

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: New York, United States of America

Meeting Dates: March 10–11, 2020

Agenda Item

F

ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) – Cover and Report Back

Objective of Agenda Item

1. The objectives of this agenda item are to:
 - a) Report back on the IAASB CAG representatives' comments on the project to revise ISA 600¹ made at the September 2019 meeting;
 - b) Update the Representatives on the work performed by the ISA 600 Task Force (the Task Force) since the September 2019 IAASB CAG meeting; and
 - c) Obtain the Representatives' views on the proposed Exposure Draft of ISA 600 (Revised) (ED–600).

Project Status

2. Since the September 2019 IAASB CAG meeting, the Task Force has focused on revisions to proposed ISA 600 (Revised) based on the input received from the IAASB, IAASB CAG and outreach activities. In the December 2019 meeting, the Task Force presented a full draft of proposed ISA 600 (Revised) (excluding appendices) and circulated a full turnaround draft of proposed ISA 600 (Revised) to the Board on December 21, 2019 for offline comments. In addition, the Task Force presented the proposed changes to the appendices to proposed ISA 600 (Revised) and the proposed conforming and consequential amendments in the Board's January 23, 2020 teleconference.
3. In developing ED-600 as presented in **Agenda Item F.3**, the Task Force took into account the input received from the Board as well as feedback received on outreach.
4. ED-600 is being presented to the IAASB for approval at the March 2020 IAASB meeting.
5. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on ISA 600, including links to the relevant IAASB CAG documentation.

IAASB CAG Discussion in March 2020

6. For the purposes of the IAASB CAG discussion, the following materials have been provided to the Representatives:

¹ International Standard on Auditing (ISA) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

- *Presentation*—The presentation slides will be used to guide the discussion during the meeting and include the key matters that the Task Force would like to highlight to the Representatives (**Agenda Item F.1**).
 - *Issues Paper*— The issues paper is the same paper that will be presented to the IAASB for the March 2020 meeting (**Agenda Item F.2**). The issues paper includes the Task Force’s thinking on some key matters, including the restructuring of the standard, the objectives of the standard, definitions, risk assessment procedures and documentation.
 - *ED-600* – The standard is being presented to the Board for approval for exposure (**Agenda Item F.3**).
7. For the purposes of the IAASB CAG discussion, the Representatives are requested to focus on the following matters:
- Presentation (**Agenda Item F.1**);
 - Issues paper (**Agenda Item F.2**), the following areas only:
 - Section I-A: Restructuring;
 - Section I-E: Documentation;
 - Section III: Other Matters, including Exposure Period and Effective Date; and
 - Section IV: Matters for the Explanatory Memorandum;
 - **Appendix B** to this agenda item. Appendix B is an extract from the December 2019 IAASB issues paper and includes the sections on restrictions on access to people and information, materiality considerations in a group audit and the role of component auditors; and
 - ED-600 (**Agenda Item F.3**).
8. When navigating the issues paper (**Agenda Item F.2**), Representatives are requested to ignore the ‘Matters for IAASB Consideration’ as the paper is an IAASB Board paper. The questions that are being asked of the Representatives are outlined below and included in the presentation (**Agenda Item F.1**)
9. The matters in paragraph 7 will be discussed in the same order as presented in the presentation slides (**Agenda Item F.1**).

Matters for IAASB CAG Consideration

Role of Component Auditors

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

Restructuring

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

Restrictions on Access to People and Information

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

Materiality Considerations in a Group Audit

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

Documentation

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

Exposure Period and Effective Date

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

Matters for the Explanatory Memorandum

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

Feedback

10. Extracts from the draft September 2019 IAASB CAG meeting minutes, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force/IAASB Response
RISK-BASED APPROACH TO PLANNING AND PERFORMING A GROUP AUDIT	
Mr. Thompson and Ms. Zietsman supported the ISA 600 Task Force's proposals related to the risk-based approach. Ms. Zietsman noted that the risk-based approach is aligned with the PCAOB's direction of travel in its project on other auditors.	Support noted.
Mr. Thompson questioned whether the group engagement team's understanding of components is sufficient to identify all risks of material misstatement and highlighted the importance of	Point noted. Mr. Jui noted that the ISA 600 Task Force had preliminary discussions about a stand back requirement, which focuses on evaluating whether

