

Agenda Item

K.2

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

Objective of the IAASB Discussion

The objective of this agenda item is to obtain the Board's views on the ISA 600 Task Force's (the 'Task Force') direction and recommendations for:

- The key public interest issues to be addressed, as revised to reflect input from the IAASB during the June 2019 meeting, and the special considerations in an audit of group financial statements;
- The proposed revisions to ISA 600 for the requirements and related application material presented in **Agenda Item 9-B**; and
- The proposed approach for certain aspects of the standard, including materiality considerations and 'stand back' requirements.

Introduction

1. This agenda item is organized as follows:
 - Section I describes the key public interest issues to be addressed;
 - Section II describes the scope and structure of the standard, including special considerations in a group audit;
 - Section III includes issues that relate to the proposed revisions, as included in **Agenda Item 9-B**;
 - Section IV includes discussion, indicative drafting and a possible way forward on materiality considerations in a group audit and the stand-back requirements; and
 - Section V includes the Task Force's views on the way forward.
2. **Appendix 1** summarizes recent Task Force activities, including outreach. In developing the agenda items, the Task Force took into account the feedback provided by Board members during the June 2019 IAASB meeting. The draft minutes of that meeting are included in **Appendix 2**.

Approach for Discussion the Agenda Items

3. The Task Force will discuss the matters presented to the Board in the following order:
 - The matters for IAASB consideration included in sections I, II and III of this Agenda Item;
 - The proposed revisions to the standard, using **Agenda Item 9-B** as the basis for the discussion; and
 - The matters for IAASB consideration included in sections IV and V of this Agenda Item.
4. The Task Force believes that the Board will benefit from focusing on the clean version due to the nature of the revisions. However, **Agenda Item 9-C** may be useful in understanding the changes from extant ISA 600.

5. **Agenda Item 9-A** provides background information on the significant changes made by the Task Force to the requirements and application material, and the rationale for those changes. The significant changes explained in **Agenda Item 9-A** are based on the changes from extant ISA 600, except for changes to certain paragraphs (as indicated), which are based on the drafting presented to the Board in its June 2019 meeting. **Agenda Item 9-A** is presented for information purposes only and will not be discussed during the September 2019 meeting.

Definition of Engagement Team

6. The definition of engagement team, including the coordination with the International Ethics Standards Board for Accountants (IESBA), is included in **Agenda Item 8**, section II.B, and will be discussed in the Board's session on ISA 220 (Revised).¹ The Chair and Staff of the ISA 600 Task Force are participating in the discussions on this definition with the ISA 220 (Revised) Task Force and IESBA and will continue to do so.
7. The outcome of the discussions on the definition of engagement team may have a significant impact on ISA 600 (Revised). Regardless of the outcome, the Task Force will develop application material explaining the special considerations of the definition of engagement team in a group audit.

Section I: Public Interest Issues

8. The Board suggested some changes to the key public interest issues as presented by the Task Force in the June 2019 meeting. To address the matters raised, the Task Force made the following changes:
- Further aligned the key public interest issues with those identified in the project proposal.² As a result, the Task Force decided to add two extra categories:
 - Fostering an appropriately independent and challenging skeptical mindset of the auditor; and
 - Reinforcing the need for robust communication and interactions during the audit.

The description of these public interest issues was included under the category “Encouraging Proactive Management of Quality at the Engagement Level” in the table discussed with the Board in June 2019.
 - Enhanced the wording in several places to bring in the risk of fraud in a component, the risk that insufficient resources are allocated to components, and to explain that ISA 600 (Revised) can't enforce access to people and information but that it can help by developing guidance when access to people or information is restricted.
9. The table below includes the updated list of key public interest issues.

¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

² https://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal.pdf

KEY PUBLIC INTEREST ISSUES ³	DESCRIPTION OF ISSUE(S) TO BE ADDRESSED
Keeping the IAASB's Standard on Group Audits Fit for Purpose	<p><i>Scope of the Standard</i></p> <p>Clarifying the scope of the standard, including whether, and how, ISA 600 applies for:</p> <ul style="list-style-type: none"> Group structures in today's world. For example, many entities are increasingly operating in integrated structures, such as when the transactions for the group are processed centrally (e.g., through a shared service center); and Non-controlled entities, including equity-accounted investees and investments carried at cost. <p>The IAASB will also consider whether changes to the definitions are needed in view of changes in the revised standard.</p>
	<p><i>Linkages with Other Standards</i></p> <p>Clarifying and reinforcing in ISA 600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to ISA 220 (Revised), ISA 315 (Revised)⁴ and ISA 330.⁵</p>
	<p><i>Adaptability and Scalability</i></p> <p>The wide variation in the structure of group entities and their environments highlight the need for a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different sizes and complexity.</p>
Encouraging Proactive Management of Quality at the Engagement Level	<p><i>Managing and Achieving Quality in a Group Audit</i></p> <p>Demonstrating how the requirements in ISA 220 (Revised) would be applied to manage and achieve audit quality in a group audit, <u>including sufficient and appropriate resources to perform the engagement</u>, and consider the revisions needed to sufficiently direct, supervise and review the work of the engagement team⁶ in such circumstances.</p>

³ The issues identified in this table are adapted from and expand upon the issues identified in the project proposal addressing the revisions of the IAASB's quality control standards and group audits.

⁴ Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

⁵ ISA 330, *The Auditor's Responses to Assessed Risks*

⁶ The Task Force has considered the definition of "engagement team" in the exposure draft of proposed ISA 220 (Revised) and, for purposes of Task Force discussions and indicative drafting, considers the "engagement team" for a group audit to be the "group engagement team" and any "component auditors." See paragraph 48.

