'component' and the linkage to the definition of 'group financial statements.' Board members also asked the Task Force to provide greater clarity about when proposed ISA 600 (Revised) would apply (i.e., the entry point into the standard) and, when the standard applies, what drives the auditor's scoping and approach to the group audit.
32. In the draft discussed with the Board in December 2019 (see **Agenda Item 2-B** for that meeting), a component was defined as 'a separate entity or business unit.' The Task Force also noted that the definition of component needed to be considered together with the proposed definition of group financial statements ('financial statements that include the financial information of more than one component through a consolidation process').
33. Although some Board members supported the proposed definition of component, other Board members believed the definition to be too broad and therefore not helpful. Comments were also raised about whether this definition was intended to address the way in which the entity was structured (i.e., the way in which group management would view the various entities or business units comprising the group, including for purposes of the consolidation process) or the way in which auditors would view the entities or business units within the group for purposes of planning and performing the group audit. In this regard, certain Board members noted that firms currently consider the group structure as a starting point, and the approach to the group audit may or may not align with that structure.
34. In the turnaround draft discussed with the Board in December 2019 (see **Agenda Item 2-B Updated** for that meeting), the Task Force proposed a slightly revised definition of component, as follows:
- An ~~separate~~ entity or business unit for which financial information is separately prepared.
35. Board members continued to raise questions and concerns about the proposed definition. In particular, Board members noted that the definition still did not address whether this was intended to be a



‘management view’ or an ‘auditor view’ and therefore would not help auditors in determining how to plan and perform the group audit. In addition, it was noted that the focus on financial information was too narrow and did not capture the various group structures in place today (for example, the use of shared service centers or the processing of various aspects of a class of transactions at different locations). Therefore, the Board asked the Task Force to reconsider the definition of component and to provide additional application material as needed. It was also suggested that the Task Force consider whether addressing the concept of component in the scope of the standard might be an alternative.

#### *Task Force Discussion and Recommendations*

36. The Task Force considered the input from the Board during the December 2019 meeting and the written comments received on the draft circulated after that meeting. Based on those comments, and after further discussion, the Task Force agreed to:
- Revise the definitions of ‘component’ and ‘group financial statements’ to better differentiate group management’s view in preparing the group financial statements from the auditor’s view for purposes of planning and performing the group audit.
  - Provide better clarity about when proposed ISA 600 (Revised) would apply (i.e., the entry point into the standard), in part through a revised definition of group financial statements.

#### *Definition of a Component*

37. In view of the input from Board members, the Task Force concluded that the definition of a component should be an audit-focused concept (i.e., the ‘auditor’s view’). Therefore, the Task Force has now proposed the following definition of a component in paragraph 7(b) of **Agenda Item 3-B**:

A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.

38. The use of the terms ‘location, function or activity’ in the definition of a component is intended to be flexible enough to cover the many ways in which the group engagement team might view the group structure in designing the most effective and efficient approach to the group audit. In some circumstances, the group engagement team may approach the group audit by focusing on the way the entity is structured and organized (for example, according to its legal structure). Alternatively, the group engagement team may decide to approach the group audit by focusing on a combination of locations, functions or activities (for example, because of the structure of the group’s information system with respect to the processing of transactions or the design and implementation of internal control).
39. Although ‘function’ and ‘activity’ may appear to be synonymous terms, the Task Force believed that including both in the definition would be helpful as management sometimes uses both terms in referring to various aspects of an entity’s structure or operations (for example, a processing location such as a shared service center). The Task Force discussed adding examples in the application material but concluded that auditors would understand and apply the definition based on the traditional meaning of the terms. The Task Force noted that examples could be provided as part of the implementation support materials.
40. The Task Force added paragraph 2 in the Scope section to clarify early in the proposed standard that the way in which a group is organized, and the way in which management views the entities or

business units comprising the group, may be different from the way in which the group engagement team plans and performs audit procedures for the group audit. The Task Force also developed additional application material (see paragraphs A5 and A6) to further clarify this point and to include an example of how this may be applied in practice. Additional guidance and examples could be developed as part of the implementation support materials.

#### Definition of Group Financial Statements

41. The Task Force reaffirmed its view that the applicability of the standard is driven by the definition of group financial statements, consistent with the title and paragraph 1 of the proposed standard. However, to address comments from Board members asking for greater clarity on when the proposed standard applies, the Task Force decided to revise the definition of group financial statements to make it a management-focused concept (i.e., 'group management's view'). Therefore, the Task Force has now proposed the following definition of group financial statements in paragraph 7(k) of **Agenda Item 3-B**:

Financial statements that include the financial information of more than one entity or business unit ~~component~~ through a consolidation process.