Representatives' Comments	Task Force/IAASB Response
<p>involving component auditors in this regard. He also noted that the extant ISA 600 requirement to perform an audit for significant components was a safeguard against doing insufficient work to address a risk of material misstatement and questioned whether ISA 600 (Revised) should have something to prevent doing insufficient work on risks of material misstatement for certain account balances in the group financial statements. Ms. Zietsman supported including a stand back requirement and noted it could be based on the stand back relating to risk assessment procedures in ISA 315 (Revised).</p>	<p>sufficient and appropriate audit evidence has been obtained. Application material could include guidance for the auditor to consider whether sufficient work has been done, including at components that are individually financially significant.</p> <p>Since the September 2019 IAASB CAG meeting, the Task Force made several changes to the standard to clarify the role that component auditors play in a group audit. The Task Force clarified that the engagement team will often need to involve component auditors in obtaining an understanding the entity and its environment, and in the identification, assessment of the risks of material misstatement and response thereto. The Task Force also included in each section of the standard a sub-section on considerations when component auditors are involved. See Appendix B of this agenda item and Agenda Item F.2, section I-A.</p>
<p>Ms. Zietsman cautioned against retaining the concept of a significant component because some of the identified issues arise from this definition.</p>	<p>Point noted.</p> <p>Mr. Jui agreed and noted that this was the reason why the ISA 600 Task Force deleted the definition of a significant component.</p> <p>ED-600 does not include the concept of a significant component.</p>
<p>SCOPE AND STRUCTURE OF THE STANDARD</p>	
<p>Ms. Zietsman and Mr. Hirai were of the view that the standard should be principles based given the different group structures that exist today and to make the standard future proof. Mr. Hirai noted that paragraph 18 of Agenda Item K.2 has useful examples regarding the applicability of the standard and suggested including them in the application material. Ms. Zietsman supported the proposed structure, including having all requirements related to the involvement of component auditors in a separate section.</p>	<p>Support noted.</p> <p>The Task Force kept the scope of ED-600 principles based. With respect to the structure of the standard, the Task Force included in each section of the standard a sub-section on considerations when component auditors are involved (instead of having all considerations in one section). See Agenda Item F.2, section I-A, for the Task Force's rationale.</p>

Representatives' Comments	Task Force/IAASB Response
With respect to the scope of the standard, Ms. Zietsman challenged the ISA 600 Task Force's statement in paragraph 19 of Agenda Item K.2 that 'questions may still arise about whether or not the revised standard would apply in some limited circumstances.' She noted that, for example, a shared service center does not neatly fit into the proposed definition of a component.	<p>Point noted.</p> <p>Mr. Jui agreed that shared service centers are widely used and noted that the ISA 600 Task Force will further discuss this matter.</p> <p>The Task Force further discussed this matter and clarified the scope of the standard by changing the definitions of 'group financial statements' and 'component,' along with additional application material. See further discussion in Agenda Item F.2. section I-C.</p>
Mr. Pavas supported the project to revise ISA 600. He questioned the group auditor's responsibility when the group auditor issues an opinion on matters that are not part of the financial statements, for example, internal control and compliance statements.	<p>Point noted.</p> <p>Mr. Jui noted that another stakeholder also raised this matter and that the ISA 600 Task Force will consider whether this needs to be addressed.</p> <p>The Task Force was of the view that ED-600 should address the auditor's responsibilities for the audit of group financial statements only.</p>
ACCESS TO PEOPLE AND INFORMATION AT THE COMPONENT LEVEL	
Mr. Hirai supported the ISA 600 Task Force's proposals with respect to access to people and information.	Support noted.
Mr. Hansen noted that some of the identified access issues go beyond the IAASB's remit. He noted that it should be clear that there should be a scope limitation if the auditor cannot obtain sufficient audit evidence. Mr. Hansen added that regulators need to be able to review the work performed by the group auditor. Mr. Hirai questioned what the group engagement team should document in the detailed memorandum.	<p>Point noted.</p> <p>Mr. Jui explained that when law or regulation restricts cross-border access of relevant audit documentation of a component auditor, the group engagement team may be able to overcome these restrictions by, for example, visiting the location of the component auditor and reviewing the relevant audit documentation and discussing the procedures performed by the component auditor. Mr. Jui also noted that when the group engagement partner expects access issues, the group audit engagement should not be accepted.</p> <p>Mr. Jui noted that the IAASB can't address all access issues and noted that the group engagement team could, for example, prepare a detailed memorandum evidencing the review of the</p>