	<p><i>Planning and Performing a Group Audit Engagement</i></p> <p>Focusing 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>Considering the 'residual risk' and whether this risk is adequately addressed by the planned audit procedures.</p>
	<p><i>Access to People and Information</i></p> <p>Clarifying how to address access issues in a group audit, including access to component management, those charged with governance of the component, component auditors, or information at the components (e.g., access to financial information of the component). <u>The IAASB recognizes that 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.</u></p>
	<p><i>Component Materiality</i></p> <p>Clarifying the concepts of component materiality and aggregation risk. As noted in the September 2017 project update, the IAASB does not contemplate that the project to revise ISA 600 would involve broader changes to ISA 320.⁷</p>
<p><u>Fostering an appropriately independent and challenging skeptical mindset of the auditor</u></p>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasizing the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> • <u>Identifying and assessing the risks of material misstatement due to fraud in components; and</u> • Planning and performing the group audit; and • The group engagement team evaluates whether sufficient appropriate audit evidence has been obtained <u>(in particular by component auditors)</u> to provide a basis for the opinion on the group financial statements.
<p><u>Reinforcing the need for robust communication and interactions during the audit</u></p>	<p><i>Robust Communications and Interactions Between the Group Engagement Team / Group Engagement Partner and Component Auditors</i></p> <p>Strengthening and clarifying how ISA 220 (Revised) is augmented to</p>

⁷ ISA 320, *Materiality in Planning and Performing an Audit*

	<p>address:</p> <ul style="list-style-type: none"> • Communications between the group engagement team and component auditors, facilitating stronger two-way communications. • 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.
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Matter for IAASB Considerations

1. The IAASB is asked for its views on the enhancements to the key public interest issues.

Section II: Scope and Structure of the Standard, Including Special Considerations in a Group Audit

10. In its June 2019 meeting the Board asked the Task Force to identify and describe the special considerations in an audit of group financial statements and draft requirements that address those special considerations. The Task Force further discussed the special considerations and recognizes their importance in relation to the:

- Scope and structure of the standard, and
- Drafting of certain requirements that are incremental to requirements in other ISAs (e.g., ISA 220 (Revised), ISA 315 (Revised) and ISA 330). In this regard, understanding the special considerations helps the auditor to understand why certain procedures are required for a group audit in addition to the requirements in the foundational standards.

11. Based on its discussions, the Task Force identified the following fundamental factors that are unique to an audit of group financial statements:

- An entity with more than one component; and
- The involvement of component auditors.

These factors, which drive a number of special considerations that affect the auditor's work effort in a group audit, are further explained below.

An Entity with More Than One Component

12. In its discussions, the Task Force noted that the definition of a group in extant ISA 600 is as follows:

All the components whose financial information is included in the group financial statements. A group always has more than one component.

13. The Task Force concluded that the current definition of a group continues to be appropriate. The Task Force also recognizes that the related definitions of 'group financial statements' and 'component' are important to understanding whether an entity is a 'group' as defined, and therefore also affect the scope and applicability of the standard. The definitions of group financial statements and component (see paragraphs 9(a) and 9(j) in **Agenda Item 9-B**) are as follows:

Group financial statements – Financial statements that include the financial information of more than one component.

Component – An entity or business unit for which financial information should be included in the group financial statements through a consolidation process.

14. Paragraph 10A of **Agenda Item 9-B** states the following with respect to the consolidation process:

Reference to “the consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of the financial information of the components in the group financial statements by way of:

- (a) Consolidation, proportionate consolidation, or the equity methods of accounting; or*
- (b) The presentation in combined financial statements of the financial information of components that have no parent but are under common control.*

15. The Task Force has added application material (see paragraphs A5A and A5B in **Agenda Item 9-B**) to further explain the consolidation process and indicate that the requirements of the applicable financial reporting framework may affect the determination of the component financial information to be included in the group financial statements. The Task Force believes that this application material will be helpful in determining whether the revised standard applies in a particular situation. To further assist in this regard, paragraph A5A states that, for purposes of this ISA, a consolidation process also includes the aggregation in the group financial statements of branches, divisions or other operating units of a single legal entity.
16. The Task Force also notes that paragraphs A1A–A4 in **Agenda Item 9-B** are important in understanding the structure of an entity and determining whether or how the revised standard would apply in any given set of facts and circumstances.
17. Given that entities have many different structures and that structures continue to evolve, the Task Force continues to believe that the scope of ISA 600 (Revised) should be principles-based and driven by the definitions in the standard. In other words, the revised standard would apply when the auditor is engaged to perform an audit of group financial statements, as defined.
18. In this regard, the Task Force discussed several scenarios to determine whether ISA 600 (Revised) would or would not apply in each case. For example:
- An entity with a parent company and two majority-owned subsidiaries – ISA 600 (Revised) would apply because there is more than one component, and the financial information of the two subsidiaries would be included in the group financial statements through a consolidation process.
 - A single legal entity with one operating location but with inventory held at an offsite location – In this case, the Task Force concluded that ISA 600 (Revised) would not apply as there is only one component and no consolidation process (i.e., the consolidation requirements of the applicable financial reporting framework would not apply because there is only one legal entity).
 - A single legal entity with branches or divisions (e.g., a bank that has several branches or an entity with several operating divisions). In this case, the Task Force concluded that ISA 600 (Revised) would apply as the financial information of the branches or divisions is included in the group financial statements through a consolidation process. As noted in paragraph 15

above, for purposes of the revised ISA, a consolidation process also includes the aggregation in the group financial statements of branches, divisions or other operating units of a single legal entity.

19. The Task Force acknowledges that questions may still arise about whether or not the revised standard would apply in some limited circumstances. The Task Force is of the view that it is not practicable to address all the possible scenarios in the revised standard, but examples of whether the standard would apply in different scenarios could be provided in implementation guidance outside of the standard, such as a 'Frequently Asked Questions' (FAQ) document or other Staff publication. This allows the scope of the standard to remain principles-based, and new or emerging entity structures and related questions about the scope and applicability of the standard can be addressed by updating the implementation guidance.