42. This proposed revised definition focuses on the various entities or business units that are part of the group, and that would be included in the group financial statements. Accordingly, the reference to 'components' in paragraph 9 of **Agenda Item 3-B** has been changed to 'entities or business units.'
43. The Task Force also has added application material (see paragraphs A3 and A4 of **Agenda Item 3-B**) to further clarify that proposed ISA 600 (Revised) applies when the auditor has been engaged to audit group financial statements. In other words, the preparation of group financial statements, as defined, is the 'entry point' into the proposed standard. A key factor in determining whether financial statements are group financial statements is whether financial information of more than one entity or business unit is included in the financial statements through a consolidation process, as described in paragraphs 9 and A12–A14 of **Agenda Item 3-B**.
44. The Task Force recognizes that the use of 'entities or business units' in the definition of group financial statements may be viewed as somewhat broad, and that management may use other terms to describe the various economic units or business activities within the group. However, for purposes of the proposed standard, the Task Force believes that 'entities or business units' will be sufficiently understood and has not proposed any additional guidance in this regard. Such guidance could be provided as part of the implementation support materials (for example, in a frequently asked question document).
45. As a result of the proposed revised definitions of group financial statements and component as described above, the Task Force has changed references to 'component' or 'components' in several places throughout the proposed standard to 'entity or business activity' or 'entities or business activities,' respectively.

#### Definition of a Group

46. Consistent with the change to the definition of group financial statements, the Task Force has proposed revising the definition of a group to 'an entity for which group financial statements are prepared.' This proposed revision is intended to eliminate the perceived circularity with the definition of group financial statements, which includes the reference to 'more than one entity or business unit.'

47. The Task Force noted that certain Board members questioned the use of 'entity' in this definition, as a group may not always be viewed as a separate legal entity, but rather a collection of entities or business units whose financial information is included in a set of financial statements (i.e., group financial statements). The Task Force discussed this further and concluded that the reference to 'entity' in this definition was still appropriate as it being used in the more conventional sense to represent an umbrella organization (referred to in the financial reporting standards as a reporting entity) comprising a number of different underlying economic units.

## **Section I-D – Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control**

### *Background*

48. In its December 2019 meeting the Board asked the Task Force to consider:
- Changing the structure of the sub-requirements in paragraph 17 (included in the draft presented to the Board in December 2019).
  - Including application material related to controls over the group's financial reporting system and entity-level controls.
  - Enhancing the application material related to shared service centers (centralized activities) and common controls.
  - Including application material that explains that the group engagement team may assign risk assessment procedures to component auditors, and the factors that influence the group engagement team's decision about whether to do so.
49. In addition, several comments on the December 21, 2019 draft highlighted areas in this section that could be enhanced, including better alignment with ISA 315 (Revised 2019).

### *Task Force Discussion and Recommendations*

50. Given the nature and extent of the comments received, the Task Force spent considerable time enhancing this section. The Task Force discussed the comments received and decided to:
- Align paragraph 22 (as included in **Agenda Item 3-B**) more closely with ISA 315 (Revised 2019) and include additional special considerations.
  - Include a new requirement that addresses considerations when components auditors are involved (paragraph 23 in **Agenda Item 3-B**);
  - Include application material to support enhanced paragraph 22 (paragraphs A52-A54 in **Agenda Item 3-B**); and
  - Enhance the application material related to 'common controls' (paragraphs A56-A61 in **Agenda Item 3-B**) and centralized activities (paragraph A55-A65 in **Agenda Item 3-B**).
51. Recognizing that ISA 315 (Revised 2019) already applies to an audit of group financial statements, the Task Force discussed the areas in ISA 315 (Revised 2019) where there might be special considerations in a group audit and developed requirements and application material related to these areas. The Task Force was cognizant of Board comments not to simply repeat material from the other ISAs.

52. In determining which areas of ISA 315 (Revised 2019) might have special considerations, the Task Force invited an IT specialist to one of its Task Force meetings. The IT specialist also provided input to the ISA 315 Task Force and was able to explain some of the complexities that audit teams face in respect of the varying global information systems.

#### Changes to Application Material

53. The Task Force included application material to support enhanced paragraph 22 (as included in **Agenda Item 3-B**). This application material highlights matters that the group engagement team may consider in obtaining an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.
54. With respect to the group and its environment, the Task Force identified the following factors, which are all based on factors in ISA 315 (Revised 2019):
- The complexity of the group's structure.
  - The geographic locations of the group's operations.
  - The structure and complexity of the group's IT environment.
  - Relevant regulatory factors.
  - The ownership, and relationships between owners and other people or entities.
55. For each of these factors, the Task Force highlighted why it is a special consideration for a group audit and why the factor may give rise to increased susceptibility of risks of material misstatement.
56. The December 21, 2019 draft included a section on the commonality of controls. Based on suggestions received from the Board and further discussions of the Task Force, significant enhancements were made to this section, including:
- Explaining the meaning of the term common controls in proposed ISA 600 (Revised):  
*'controls that are intended to operate in a common manner across multiple entities or business units'*  
  
The Task Force was of the view that a definition was not needed given that the term is only used in this standard.
  - Explaining why obtaining an understanding of common controls may be important (paragraph A60 in **Agenda Item 3-B**) and highlighting that judgment is often needed to determine whether a control is common or not (paragraph A58 in **Agenda Item 3-B**).
  - Including several examples to clarify the concepts in the section.
57. The December 21, 2019 draft included a section on shared service centers. The Task Force decided to change the heading to the broader term 'centralized activities' to reflect comments that centralized activities may be performed at a shared service center but also in an entity or business unit that may not be considered a shared service center. In addition, the Task Force was of the view that, given the wide variety of group structures and the continuous evolution of these structures, it is better to use a broader term to future-proof the standard.