Representatives' Comments	Task Force/IAASB Response
	<p>component auditor's documentation when law or regulation restrict the ability to include copies of such documentation in the group engagement team's files.</p> <p>After the September 2019 IAASB CAG meeting, the Task Force enhanced the section that addresses restrictions on access to people or information. See Appendix B and Agenda Item F.3 paragraphs 14, 15, A24–A30.</p>
<p>Ms. Manabat noted that, in addition to access issues, there may be other complexities in obtaining sufficient appropriate audit evidence. For example, audit evidence related to a foreign component may be in a foreign language and may need to be translated. She noted that whether or not a source document can be used as audit evidence depends on several factors and that it is a matter of professional judgment.</p>	<p>Point noted.</p> <p>Mr. Jui agreed and noted that even group audit instructions can be interpreted differently.</p> <p>The Task Force highlighted other complexities in obtaining sufficient appropriate audit evidence in a group audit in Agenda Item F.3 paragraph A20.</p>
MATERIALITY CONSIDERATIONS IN A GROUP AUDIT	
<p>Mr. Thompson supported the ISA 600 Task Force's proposals with respect to materiality considerations in a group audit, including not making broader changes to ISA 320² and including guidance about aggregation risk in ISA 600 (Revised). He also suggested that the guidance in the standard not be overly detailed. Mr. Hansen agreed with Mr. Thompson's points.</p>	<p>Support noted.</p> <p>The Task Force kept the requirement and guidance on materiality considerations in a group audit on a high level. See Agenda Item F.3 paragraphs 26–27 and A70–A74. .</p>
<p>Mr. Hansen questioned whether the requirements and application material in proposed ISA 600 (Revised) will be different from extant ISA 600.</p>	<p>Point noted.</p> <p>Mr. Jui explained that the ISA 600 Task Force only had preliminary discussions on this matter and that it is hard to say where the ISA 600 Task Force will land.</p> <p>The Task Force made several changes to the materiality section. See Appendix B for an explanation of the most significant changes.</p>

² ISA 320, *Materiality in Planning and Performing an Audit*

Material Presented – IAASB CAG Papers

Agenda Item F.1	Presentation
Agenda Item F.2	IAASB Issues Paper
Agenda Item F.3	Proposed Exposure Draft of ISA 600 (Revised) — Clean

Material Presented – IAASB CAG Reference Papers

Agenda Item 3-A for the March 2020 IAASB Meeting – Discussion of Other Significant Changes to Requirements, Application Material, Appendices and Conforming and Consequential Amendments https://www.ifac.org/system/files/meetings/files/20200316-IAASB-Agenda_Item_3A-Discussion_of_Significant_Changes-final.pdf

Agenda Item 3-C for the March 2020 IAASB Meeting – Proposed ISA 600 (Revised) — Marked https://www.ifac.org/system/files/meetings/files/20200316-IAASB-Agenda_Item_3C-Proposed_ISA600_Revised-Marked-final.pdf

Agenda Item 3-E for the March 2020 IAASB Meeting – Conforming and Consequential Amendments — Marked from Extant https://www.ifac.org/system/files/meetings/files/20200316-IAASB-Agenda_Item_3E-Conforming_Amendments-Marked_Extant-final.pdf

Appendix A

Project Details and History

Project: ISA 600

Link to IAASB Project Page: [Group Audits](#)

Task Force Members

The ISA 600 Task Force comprises:

- Len Jui, IAASB Member and Task Force Chair (supported by Susan Jones);
- Robert Dohrer, IAASB Member;
- Josephine Jackson, IAASB Member;
- Rich Sharko, IAASB Member (supported by Jamie Shannon);
- Wolf Böhm, IAASB Technical Advisor; and
- Dora Burzenski, Correspondent Member.