Involvement of Component Auditors

20. Under the risk-based approach, the group engagement team (with involvement as necessary from component auditors) assesses the risks of material misstatement of the group financial statements, and then determines the strategy to obtain sufficient appropriate audit evidence to respond to those assessed risks. This strategy may involve using the work of component auditors, particularly when there is a larger number of components or components in different geographical areas.
21. Using the work of component auditors results in a number of special considerations in ISA 600 (Revised), for example:
- Communication with the component auditors;
 - Involvement of the group engagement team and group engagement partner in the work of the component auditors; and
 - Applying the requirements of ISA 220 (Revised) with respect to relevant ethical requirements and the competence and capabilities of the engagement team.
22. Given these special considerations, the Task Force proposes a few changes to the structure of the revised standard, including placing all of the requirements related to using the work of component auditors in one section. The Task Force sees the following benefits of doing this:
- 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. This enhances the scalability of the standard.
 - In extant ISA 600, the section on the communications with component auditors is included later in the requirements section, and some noted the 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 as all special considerations related to the use of the work of a component auditor would be in one section.
23. **Appendix 3** shows the proposed structure of ISA 600 (Revised).

Matters for IAASB Consideration

2. The IAASB is asked for its views on:
- (a) The special considerations in an audit of group financial statements, including in relation to the scope of the standard, as discussed in paragraphs 10-23 above, and
 - (b) The proposed structure of the standard as illustrated in **Appendix 3**.

Section III: Issues Relating to the Proposed Revisions*Access to People and Information at the Component Level*

24. The Task Force noted that there are several different types of access issues that may occur in a group audit. The different types of access issues require a different approach from the auditor, and it is therefore important for the standard to differentiate among them. The IAASB recognizes that 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.
25. The table below includes the various access issues considered by the Task Force.

Access issues	In scope of ISA 600?
<i>Access to People</i>	
Group engagement team is unable to access component auditor or component auditor is not responsive.	Yes
Group engagement team or the component auditor are unable to access those charged with governance of the group, group management, those charged with governance of component(s) or component management.	Yes
<i>Access Issues to Information</i>	
<p>Group engagement team is unable to access component auditor's audit documentation because local law and regulations:</p> <ul style="list-style-type: none"> • Require audit work papers to be kept in the component's jurisdiction; • Prevent audit work papers to be shared electronically to parties outside of the component's jurisdiction; or • Have restrictions related to who can travel into a country, for example there may be requirements that members of the group engagement team must obtain necessary approval before traveling to the component jurisdiction to perform audit procedures or review working papers. 	Yes
Group engagement team is unable to access component auditor's audit work papers because of war, other unrest or outbreaks of infectious	Yes

diseases.	
<i>Access Issues for Regulators</i>	
Regulatory inspectors are unable to review the component auditor's audit files because local laws and regulations require audit work papers to be kept in the component's jurisdiction.	No
Regulatory inspectors are unable to access the component auditor's audit files for enforcement and investigation purposes because local laws and regulations prevent component auditors sharing information with third party regulators.	No

26. To clarify the different access issues that exist, the Task Force made several changes to the application material (paragraph A12B–A15). The main changes are as follows:

- Included headers to differentiate the different access issues, roughly divided into access issues related to information and access to people.
- Added application material that:
 - Explains the various reasons for access issues (paragraph A12B); and
 - How the group engagement team may be able to overcome access to information issues (paragraph A14A).

Matter for IAASB Consideration

3. The IAASB is asked for its views on how the Task Force has addressed the issues related to access to people and information.

Group-Wide Controls

27. The Task Force noted that some auditors interpret the current definition of group-wide controls as being:
- Controls over group financial reporting, including consolidation; or
 - Controls over processes that are the same across the group or a part of the group (e.g. controls at a shared service center).

The definition in extant ISA 600 only covers the first bullet which leads to confusion.

28. The Task Force discussed the role that group-wide controls play in responding to assessed risk of material misstatement and noted that auditors sometimes place undue reliance on these controls, for example:

- Relying on group-wide controls without testing them.
- Relying on group-wide controls when the extent of the testing has not resulted in sufficient appropriate audit evidence (e.g., to reduce the extent of substantive procedures). For example, the group engagement team may have tested group-wide controls without obtaining a sufficient understanding about how the controls are designed and implemented throughout the group in addressing risks of material misstatement.
- Relying on group-wide controls that are not sufficiently precise (i.e., not designed in a way that is

responsive to an assessed risk of material misstatement).

29. Given the matters noted above, the Task Force proposes to delete the definition of group-wide controls and discuss testing controls in a group audit more broadly in connection with the responses to assessed risks of material misstatement of the group financial statements. The Task Force will further consider to the changes to that revised standard that will be needed to reflect this new approach.

Matter for IAASB Consideration

4. The IAASB is asked for its views on the Task Force's proposal to delete the definition of group-wide controls as discussed in paragraph 29 above.

Group Engagement Partner Review of the Overall Group Audit Strategy and Plan

30. Paragraph 16 of **Agenda Item 9-B** states the following:

In applying the requirements of ISA 300, the group engagement partner shall review the overall group audit strategy and group audit plan.

31. During the Task Force discussions, some Task Force members raised questions about the appropriateness of this requirement in ISA 600, in particular:
- The scalability of the requirement, i.e., it would apply to a small, non-complex group audit engagement (such as an entity with only two locations and which operates in single line of business), but would not be required for a large, complex single-location audit because there is no corresponding requirement for the engagement partner in ISA 300.⁸ In this regard, the Task Force discussed the alternative of a consequential amendment to ISA 300 to make this requirement applicable to all audits.
 - If retained in ISA 600 (Revised), whether the focus of the requirement should be on the group engagement partner's involvement in engagement planning and the development of the overall audit strategy and plan, rather than simply on reviewing the strategy and plan.