#### Section I-E – Documentation

58. The Task Force has made the following revisions to the documentation requirements in proposed ISA 600 (Revised) (see paragraph 53 of **Agenda Item 3-B**):
- Changed the requirement in paragraph 53(a) to require documentation of significant matters related to restrictions on access to people or information, or that arose subsequent to acceptance or continuance, and how such matters were addressed. This change was made to respond to comments from some Board members that, as previously drafted, the requirement could be too onerous by requiring documentation for any matter that might arise with respect to access. The Task Force believes that this change is appropriate to drive documentation in those circumstances in which the engagement team needs to take action to overcome the restriction in order to obtain sufficient appropriate audit evidence, or when such restrictions may result in other implications for the group audit (for example, a modification to the opinion on the group financial statements).
  - Changed the requirement in paragraph 53(d) to matters related to communications with component auditors. As previously drafted, the Task Force believed that the wording could be interpreted as only requiring a list of the communications rather than the substantive matters addressed in those communications.
59. Comments from Board members during the December 2019 IAASB meeting, and written comments on the draft of the proposed standard circulated following that meeting, primarily related to the need for additional guidance on:
- Documentation needed to evidence the nature, timing and extent of the group engagement team's direction and supervision of the component auditors, and the review of their work
  - Component auditor documentation that may need to be included the group engagement team's file
60. The Task Force considered Board member suggestions and has reorganized and expanded the application material in the proposed standard (see paragraphs A124 through A130 in **Agenda Item 3-B**). In developing the revised application material, the Task Force noted that the group engagement team has a responsibility to determine that the documentation for the group audit engagement meets the requirements of ISA 230.<sup>7</sup> The Task Force also noted that audit documentation for a group audit engagement includes the documentation that resides in the group engagement team's file together with the documentation that resides in the respective files of component auditors that are involved in the group audit.
61. With respect to guidance on the documentation of the direction and supervision of component auditors and the review of their work, the Task Force has re-emphasized in the application material the link to ISA 300,<sup>8</sup> which requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision and review of engagement team members (which includes component auditors in a group audit) and the review of their work. The Task Force also has added examples of the documentation that may be included when component auditors are involved (see paragraph A126 in **Agenda Item 3-B**).
62. The Task Force also discussed whether guidance could be provided in the proposed standard

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<sup>7</sup> ISA 230, *Audit Documentation*

<sup>8</sup> ISA 300, *Planning an Audit of Financial Statements*

regarding component auditor documentation that may need to be included the group engagement team's file. The Task Force noted that paragraph 53(d) already requires the audit documentation to include matters communicated by component auditors that are relevant to the group engagement team's conclusion with regard to the group audit, including the matters required by paragraph 41 of the proposed standard. Beyond those matters, providing examples of other matters that might be included would be difficult and likely viewed as incomplete in view of the many different circumstances encountered in group audits. Accordingly, paragraph A124 indicates that the extent to which component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

63. Additional complexities and challenges may arise with respect to documentation when access to component auditor documentation is restricted. The importance of this issue has been reaffirmed through the Task Force's ongoing outreach with regulators and other stakeholders. The Task Force has added application material to address circumstances in which the group engagement team is restricted from including component auditor documentation in its audit file and therefore certain important aspects of the component auditor documentation would not be available to an 'experienced auditor' reviewer (such as an audit regulator). That application material (see paragraphs A129-A130 in **Agenda Item 3-B**) notes that the group engagement team uses professional judgment in determining the nature and extent of documentation to include in its audit file, in accordance with ISA 230,<sup>9</sup> regarding the procedures performed, evidence obtained and conclusions reached by the component auditor on matters relevant to the group financial statements.
64. Given the importance of documentation as a public interest issue to be addressed, the Task Force believes that issues with respect to documentation in a group audit need to be explained in the explanatory memorandum accompanying the exposure draft of proposed ISA 600 (Revised), with one or more questions for respondents about the matters described in paragraphs 59 and 63 above, including whether additional guidance would be helpful and, if so, suggestions for such additional guidance.