Summary

	IAASB CAG Meeting	IAASB Meeting
Project Commencement	March 2015 September 2015 September 2016	December 2014 March 2015 June 2015 September 2015 December 2015 June 2016 September 2016
Project Proposal	November 2016 Teleconference	December 2016
Development of Exposure Draft	March 2017 September 2017 March 2019 September 2019	June 2017 September 2017 December 2017 March 2019 June 2019 September 2019

		December 2019 January 23, 2020
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IAASB CAG Discussions: Detailed References

Project Commencement	<p><u>March 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p> <p><u>September 2016</u></p> <p>See IAASB CAG meeting material (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa</p>
Project Proposal	<p><u>November 2016</u></p> <p>See IAASB CAG meeting material (Agenda Item B). www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
Development of Exposure Draft	<p><u>March 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item H). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item G). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item C) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p> <p><u>September 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item K) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2</p>

Appendix B

Extract from December 2019 Issues Paper³

Section I: Issues Relating to the Proposed Revisions

I-A – Restrictions on Access to People and Information

Background

1. In September 2019 the Task Force presented several examples of restrictions on access to people and information that may occur in a group audit. In general, the Board supported the Task Force's proposals on access to people and information at the component level but asked the Task Force to consider:
 - Adding further guidance on how the group engagement team may be able to overcome various access issues.
 - Adding further guidance on the implications of access issues on the auditor's report.
 - Clarifying the difference between restrictions that are imposed by management and restrictions arising from other reasons (e.g. due to law or regulation, or to other causes such as war, civil unrest or disease).
2. In the Task Force's outreach, stakeholders also asked the Task Force for guidance on how the group engagement team may be able to overcome various access issues. Matters noted included, when the group has a non-controlling interest in an entity that is accounted for by the equity method and group management and the group engagement team do not have access to component management, those charged with governance of the component, or the component auditor.
3. Based on the matters raised as discussed above, the Task Force made several changes to the proposed standard. These changes are described below.

Changes to the Requirements

4. Extant ISA 600 included the following requirement (paragraph 14) that was based on requirements in ISA 210:⁴

'The group engagement partner shall agree on the terms of the group audit engagement in accordance with ISA 210.'
5. The Task Force deleted this requirement in the draft presented to the Board in September 2019 as it did not describe a special consideration. In its deliberations, the Task Force concluded that the special consideration in a group audit relates to the fact that group management needs to acknowledge and understand its responsibility to provide the engagement team with unrestricted access to relevant

³ https://www.ifac.org/system/files/meetings/files/20191209-IAASB-Agenda_Item_2-Issues_Paper-final.pdf

⁴ ISA 210, *Agreeing the Terms of Audit Engagements*

individuals within the group. Therefore, the Task Force added paragraph 11B to address this point. In addition, paragraph 11C requires the group engagement partner to consider the effect of the audit when 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.

Structure of the Requirements and Application Material

6. In response to comments from the Board in September 2019, the Task Force decided to refocus the application material on how to overcome access restrictions. The Task Force was of the view that it would be best to have all relevant application material related to access in one section (except with respect to the effect of access restrictions on the auditor's report -- see paragraph A12G). This application material supports the requirement in paragraph 11D to determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained. The Task Force believes that this appropriately reflects how and when the auditor should think about restrictions to access to people and information, including possible ways to overcome any access restrictions.
7. The application related to restrictions is structured as follows:
 - Paragraph A12C highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The Task Force purposely kept this guidance at a high-level and only included a few examples, to avoid the perception that all restrictions are listed in this paragraph.
 - Paragraph A12D focuses on how to overcome possible restrictions. Given the interest of stakeholders and the Board on this topic, the Task Force expanded the paragraph by including several examples. Also see the next section – 'Access Restrictions Related to an Equity-Accounted Investment.
 - Paragraph A12E focuses on the effects when it is not possible to overcome restrictions to access people and information. This paragraph highlights that, if group management imposes restrictions on access to people or information, the restriction may cause the group auditor to reconsider the reliability of group management's responses to the group engagement team's inquiries and may call into question group management's integrity.
 - Paragraph A12F explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.