Matter for IAASB Consideration

5. The IAASB is asked for its views on the requirement for the group engagement partner to review the overall audit strategy and group audit plan, including the alternative of amending ISA 300 to extend the requirement for engagement partner review of the audit strategy and plan to all audits of financial statements.

⁸ ISA 300, *Planning an Audit of Financial Statements*

Section IV – Discussion of Other Matters

Materiality Considerations in a Group Audit

Background

32. The following issues were identified in the Invitation to Comment (ITC),⁹ relating to component materiality and other aspects of materiality relevant to group audits:
- There is confusion and significant variation in practice relating to the auditor's understanding of the concepts of component materiality and component performance materiality, and their purpose, as well as the manner in which they are determined.
 - It has also been noted by some stakeholders that, generally, the concept of aggregation risk that underpins the requirements and application material/ in ISA 600 is not well-understood. Regulators and audit oversight bodies have noted instances where component materiality has been established at levels equivalent to, or only marginally below, group materiality. Additionally, situations have been identified where the clearly trivial threshold at components exceeds that established at the group level.
33. Respondents to the ITC, across a range of respondent groups, called for more guidance on applying the concepts of component materiality and component performance materiality in a group audit situation, in particular in relation to the concept of aggregation risk and in relation to equity investees. Preference was expressed for this to be in the form of training material rather than guidance in the application material.
34. There was a strong regulator view that the determination of component materiality and component performance materiality needs to be addressed in ISA 600 in a more robust and comprehensive manner. Regulators noted that the concept of aggregation risk is not clearly defined in the standards and is not well understood by some group auditors. Therefore, addressing aggregation risk and helping auditors establish an appropriate component materiality (and component performance materiality) is important. Regulators also did not support waiting for a separate project on materiality to address some of the issues in this area as, in their view, action could be taken by the IAASB based on extant ISA 320.
35. The IAASB indicated in the ITC that it was open to the possibility of developing more topic-specific guidance relating to component materiality and other aspects of materiality relevant to group audits, as well as challenging whether any amendments to the requirements in ISA 600 are necessary. The Board noted that any actions taken should not infringe on the basic principles in ISA 320.¹⁰ Examples of matters that the IAASB indicated it could consider in the context of the group audits project included:
- More guidance about how the concepts of component materiality and component performance materiality in the context of a group audit are expected to be applied, recognizing that all groups and their components are likely subject to unique facts and circumstances, and that such guidance will need to retain the principles-based nature of the existing ISAs.
 - Further consideration of the concepts of component materiality, component performance

⁹ See paragraph 254 and 255 of the ITC. <https://www.ifac.org/system/files/publications/files/IAASB-Invitation-to-Comment-Enhancing-Audit-Quality.pdf>

¹⁰ Paragraph 260 of the ITC further explains the IAASB's reasons for not opening up ISA 320 at this stage.

materiality and component clearly trivial thresholds in the context of group audits, particularly in relation to the concept of aggregation risk, and consideration as to how these concepts might be made more clear and operational. Matters to address may include consideration of whether the requirements in ISA 600 should be revised to indicate that component performance materiality and component clearly trivial thresholds should be less than the corresponding amounts at the group level. Additional guidance could also be provided to further emphasize the requirements and provide additional context.

- How materiality is to be applied in situations when procedures are being performed on one or more account balances, classes of transactions or disclosures, or when performing specified audit procedures, in accordance with paragraphs 27(b) and (c) of extant ISA 600.

Task Force Discussion and Recommendations

36. The Task Force discussed the issues identified in the ITC and responses thereto regarding materiality in a group audit, keeping in mind that one of the key public interest issues in revising ISA 600 is to establish stronger linkages to other ISAs (in this case, ISA 320).
37. The Task Force agrees with respondents to the ITC that the concept of aggregation risk is not well understood, and therefore should be further emphasized in ISA 600 (Revised). The Task Force also agrees that additional guidance would be helpful regarding the factors that the auditor may consider in establishing materiality at the component level, as well as the threshold to be used for identifying and communicating misstatements to the group engagement team.
38. The Task Force believes that these materiality considerations can best be addressed through a combination of:
 - Clarifying and strengthening the requirements or application material in the revised standard; and
 - Providing additional guidance outside of the standard, e.g., through implementation support materials such as practical examples, FAQs, or Staff guidance.
39. The Task Force believes that guidance relating to component materiality needs to give due consideration to the concept of aggregation risk. This concept is described in paragraph A43 of extant ISA 600, which states:

To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality is set lower than materiality for the group financial statements as a whole. Different component materiality may be established for different components. Component materiality need not be an arithmetical portion of the materiality for the group financial statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed the materiality for the group financial statements as a whole. Component materiality is used when establishing the overall audit strategy for a component.
40. Aggregation risk exists and needs to be addressed in all audits of financial statements, but becomes particularly important to understand and address in a group audit engagement because, broadly speaking, aggregation risk increases as the number of locations (i.e., components) increases at which audit procedures are planned and performed separately, either by component auditors or the

group engagement team.