#### **Matters for IAASB Consideration**

1. The IAASB is asked for its views on proposed ISA 600 (Revised) as presented in **Agenda Item 3-B**.

## **Section II: Conforming and Consequential Amendments**

65. The Task Force presented the proposed conforming and consequential amendments arising from proposed ISA 600 (Revised) to the IAASB in the Board teleconference on January 23, 2020. The Task Force considered the input from the Board from the teleconference, along with written comments received from Board members. An updated version of the proposed conforming and consequential amendments is presented in **Agenda Item 3-D**.
66. During the Board teleconference, some Board members expressed concerns about the proposed conforming amendments to the requirements in paragraph 9 of both ISA 240<sup>10</sup> and ISA 250,<sup>11</sup> which were added as part of the non-compliance with laws and regulations (NOCLAR) project. These Board

<sup>9</sup> ISA 230, paragraphs 8 and 9

<sup>10</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>11</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

members believed that the proposed change would inappropriately narrow the intent of these paragraphs if focused only on communication responsibilities the auditor may have for NOCLAR in an audit of group financial statements. In discussions with IESBA Staff following the Board teleconference, it was confirmed that the proposed change would indeed inappropriately narrow these requirements, which were meant to be read in the context of NOCLAR provisions in relevant ethical requirements (including the IESBA Code), as well as any such provisions that may exist in law or regulation. Therefore, the Task Force is no longer proposing conforming changes to paragraph 9 of ISA 240 and ISA 250.

67. The other significant changes to the proposed conforming and consequential amendments from the version discussed with the Board in the January 23, 2020 teleconference are explained in **Agenda Item 3-D**.

#### **Matter for IAASB Consideration**

2. The IAASB is asked for its views on the proposed conforming and consequential amendments as presented in **Agenda Item 3-D**.

### **Section III: Other Matters**

#### **Exposure Period**

68. The IAASB Work Plan<sup>12</sup> targets an approval of ISA 600 (Revised) at the June 2021 IAASB meeting. To make this targeted approval date, the Task Force proposes an exposure period of 110 days. The Task Force aims to publish the exposure draft of proposed ISA 600 (Revised) around April 23, 2020. Based on this date, responses would be due by August 11, 2020. This comment deadline date will allow the Task Force to present a high-level overview of the responses received to the exposure draft at the September 2020 meeting and would allow three meetings (December 2020, March 2021 and June 2021) for the IAASB to discuss the changes to the standard based on the comments received. This proposed timeline would allow an exposure period of more than 100 days, and although less than the 120-day period noted in the IAASB's due process,<sup>13</sup> there are precedents where it is in the public interest to shorten this period, for example ISA 540 (Revised)<sup>14</sup> and ISA 315 (Revised 2019).

#### **Effective Date**

69. The Task Force believes that the effective date for ISA 600 (Revised) should be aligned with the effective dates for the quality management standards given the interrelationship between the quality management standards and proposed ISA 600 (Revised), in particular the interrelationship with proposed ISA 220 (Revised). As the effective dates for the quality management standards have not been yet been established, the Task Force is working towards an effective date that allows for sufficient time to implement the standard. Because of the significance of the revisions proposed, the Task Force is of the view that a transition period of 18 months after the approval date of the standard by the IAASB is warranted.

<sup>12</sup> [https://www.ifac.org/system/files/meetings/files/20191209-IAASB-Agenda\\_Item\\_3B-REVISED-Draft\\_Work\\_Plan\\_2020\\_2021-Final-for-Board-Clean.pdf](https://www.ifac.org/system/files/meetings/files/20191209-IAASB-Agenda_Item_3B-REVISED-Draft_Work_Plan_2020_2021-Final-for-Board-Clean.pdf)

<sup>13</sup> The IAASB's due process requires that an ED ordinarily has a 120-day comment period.

<sup>14</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

70. Accordingly, assuming an approval of the standard by the Board in June 2021, the Task Force believes that the standard should be effective for audits of periods beginning on or after December 15, 2022. This would be 18 months after approval by the IAASB and 15 months after the approval of the due process by the PIOB. Because ISA 600 (Revised) is a performance standard that directly affects the planning phase of an audit, the effective date has been set using the convention of “periods beginning” as opposed to “periods ending”. A question will be asked in the Explanatory Memorandum related to the expected implementation efforts and the appropriateness of the transition period.

### Due Process Matters

71. In the Task Force's view, the significant matters identified as a result of its deliberations from the beginning of this project, including the significant matters raised by respondents to the Invitation to Comment,<sup>15</sup> have been presented in the issues papers presented to the Board for discussion. In the Task Force's view, there are no significant matters that have not been brought to the attention of the IAASB.
72. The Task Force does not believe that a consultation paper, field testing or a roundtable is needed at this stage of the project, as substantial outreach with a wide range of stakeholders has been undertaken, including practitioners, regulators and Monitoring Group members.

#### Matter for IAASB Consideration

3. The IAASB is asked for its views on the above matters, in particular in relation to the exposure period and planned effective date.