Access Restrictions Related to an Equity-Accounted Investment

8. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the component auditor. The Task Force developed guidance on how the group engagement team may overcome the restrictions in this circumstance. Paragraph 12D includes the following three options:
 - Considering the information that may be available from group management, as group management also needs to obtain the component's financial information in order to prepare the group financial statements.

- Reviewing the terms of joint venture agreements, or the terms of other investment agreements, for provisions relevant to right of access.
- Considering other sources of information that, although not sufficient on their own, may corroborate or otherwise contribute to evidence obtained from communications with the component auditor or component management.

I-B – Materiality Considerations in a Group Audit

9. Agenda Item 9 for the September 2019 IAASB meeting described the issues identified in the Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*,⁵ relating to materiality considerations relevant to group audits. The Task Force further discussed these issues and reaffirmed the views discussed with the IAASB in September 2019 that:
- The concept of aggregation risk should be further emphasized in ISA 600 (Revised); and
 - Additional guidance would be helpful regarding the factors that the auditor may consider in establishing component performance materiality, as well as the threshold to be used for communicating misstatements to the group engagement team.
10. The Task Force also noted support from the IAASB in the September 2019 discussion 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.
11. The proposed requirements and guidance relating to materiality for a group audit engagement are presented in paragraph 17B and related application material in **Agenda Item 2-B** and are further described below.

Definitions

Aggregation Risk

12. Given the calls for greater clarity about the concept of aggregation risk, the Task Force concluded that it would be appropriate to include a definition in the revised standard. Accordingly, the Task Force added the definition in paragraph 9(aA), consistent with the description of the concept of aggregation risk in ISA 320⁶ and in paragraph A43 of extant ISA 600 (now paragraph A29D).
13. Aggregation risk exists and needs to be addressed in all audits of financial statements, but is particularly important to understand and address in a group audit engagement. Paragraph A29C was added to emphasize that, in a group audit engagement, there is a greater likelihood that audit procedures will be performed on accounts, classes of transactions or disclosures that are

⁵ See paragraph 254 and 255 of the ITC: <https://www.ifac.org/system/files/publications/files/IAASB-Invitation-to-Comment-Enhancing-Audit-Quality.pdf>

⁶ ISA 320, *Materiality in Planning and Performing an Audit*

disaggregated across components, i.e., on the separate financial information of a number of different components. Therefore, broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or the group engagement team.

Component Performance Materiality

14. In accordance with ISA 320, performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole (i.e., to address aggregation risk). The group engagement team sets performance materiality at the group financial statement level (i.e., group performance materiality), but also needs to determine a materiality amount for purposes of performing procedures on disaggregated component financial information.
15. The terms 'component materiality' and 'component performance materiality' are both used in extant ISA 600. Notwithstanding the history of discussions leading to the inclusion of both terms in extant ISA 600, and a desire to be consistent with the underlying concepts in ISA 320, the Task Force noted that the use of both terms may be leading to confusion or, at a minimum, unnecessarily complicating the requirements and guidance in the standard.
16. In the view of the Task Force, the term 'component materiality' implies the materiality amount for the financial statements of a component as a whole that would be set in accordance with ISA 320 when an audit of the component is required by statute, regulation or for another reason. Under the risk-based approach in ISA 600 (Revised), the group engagement determines the most appropriate approach to obtain sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements, which may involve audit procedures being performed at the component level. The Task Force believes that the materiality amount to be used in performing audit procedures on the disaggregated component financial information is most appropriately referred to as 'component performance materiality.'
17. Accordingly, the Task Force has changed 'component materiality' to 'component performance materiality' and revised the definition to recognize that this is an amount set by the group engagement team to reduce to an appropriately low level the aggregation risk resulting from the disaggregation of account balances, classes of transactions or disclosures across components for purposes of performing audit procedures (see paragraph 9(d) in **Agenda Item 2-B**).
18. The Task Force also added a definition of group performance materiality, as discussed below.