41. The Task Force recognizes that the approaches currently used by auditors for setting component materiality may vary, but also notes that firm methodologies generally acknowledge the concept of aggregation risk (consistent with paragraph A43 of extant ISA 600). Some firms may refer to this as setting component materiality, whereas other firms may refer to setting component performance materiality or assigning performance materiality to components. In any event, the process for determining component-level materiality is based on group materiality amounts, and may include consideration of both quantitative and qualitative factors such as:
- The relative financial significance of the component to the group (e.g., using a measurement basis that is generally the same as that used in setting group materiality, such as pretax income, revenue, or assets)
 - Factors specific to the expected risks of material misstatement of the component financial information, e.g., whether misstatements were identified at the component in prior audits.
42. As noted in paragraph 33 above, respondents to the ITC called for more guidance on applying the concepts of 'component materiality' and 'component performance materiality' in a group audit. Although both of these terms are used in extant ISA 600, the Task Force will further discuss the terminology in view of the risk-based approach in the revised standard. For example, when the group engagement team involves component auditors to perform procedures to respond to assessed risks of material misstatement of the group financial statements, it may be appropriate to refer to those procedures being performed using component performance materiality. The Task Force also recognizes that the choice of terminology related to materiality will need to be considered in connection with the options for performing procedures at the component level as described in paragraphs A47C–A47G of **Agenda Item 9-B**.
43. Paragraph 21(d) of extant ISA 600 requires the group engagement team to determine the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. The related application material in paragraph A45 states:
- A threshold for misstatements is determined in addition to component materiality. Misstatements identified in the financial information of the component that are above the threshold for misstatements are communicated to the group engagement team.
44. To address issues identified by regulators and audit oversight bodies regarding the clearly trivial threshold, the Task Force will consider strengthening the requirement in ISA 600 (Revised) to indicate that the clearly trivial threshold at the component level cannot exceed the threshold established at the group level.
45. The Task Force will give further consideration to the requirements and application material regarding materiality considerations in a group audit engagement based on input and direction from the IAASB and from planned outreach activities, for example, discussions with the Forum of Firms and the Global Public Policy Committee. As noted above, however, the Task Force believes that the requirements and related application material in ISA 600 (Revised) should be principles-based and should acknowledge the need for professional judgment, recognizing that there likely is no single approach (mathematical or otherwise) that would be appropriate given the many different facts and circumstances of group audit engagements. Additional guidance and implementation support material would also be helpful in promoting a better understanding of the concept of aggregation risk.

Matters for IAASB Consideration

6. The IAASB is asked for its views on the following:
- a) How the concept of aggregation risk could most appropriately be addressed in the revised standard;
 - b) Whether additional guidance should be included in the revised standard regarding the determination of component materiality, component performance materiality and the clearly trivial threshold, or whether such guidance can be provided outside of the standard;
 - c) If there is a view that additional guidance should be included in the revised standard, the nature of such guidance.

*'Stand Back' Requirements***Background**

46. In the ITC,¹¹ the IAASB noted that, in some cases, the audit documentation for a group audit may not explicitly demonstrate the group engagement team's judgments, as appropriate, in relation to the evaluation of the findings of the component auditors. For example, some regulators and audit oversight bodies noted instances where there is insufficient consideration of the effect on the group audit of the component auditor's findings, including the evaluation of whether sufficient appropriate audit evidence has been obtained.
47. Paragraph 44 of extant ISA 600 requires the group engagement team to evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion. Paragraph 45 of extant ISA 600 requires the group engagement partner to evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence.

Task Force Discussion and Recommendations

48. As discussed with the IAASB at the June 2019 meeting (see Agenda Item 6 for that meeting), the Task Force believes that "stand-back" requirements continue to be appropriate in the revisions to ISA 600, particularly with respect to:
- Whether sufficient appropriate audit evidence has been obtained to provide a basis for the group engagement team's opinion on the group financial statements (consistent with paragraph 44 of extant ISA 600); and
 - Whether the group engagement partner's involvement has been sufficient and appropriate throughout the group audit engagement, including in the work done by component auditors, such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement (consistent with paragraph 37 of the exposure draft of proposed ISA 220)

¹¹ See paragraph 301 of the ITC

(Revised).

49. The Task Force is also of the view that paragraphs 42 and 43 of extant ISA 600, related to the component auditor's communication and adequacy of the component auditor's work, continue to be appropriate. The Task Force will further discuss whether any changes need to be made to further enhance these requirements in connection with the other aspects of the revised standard dealing with the involvement and communications with component auditors.
50. Based on its recent discussions, the Task Force believes that a single stand-back requirement can be included in ISA 600 (Revised), focused on evaluating whether sufficient appropriate audit evidence has been obtained to provide a basis for the opinion on the group financial statements, as described in the first bullet in paragraph 48 above. In the view of the Task Force, such evaluation would implicitly encompass whether the group engagement partner's involvement, including in the work done by component auditors, was sufficient and appropriate throughout the group audit engagement, as described in the second bullet in paragraph 48 above and as required by paragraph 11A in **Agenda Item 9-B**.
51. Although the Task Force has had only preliminary discussions about the wording of such a stand back requirement, the Task Force believes that paragraph 44 of extant ISA 600 could be modified as shown below:

~~In applying the requirements of ISA 330, the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to~~ on the consolidation process and the work performed by the group engagement team and the component auditors ~~on the financial information of the components, on which to base the group audit opinion.~~
52. The Task Force has also preliminarily discussed related application material for this requirement, and noted that it could include the following points:
 - A reference to paragraph 17 of ISA 200, which requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, i.e., the deleted wording in the first sentence of extant paragraph 44.
 - Guidance for the auditor to consider whether, in responding to assessed risks of material misstatement of the group financial statements, sufficient work has been done, including at components that are individually financially significant. This is not to suggest that there is a requirement to identify "significant components," or consider overall "coverage" of significant accounts, classes of transactions or disclosures. Rather, the intent is for the auditor to evaluate whether the application of the risk-based approach has had the intended result, i.e., sufficient appropriate audit evidence has been obtained in response to the assessed risks, and that there were no financially significant components or material accounts, classes of transactions or disclosures in the group financial statements for which no further audit procedures were performed. This guidance could include:
 - With respect to the group financial statements, a reference to paragraph 18 of ISA 330, which requires the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions,

account balance, and disclosure.