### Section IV: Matters for the Explanatory Memorandum

73. The Task Force has given preliminary consideration to matters it believes are useful to address in the EM accompanying the ED for proposed ISA 600 (Revised). These include, but are not limited to:
- Setting out the public interest matters and how they have been addressed in this project (see paragraph 13 and **Appendix 3** of this agenda item).
  - The objectives of the project, i.e., what is intended to be achieved with the revisions to extant ISA 600.
  - Explain the IAASB's decision to not develop a separate standard with requirements for component auditors.
  - Describe the ongoing coordination with IESBA Representatives and Staff on various matters relating to group audits, including with respect to the definition of the engagement team (and the impact thereof) and IESBA's project to address engagement team – group audits independence considerations.
  - Describe the ongoing coordination with IESBA Representatives and Staff on various matters relating to group audits, including with respect to IESBA's project to address engagement team – group audits independence considerations.
  - Describe the ongoing coordination with other task forces such as the ISA 220, ISQM 1, ISQM

<sup>15</sup> Invitation to Comment, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (<https://www.iaasb.org/publications/invitation-comment-enhancing-audit-quality-public-interest-1>)



2 and ISA 315 Task Forces on various matters relating to group audits.

- Explain the scope of the proposed standard (i.e., engagements that would be scoped into the standard).
- Explain the changes to the definitions of component and group financial statements, including the effect of such changes on the scope of the standard and the application of the risk-based approach.
- Describe the risk-based approach to planning and performing an audit of group financial statements, including the expected effects on practice and what the auditor will be doing differently.
- Describe the restructured approach to the proposed standard, including considerations when component auditors are involved at various stages of the group audit engagement.
- Explain the strengthened linkage with the requirements of proposed ISA 220 (Revised), including additional requirements relating to the direction and supervision of component auditors, and the review of their work.
- Describe the enhanced focus on the group engagement team's consideration of restrictions on access to people and information, actions to overcome such restrictions, and possible effects on the group audit, including the opinion on the group financial statements.
- Describe the importance of two-way communication between the group engagement team and component auditors, and related requirements and guidance in this regard.
- Explain the expanded documentation requirements in the proposed standard, including the linkage to the requirements of ISA 230.
- Describe the changes to the appendices in the proposed standard, including the rationale for deleting Appendices 4 and 5 in extant ISA 600.
- Explain the proposed conforming and consequential amendments.
- Describe the IAASB's commitment to developing post-implementation guidance, including examples, frequently asked questions, and other materials.

**Matter for IAASB Consideration**

4. The IAASB is asked whether there are any other matters, not noted in paragraph 73 above, that should be addressed in the explanatory memorandum.

## Appendix 1

### Task Force Members and Activities, Including Outreach

#### Task Force Members

1. The Task Force consists of the following members:
  - Len Jui, Task Force Chair (supported by Susan Jones);
  - Robert Dohrer;
  - Josephine Jackson;
  - Rich Sharko (supported by Jamie Shannon);
  - Wolf Böhm; and
  - Dora Burzenski (Correspondent member).
2. Further information about the project can be found [here](#).

#### Task Force Activities Since the January 2020 IAASB Teleconference

3. Since the last IAASB discussion on January 23, 2020, the Task Force met twice in-person and held two teleconferences.

#### Outreach Activities

4. Since the January 23, 2020 IAASB teleconference, the Task Force Chair attended the following outreach events or meetings in which proposed ISA 600 (Revised) was prominently discussed:
  - International Organization of Securities Commissions' Committee 1;
  - China Ministry of Finance;
  - China Institute of Certified Public Accountants;
  - Japan Institute of Certified Public Accountants; and
  - Australian Auditing and Assurance Standards Board.

## Appendix 2

### Extracts from Draft Minutes<sup>16</sup>

#### 1. Group Audits – ISA 600 (Revised)<sup>17</sup>

Mr. Jui updated the Board on the work of the ISA 600 Task Force since the September 2019 Board meeting, including the outreach performed, as presented in **Agenda Items 2, 2-A, 2-B, 2-C and 2-D**. The following sets out the more significant comments from the Board in response to the ISA 600 Task Force's proposals.

##### SCOPE, OBJECTIVE AND DEFINITIONS

The Board asked the ISA 600 Task Force to consider:

- Enhancing the description of the relationship between proposed ISA 600 (Revised) and proposed ISA 220 (Revised).<sup>18</sup>
- Clarifying the difference between the 'engagement team' and the 'group engagement team' as this may not always be clear. It was further suggested clarifying how the standard would apply when the engagement team includes members from non-network firms.
- Clarifying the definition of component as it was believed to be too broad and therefore not helpful for auditors in planning and performing a group audit.
- Keeping the reference to joint auditors in the definition of the group engagement partner as the reference was deemed to be helpful in providing a link to jurisdictional guidance on joint audits.

##### LEADERSHIP RESPONSIBILITIES FOR MANAGING AND ACHIEVING QUALITY ON A GROUP AUDIT, AND ACCEPTANCE AND CONTINUANCE

In addition to various suggestions about how to enhance the application material, the Board asked the ISA 600 Task Force to consider:

- Revising paragraph 11B as it may not be possible for group management to provide the engagement team unrestricted access to persons within the group, for example because of local law or regulation.
- Combining paragraphs 11B and 11C as paragraph 11B on its own does not provide the auditor with the actions to take when the group engagement partner concludes that group management cannot provide the engagement team with unrestricted access to persons within the group due to restrictions that are outside the control of group management.
- Consistency in the terminology used (e.g., references to people and person).
- Reorganizing the structure of this section by, for example, changing the order of the application material and better linking application material to different requirements.