Changes to the Requirements and Application Material

19. The following is a summary of the significant changes to the materiality requirements and application material from extant ISA 600:
 - The requirements in paragraphs 17B(a) and 17B(b), and the related application material in paragraph A42, of extant ISA 600 have been deleted. The Task Force believes that these requirements simply repeat relevant requirements of ISA 320, and are therefore not special considerations for a group audit engagement.
 - The requirement to determine component performance materiality (now paragraph 17B(a) in **Agenda Item 2-B**) has been revised consistent with the changes to the definitions as described

above, and the related application material paragraph A29D also has been revised accordingly. This requirement clearly indicates that the component performance materiality amount shall be lower than group performance materiality. Because the term group performance materiality is not otherwise used or referred to in the ISAs, the Task Force added a definition, consistent with ISA 320, as noted in the previous paragraph.

- As discussed with the IAASB at the September 2019 meeting, the Task Force added application material paragraph A29E to describe the factors the group engagement team may take into account in setting component performance materiality. Importantly, these factors focus on matters that affect aggregation risk, i.e., the extent of disaggregation across components, and expectations about the nature, frequency and magnitude of misstatements in component financial information.
- To address issues identified by regulators and audit oversight bodies regarding the clearly trivial threshold, the Task Force has revised the requirement in paragraph 17B(d) of extant ISA 600 (now paragraph 17B(b) in **Agenda Item 2-B**) to indicate that the clearly trivial threshold at the component level shall not exceed the threshold established at the group level. The application material in paragraph A45 (now paragraph A29F) was revised accordingly.
- Paragraph 22 and the related application material in paragraph A46 of extant ISA 600 have been deleted as there is no longer a requirement in the revised standard to perform an audit of the financial information of significant components. In addition, as noted in **Agenda Item 2-A**, the revised standard now requires the group engagement team to determine component performance materiality and communicate it to component auditors.
- As noted in **Agenda Item 2-A**, paragraph 23 of extant ISA 600 has been moved to become paragraph 24A in the revised standard.

I-C – Role of Component Auditors

Background

20. Agenda Item 6⁷ of the June 2019 IAASB meeting described the risk-based approach and the role that component auditors. The paper noted that, although the group engagement team is responsible for the identification, assessment and responses to the risks of material misstatement of the group financial statements, the group engagement team can involve component auditors to assist with the risk assessment. The paper also noted that the involvement of component auditors to assist in performing risk assessment procedures at one or more components may be appropriate depending on the facts and circumstances because, for example, component auditors may have greater knowledge of local jurisdictional matters that may give rise to a risk of material misstatement at the group financial statement level. Also, component auditors are part of the engagement team and can therefore perform risk assessment procedures with appropriate direction, supervision and review by the group engagement team.
21. In the drafting presented to the IAASB at its September 2019 meeting, the Task Force included its views on how to best involve component auditors in:

⁷ https://www.ifac.org/system/files/meetings/files/20190617-IAASB_Agenda_Item_6-ISA-600-Issues-Paper-final.pdf

- Understanding the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.
 - Obtaining an understanding of the entity and in the identification, assessment and responses to the risks of material misstatement.
22. Based on feedback received on the drafting presented to the Board and at the GPPC outreach meeting, the Task Force further enhance the drafting.