- The meaning of “individually financially significant” in this context, i.e., based on an appropriate benchmark such as a percentage of group pretax income, revenue, or assets.

Matters for IAASB Consideration

7. The IAASB is asked for its views on the Task Force’s preliminary suggestion for the stand-back requirement and related application material as described in paragraphs 46–52 above. Does the IAASB have further suggestions for the related application material, particularly with respect to the sufficiency of work done at financially significant components?

Section V: Way Forward

53. The Task Force is working towards an approval of the exposure draft of proposed ISA 600 (Revised) at the March 2020 IAASB meeting and aims to have a full draft of the standard available at the December 2019 meeting.
54. After the September 2019 meeting the Task Force will focus on:
 - Addressing the comments received from the Board during the September 2019 meeting on the drafting as included in **Agenda Item 9-B**;
 - The matters included in Section IV of this agenda item, being:
 - Materiality considerations in a group audit; and
 - “Stand-back” requirements;
 - The sections in ISA 600 (Revised) related to:
 - Involvement and Communications with Component Auditors;
 - Communication with Group Management and Those Charged with Governance; and
 - Documentation.
55. As the Task Force continues its discussions, it will consider whether to involve or seek input from others with specific expertise in certain areas (e.g., IT systems and controls in a complex group environment).

Coordination with IESBA and Other IAASB Task Forces

56. The Task Force will continue to liaise with the ISA 220 and ISQM 1¹² Task Forces to make sure that ISA 600 (Revised) is aligned with the changes made to these standards. As mentioned in paragraph 6 above, the Task Force will continue to liaise with IESBA and the ISA 220 (Revised) Task Force on the definition of the group engagement team and will also actively engage with IESBA to identify other matters that may require coordination.

¹² International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Frequently Asked Questions

57. The Task Force discussed the development of a FAQ document that could be published in connection with the issuance of ISA 600 (Revised). The objective of the FAQ publication would be to provide additional guidance in certain areas, which allows the standard to be more principles based. In addition, including this guidance in a FAQ document allows for greater flexibility in explaining the matters, and it is easier to update the document when needed.

Outreach Activities

58. The Task Force's outreach activities are summarized in **Appendix 1**. Between the posting of the papers and the September 2019 meeting, the Task Force intends to liaise with a number of key stakeholders, including:
- International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group;
 - International Federation of Accountants' Small and Medium Practices Committee;
 - International Organisation of Supreme Audit Institutions; and
 - International Organization of Securities Commissions' Committee 1.
59. After the September 2019 meeting the Task Force has meetings scheduled with:
- Forum of Firms; and
 - Global Public Policy Committee.

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;
 - Rich Sharko (supported by Jamie Shannon);
 - Wolf Böhm;
 - Josephine Jackson; and
 - Dora Burzenski (Correspondent member).
2. Further information about the project can be found [here](#).

Task Force Activities Since the March 2019 IAASB Discussion

3. The Task Force had one Task Force meeting and had two teleconferences.

Outreach Activities

4. The Task Force Chair attended the following outreach events or meetings in which ISA 600 was prominently discussed:
 - IFIAR's ASEAN Audit Regulator Group; and
 - Chinese Institute of Certified Public Accountants.

ISA 600 Draft Minutes of the June 2019 Board Meeting

Group Audits – ISA 600¹³

Mr. Jui updated the Board on the work performed by the ISA 600 Task Force since the March 2019 meeting, as presented in **Agenda Item 6**, **Agenda Item 6-A** and **Agenda Item, 6-B**. In addition, he further explained the risk-based approach to planning and performing a group audit in different situations. The following sets out the more substantive comments from the Board.

PUBLIC INTEREST ISSUES

The Board supported the key public interest issues as set out by the ISA 600 Task Force in section I of **Agenda Item 6**. With respect to the public interest issues, the Board asked the ISA 600 Task Force to further consider:

- Breaking up the two key public interest issues identified into several, more specific, public interest issues.
- Including the risk of fraud in a component and the risk that insufficiently fees are allocated to components in the list of issues to be addressed.
- Making changes to the standard that specifically address the key public interest issues identified. In this regard the importance of not rewriting the standard was highlighted.
- With respect to access to the information and people, highlighting that this issue can only be partly addressed by changes to ISA 600 as laws and regulations also need to change.

RISK BASED APPROACH TO PLANNING AND PERFORMING A GROUP AUDIT

The Board supported the risk-based approach to planning and performing a group audit (the 'risk-based approach') as set out by the ISA 600 Task Force in section II of **Agenda Item 6**. With respect to the risk-based approach, the Board asked the ISA 600 Task Force to further consider:

- Linking the risk-based approach to the special considerations in an audit of group financial statements.
- Clarifying the important role that component auditors play in the risk assessment as a component auditor may be better placed to perform the risk assessment than the group engagement team.
- Clarifying in which instances it may be useful to identify components that are significant. It was suggested to reach out to practitioners and obtain their views on this matter.
- When a statutory audit engagement is performed on a component, clarify the relationship between the two audit engagements and explain how the component auditor can leverage of the work performed for the statutory audit.

On the preliminary drafting, as set out by the ISA 600 Task Force in **Agenda Item 6-A**, the Board provided several suggestions to enhance the drafting and asked the ISA 600 Task Force to consider:

- Making the drafting more specific to group audit engagements as the requirements seem to repeat the requirements in the foundational standard. It was suggested to identify what the special

¹³ These draft minutes are still subject to IAASB review and may therefore change.

considerations are in an audit of group financial statements and draft requirements that address those special considerations.

- Highlighting the difference in the control environment between a single entity audit and a group audit.