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<sup>16</sup> The draft minutes are still subject to IAASB review and therefore may still change.

<sup>17</sup> Proposed International Standards on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>18</sup> Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*

## UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT, THE APPLICABLE REPORTING FRAMEWORK AND THE ENTITY'S SYSTEM OF INTERNAL CONTROL

The Board asked the ISA 600 Task Force to consider:

- With respect to the obtaining an understanding of the entity and its environment, the applicable reporting framework and the entity's system of internal control (paragraph 17), changing the structure of the sub-requirements. As presented, it was noted that paragraph 17 was not aligned with ISA 315 (Revised 2019)<sup>19</sup> as the consolidation process used by the group is part of the group's information system.
- Including application material related to controls over the group's financial reporting system (referred to as group-wide controls in extant ISA 600) and entity-level controls.
- Enhancing the application material related to shared service centers and common controls.
- Including application material that explains that the group engagement team may assign risk assessment procedures to component auditors in some circumstances, and the factors that influence the group engagement team's decision about whether to do so.
- Combining paragraph 17A and paragraph 20A as they both relate to the identification and assessment of risks of material misstatement at the group financial statement and assertion levels.

## MATERIALITY

The Board asked the ISA 600 Task Force to consider:

- Adding application material that links to ISA 320,<sup>20</sup> paragraph 10, regarding the application of different materiality level or levels to particular classes of transactions, account balances or disclosures.
- Deleting the reference to '70%' in paragraph A29E, but retaining the concept of 'relative significance' of the component to the group as some auditors may use the percentage without any further consideration.

## ASSESSING AND RESPONDING TO THE RISKS OF MATERIAL MISSTATEMENT

The Board asked the ISA 600 Task Force to consider:

- Changing the requirement in paragraph 20A to 'identify and assess the risks of material misstatement.' It was noted that only referring to assessing risks of material misstatement may be confusing given that the auditor needs to identify the risks of material misstatement before the risks can be assessed.
- Clarifying the interactions between the group engagement team and the component auditors. For example, clarifying that component auditors can assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed. In that regard, it was also noted that paragraph A30J seems to be inconsistent with paragraph 24 as paragraph A30J states that component auditors may assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed while paragraph 24 requires the group

<sup>19</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>20</sup> ISA 320, *Materiality in Planning and Performing an Audit*

engagement team to determine the nature, timing and extent of further audit procedures to be performed.

- Given the changes in practice that are expected because of the change to a risk-based approach for a group audit, facilitating field testing of the proposals during the exposure period.
- Removing the first sentence of paragraph 24 as it is repeating ISA 330.<sup>21</sup>
- Including the option to assign further audit procedures to component auditors in the application material as was done in paragraph A30A in the draft that was presented to Board in September 2019. The Board was of the view that no reference should be made to an audit and therefore suggested replacing ‘an audit of all financial information of the component’ with ‘design and perform further audit procedures on the entire financial information of the component.’
- Clarifying whether paragraph 24A applies when a statutory audit has already been completed or when the statutory audit is being performed concurrent with the group audit.
- Given that is covered by paragraph 33, deleting paragraph 34 relating to evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and evaluating whether any fraud risk factors or indicators of possible management bias exist.

#### QUALITY MANAGEMENT WHEN COMPONENT AUDITORS ARE INVOLVED

The Board asked the ISA 600 Task Force to consider:

- Clarifying what is meant by a ‘regulatory environment that actively oversees auditors’ in paragraph 37B(b). With respect to paragraph 37B(b), it was also noted that this information is often not available in many jurisdictions. The Board also questioned the purpose of the requirement and noted that it seems inconsistent with paragraph 37B(c).
- Clarifying what should be documented with respect to two-way communication between the group engagement team and the component auditor.

#### RELATED PARTIES, GOING CONCERN, SUBSEQUENT EVENTS

The Board asked the ISA 600 Task Force to consider:

- Placing the paragraphs on related parties, going concern and subsequent events elsewhere in the standard, for example, after the section ‘Response to the Assessed Risk of Material Misstatement’ or integrating these paragraphs in the section ‘Two-way communication Between the Group Engagement Team and the Component Auditor.’
- Given that it is covered by paragraph 41B(a), deleting paragraph 41B(c) relating to identifying related parties not previously identified by group management or the group engagement team to component auditors.
- Adding application material that highlights the importance of exercising professional skepticism.