SPECIAL CONSIDERATIONS IN AN AUDIT OF GROUP FINANCIAL STATEMENTS

With respect to the special considerations in an audit of group financial statements, as presented in section III of **Agenda Item 6**, the Board asked the ISA 600 Task Force to consider:

- Identifying the special considerations in an audit of group financial statements. It was suggested to have requirements for each special consideration and clarify that these requirements only apply when the special consideration is present.
- Further clarifying the scope and the applicability of the standard.
- With respect to the definition of group financial statements, whether 'aggregate' should be replaced by 'consolidates'.
- With respect to the communication with component auditors:
 - Emphasizing the importance of robust communications from the component auditor to the group engagement team.
 - Clarifying that when the group engagement team also audits a component there is no need for to send instructions and report back to itself;
 - Clarifying the relationship between the direction, supervision and review, and the communication with component auditors to avoid unnecessary communications.

The Board generally supported the indicative drafting of the special considerations related to ISA 220 (Revised) as set out by the ISA 600 Task Force in **Agenda Item 6-B**. With respect to the drafting, the Board asked the ISA 600 Task Force to consider:

- Including guidance to address the situation when a component auditor oversees another component auditor.
- Streamlining the drafting as some paragraphs seem to overlap each other.
- With respect to paragraph 13A(e), whether it is practically possible for the group engagement partner to determine that sufficient and appropriate resources are assigned or made available by the component auditor's firm.

OTHER ISSUES

In addition to the topics discussed above, the Board asked the ISA 600 Task Force to consider:

- Addressing the issue with respect to the definition of the (group) engagement team and to liaise with the ISA 220 Task Force and the International Ethics Standards Board for Accountants on this matter.
- Reaching out to a broad range of stakeholders including the International Organisation of Supreme Audit Institutions (INTOSAI), the Global Public Policy Committee, the Forum of Firms and the International Federation of Accountants' Small- and Medium Practices Committee.

The Board also discussed whether ISA 600 should include guidance related to joint audits and concluded that this topic would be better placed in a separate standard as group audits and joint audits are in some

respect similar but in other aspects different. Given the importance of this topic it was suggested to include it in the strategy.

IAASB CAG CHAIR REMARKS

Mr. Dalkin highlighted the importance of adaptable and scalable standard as a principle-based standard will make the application of the standard easier for a wide range of organizations. He also supported reaching out to INTOSAI.

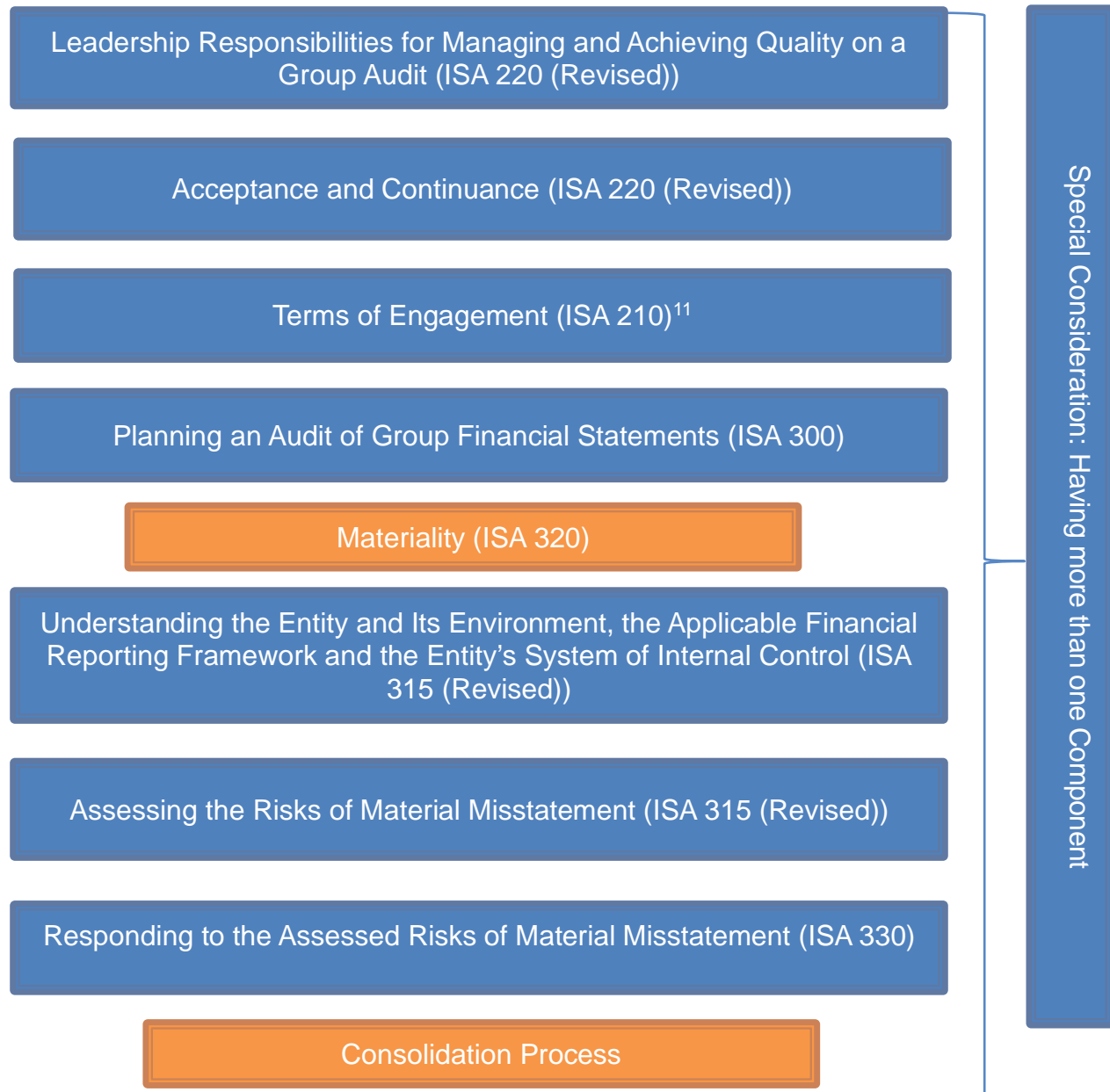
PIOB OBSERVER REMARKS

Mr. van Hulle noted that, from a public interest perspective, the project to revise ISA 600 is important as almost all significant entities globally are group audits and addressing the issues identified is critical to address today's expectation gap. He therefore questioned why there were only two key public interest issues identified. He highlighted the important role that the group engagement team plays and asked the ISA 600 Task Force to further clarify this role in the revision of ISA 600. Mr. van Hulle also noted that it needs to be clear that ISA 600 is not a standalone standard – i.e. all other ISAs also apply when auditing a group.

WAY FORWARD

The ISA 600 Task Force will further develop the drafting, including application material, related to the introduction section, and the requirements on engagement acceptance and continuance and the risk-based approach. The Task Force will also discuss other matters that have not been discussed with the Board to date, such as materiality considerations, and present these to the Board in its September 2019 meeting.

Structure of the Requirements¹⁴

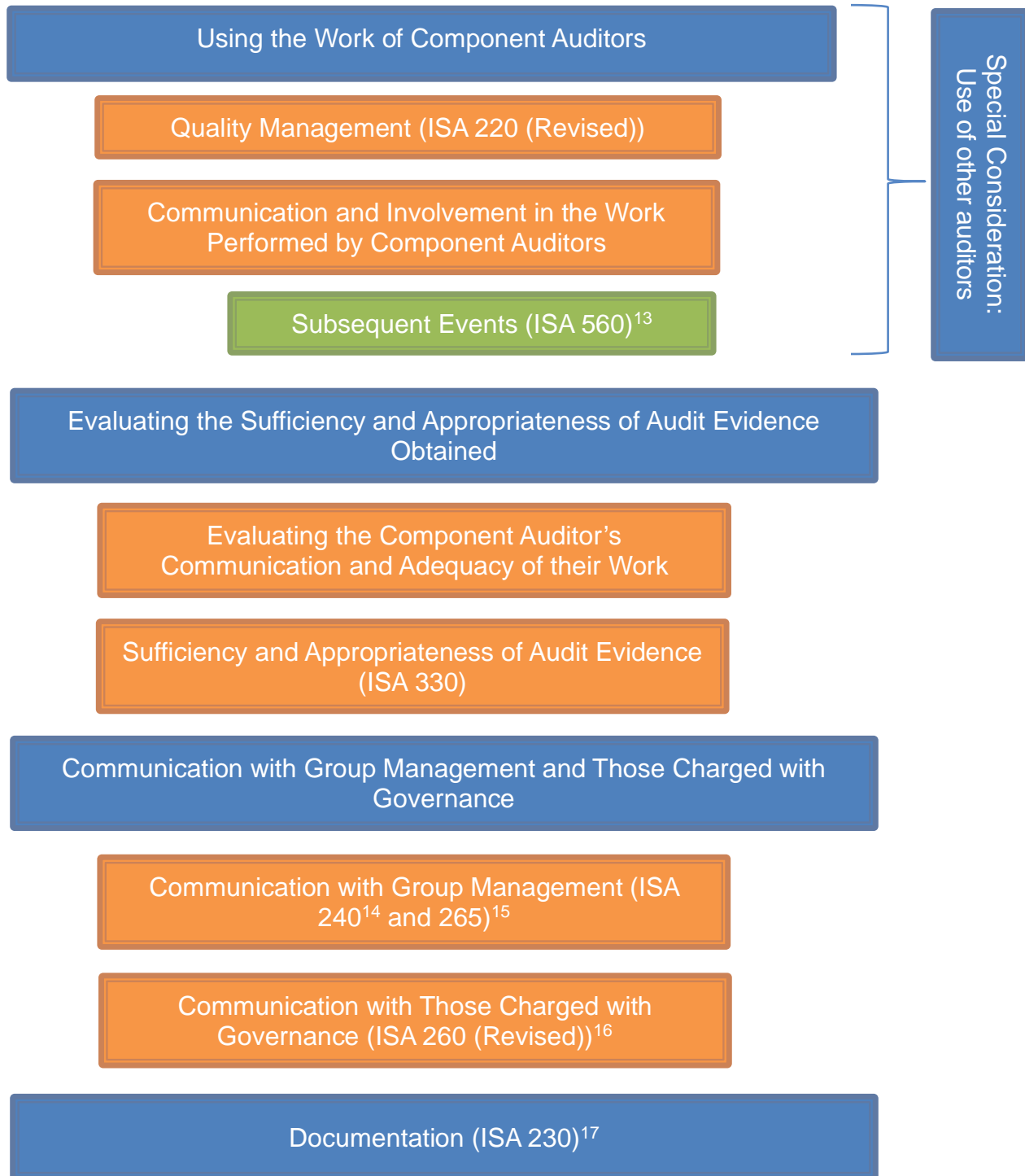


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¹⁴ The blue boxes align with main headings in the standard. The orange and green boxes are sub-sections.

¹⁵ ISA 210, *Agreeing the Terms of Audit Engagements*

¹⁶ ISA 300, *Planning an Audit of Financial Statements*



¹⁷ ISA 560, *Subsequent Events*

¹⁸ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹⁹ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

²⁰ ISA 260 (Revised), *Communication with Those Charged with Governance*

²¹ ISA 230, *Audit Documentation*