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<sup>21</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

EVALUATING THE SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE OBTAINED, AUDITOR'S REPORT, COMMUNICATION WITH GROUP MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE OF THE GROUP AND DOCUMENTATION

The Board asked the ISA 600 Task Force to consider:

- Adding application material that highlights the importance of exercising professional skepticism when evaluating the sufficiency and appropriateness of the audit evidence obtained.
- Enhancing paragraph 50(a) to focus on access issues that affected the group audit. It was noted that some access issues disappear may be resolved during the audit because, for example, it becomes safe to travel to a certain location.
- Adding application material that explains that, with respect to audit documentation, there may be additional complexities or challenges depending the structure of the group.

CONFORMING AND CONSEQUENTIAL AMENDMENTS

The Board agreed with the proposed conforming and consequential amendments to ISA 300<sup>22</sup> as a result of the proposed revisions to proposed ISA 600 (Revised).

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that the public sector may have unique issues relating to the assessment of going concern in a group audit, noting that adding an example may be helpful.

PIOB OBSERVER REMARKS

Prof. van Hulle encouraged the IAASB to better clarify the role of component auditors in a group audit, and the interactions between component auditors and the group engagement team under the risk-based approach. He noted that the revised standard should clearly state that the group engagement team and component auditor should work together, and that the objective of the standard should reflect that. With respect to the documentation, Prof. van Hulle also noted that the group engagement team's documentation should reflect the group engagement team's direction, supervision and review of the work of component auditors, including any issues encountered in that regard.

WAY FORWARD

The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at the March 2020 IAASB meeting. The ISA 600 Task Force will present the conforming amendments as a result of the proposed revisions to ISA 600, and the appendices to proposed ISA 600 (Revised), for discussion in the January 23, 2020 Board teleconference.

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<sup>22</sup> ISA 300, *Planning an Audit of Financial Statements*

## Appendix 3

### Key Public Interest Matters

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Requirements in Agenda Item 3-B
<b>Keeping the IAASB's Standard on Group Audits Fit for Purpose</b>	<p><i>Scope of the Standard</i></p> <p>Clarified the scope of the standard, through the definitions and application material, including whether, and how, ISA 600 applies for:</p> <ul style="list-style-type: none"> <li>Shared service centers, entities with branches and divisions; and</li> <li>Non-controlled entities, including equity-accounted investees and investments carried at cost.</li> </ul>	Paragraphs 2, 7(b), 7(k), 9 and 22.
	<p><i>Linkages with Other Standards</i></p> <p>Clarified and reinforced in ISA 600 (Revised) that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.<sup>23</sup></p>	Paragraphs 1, 10, 13, 16, 18, 19, 21, 22, 24, 25, 26, 28, 30, 38, 44, 45, 49, 52 and 53.
	<p><i>Adaptability and Scalability</i></p> <p>Introduced a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different sizes and complexity, for example by:</p> <ul style="list-style-type: none"> <li>Focusing the auditor's attention on identifying, assessing and responding to the risks of material misstatement; and</li> <li>Separate sections when component auditors are involved.</li> </ul>	Paragraphs 2, 3, 22, 28 and 30.  Throughout standard: included separate sections for circumstances when component auditors are involved.
	<p><i>Documentation</i></p> <p>Enhanced the documentation section by including new requirements and by clarifying what the group engagement team may document in different situations, including when there are restrictions on access to component auditor documentation.</p>	Paragraph 53

<sup>23</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<b>Encouraging Proactive Management of Quality at the Engagement Level</b>	<p><i>Managing and Achieving Quality in a Group Audit</i></p> <p>Clarified how the requirements in proposed ISA 220 (Revised) apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work.</p>	<p>Paragraphs 4, 10, 16, 18, 19 and 21.</p> <p>Throughout standard: included separate sections for circumstances when component auditors are involved.</p>
	<p><i>Planning and Performing a Group Audit Engagement</i></p> <p>Focused the auditor's attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements and emphasizing the importance of designing and performing procedures that are appropriate to respond to those risks of material misstatement, i.e., "the right work is done by the right people at the right locations."</p>	<p>Paragraphs 2, 3, 22, 28, 30, 31, 32, and 33.</p>
	<p><i>Access to People and Information</i></p> <p>Clarified how to address restrictions to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.<sup>24</sup></p>	<p>Paragraphs 14 and 15.</p>
	<p><i>Component Materiality</i></p> <p>Clarified the concepts of component materiality (now component performance materiality) and aggregation risk.</p>	<p>Paragraphs 7(a), 7(e) and 26.</p>
<b>Fostering an appropriately independent and challenging skeptical mindset of the auditor</b>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasized the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> <li>• Determining the direction, supervision and review of the component auditor's work; and</li> <li>• The group engagement team's evaluation whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for the opinion on the group</li> </ul>	<p>Paragraphs 3, 10, 21, 41, 42, 43, 45, 46 and 47.</p>

<sup>24</sup> The Task Force recognizes that proposed ISA 600 (Revised) can't enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted.



	financial statements.	
<b>Reinforcing the need for robust communication and interactions during the audit</b>	<p><i>Robust Communications and Interactions Between the Group Engagement Team / Group Engagement Partner and Component Auditors</i></p> <p>Strengthened and clarified the application of ISA 220 (Revised) in a group audit, including:</p> <ul style="list-style-type: none"> <li>• Communications between the group engagement team and component auditors, facilitating stronger two-way communications.</li> <li>• Various aspects of the group engagement team's interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group engagement team in the work of the component auditor.</li> </ul>	<p>Paragraphs 3, 23, 29, 34, 35, 40, 1, 42 and 43.</p> <p>Throughout standard: included separate sections for circumstances when component auditors are involved.</p>

## Appendix 4

### Restructuring of Requirements

December 21, 2019 draft <sup>25</sup>	Agenda Item 3-B	Description
<b>Considerations When Component Auditors Are Involved</b>		
Paragraph 11D	Paragraph 11 and 16	Paragraph 11D remained in the 'Acceptance and Continuance' section but was split, as part (b) included a requirement that was only applicable when component auditors are involved ( <i>'Evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence'</i> ). Part (b) was placed in the 'Considerations when Component Auditors are Involved' sub-section.
Paragraph 17B	Paragraph 26 and 27	Paragraph 17B remained in the 'Materiality' section but was split, given that it included considerations when component auditors are involved ( <i>'and communicate to component auditors'</i> ). The part of the requirement that related to the involvement of component auditors was placed in the 'Considerations when Component Auditors are Involved' sub-section.
Paragraph 20A	Paragraph 28 and 29	Paragraph 20A remained in the 'Identification and Assessment of Risk of Material Misstatement' section but was split, given that it included considerations when component auditors are involved ( <i>'In that regard, the group engagement team shall communicate the risks of material misstatement of the group financial statements that are relevant to the work of the component auditor'</i> ). The part of the requirement that related to the involvement of component auditors was placed in the 'Considerations when Component Auditors are Involved' sub-section.
Paragraph 33A	Paragraph 36	Paragraph 33A remained in the 'Response to the Assessed Risk of Material Misstatement' section but was moved from the 'Consolidation' sub-section to the 'Considerations when Component Auditors are Involved' sub-section.
Paragraph 36	Paragraph 37	Paragraph 36 remained in the 'Response to the Assessed Risk of Material Misstatement' section but was moved from the

<sup>25</sup> Paragraphs with an \* were previously included in the separate 'When Component Auditors Are Involved' section' of the December 21, 2019 draft.

		'Consolidation' sub-section to the 'Considerations when Component Auditors are Involved' sub-section.
Paragraph 37A*	Paragraph 18	Paragraph 37A was moved from the 'Considerations When Component Auditors Are Involved' section to the 'Acceptance and Continuance' section, sub-section 'Considerations When Component Auditors Are Involved'
Paragraph 37B*	Paragraph 19	Paragraph 37B was moved from the 'Considerations When Component Auditors Are Involved' section to the 'Acceptance and Continuance' section, sub-section 'Considerations When Component Auditors Are Involved'
Paragraph 37C*	Paragraph 20	Paragraph 37C was moved from the 'Considerations When Component Auditors Are Involved' section to the 'Acceptance and Continuance' section, sub-section 'Considerations When Component Auditors Are Involved'
Paragraph 37D*	Paragraph 21	Paragraph 37D was moved from the 'Considerations When Component Auditors Are Involved' section to the 'Acceptance and Continuance' section, sub-section 'Considerations When Component Auditors Are Involved'
Paragraph 40(b)*	Paragraph 17	Paragraph 40(b) was moved from the 'Considerations When Component Auditors Are Involved' section to the 'Acceptance and Continuance' section, sub-section 'Considerations When Component Auditors Are Involved'
<b>Related Parties</b>		
Paragraph 41B(a)	Paragraph 24	Paragraph 41B(a) was moved to the 'Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control' section.
Paragraph 41B(b)	Paragraph 38	Paragraph 41B(a) was moved to the 'Response to the Assessed Risk of Material Misstatement' section.
<b>Going Concern</b>		
Paragraph 41C	Paragraph 25	Paragraph 41B(a) was moved to the 'Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control' section.
<b>Subsequent Events</b>		

Paragraph 41D	Paragraph 44	This paragraph remained in the 'Subsequent Events' section.
Paragraph 41E	Deleted	
<b><i>Acceptance and Continuance</i></b>		
Paragraph 11B	Paragraph 13 and 14	Paragraph 11B was split into two paragraphs to enhance the flow. Paragraph 13 is based on paragraph 6)(b) of ISA 210 <sup>26</sup> while paragraph 14 addresses the situation when there are restrictions on access that are outside the control of group management.
Paragraph 11D	Paragraph 11 and 16	Paragraph 11D was split up as part (b) included a requirement that was only applicable when component auditors are involved. Part (a) was placed as the first paragraph of this section (paragraph 11) and part (b) was placed in the 'Considerations when Component Auditors are Involved' sub-section (Paragraph 16).
Paragraph 13	Paragraph 15	No changes were made to the location of this paragraph.

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<sup>26</sup> ISA 210, *Agreeing the Terms of Audit Engagements*