Responsibility and Involvement of Component Auditors

General Principles

23. The Task Force continues to hold the view that the group engagement team is responsible for the identification, assessment and responses to the risks of material misstatement. Component auditors may, depending on the facts and circumstances, be involved if they may have a more in-depth knowledge of the components at which they perform audit procedures than the group engagement team is expected to have.
24. There are many factors that influence whether component auditors may be involved in the identification, assessment and responses to the risks of material misstatement, for example:
- The number of locations;
 - The nature of the business / operations;
 - The system of internal control, including the information system; and
 - Previous experience with the component auditor.
25. When component auditors are involved the group engagement team remains responsible for the identification, assessment and responses to the risks of material misstatement. The group engagement team therefore needs to direct and supervise the work performed by component auditors and review their work. The nature, timing and extent of the direction and supervision, including two-way communication between the group engagement team and the component auditor, depends on the facts and circumstances of the engagement (see paragraph 37D and related application material of proposed ISA 600 (Revised) in **Agenda Item 2-B**).

How Proposed ISA 600 (Revised) Addresses the General Principles

26. The general principles, as outlined in the section above, are taken into account when drafting the standard. This paragraph explains in more detail how the engagement team's responsibility and the involvement of component are addressed in proposed ISA 600 (Revised), as presented in **Agenda Item 2-B**.

Understanding the entity and its environment, the applicable financial reporting framework and the entity's system of internal control

- The group engagement team is responsible for understanding the entity and its environment, the applicable reporting framework and the entity's system of internal control. However, as noted in paragraphs 36 and 37 of this agenda item, the component auditors may be involved given that they may have a more in-depth knowledge of the components and the component's business activities. Paragraph 17 of **Agenda Item 2-B** therefore requires the group

engagement team, to the extent necessary, communicate with component auditors or component management to discuss about the business activities that may give rise to a risk of material misstatement of the group financial statements.

- Application material highlights that the risk identification and assessment process is iterative and dynamic⁸ and that the group auditor may develop initial expectations about the risks of material misstatement based on the group auditor's understanding of the group obtained during client acceptance and continuance (see paragraph A23B of **Agenda Item 2-B**). The initial expectations may be further refined as the auditor progresses through the understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control and the identification and assessment of the risks of material misstatement (see paragraph A23C of **Agenda Item 2-B**).

Identifying and assessing the risks of material misstatement

- The group engagement team's procedures to obtain an understanding of the entity and its environment, the applicable reporting framework and the entity's system of internal control shall be performed to the extent necessary to provide an appropriate basis for the identification and assessment of risks of material misstatement at the group financial statement and assertion levels (see paragraph 17A of **Agenda Item 2-B**).
- Based on the understanding obtained, the group engagement team assesses the risks of material misstatement of the group financial statements and communicates the assessed risks of material misstatement that are relevant to the work of the component auditor (see paragraph 20A of **Agenda Item 2-B**).
- The application material highlights that group engagement team may assign the performance of risk assessment procedures to component auditors, to assist the group engagement team in identifying and assessing risks of material misstatement of the group financial statements (see paragraph A29A of **Agenda Item 2-B**). Paragraph A29B highlights circumstances when the group engagement team may perform the risk assessment procedures without input from the component auditor (also see paragraph 37 of this agenda item).

Responding to the assessed risks of material misstatement

- Once the risks of material misstatement are assessed, the group engagement team is responsible for determining the nature, timing and extent of further audit procedures to be performed (paragraph 24 of **Agenda Item 2-B**).
- The group engagement team may decide to use different approaches, or a combination of approaches, to gather evidence on account balances, classes of transactions and disclosures including deciding where further audit procedures need to be performed (at which components) and who will perform the further audit procedures (the group engagement team, component auditors or a combination) to obtain sufficient appropriate audit evidence to address the risks of material misstatement. Paragraphs A30B – A30F of **Agenda Item 2-B** were added by the

⁸ ISA 315 (Revised 2019), paragraph 7, states that the auditor's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control are interdependent with concepts within the requirements to identify and assess the risks of material misstatement

Task Force and explain the different factors that the group engagement team may take into account in the determination who will perform the further audit procedures and include the matters highlighted in paragraph 37 of this agenda item.

- When the group engagement team determines that component auditors need to be involved in performing the further audit procedures, the group engagement team determines how the component auditors will be involved and may request the component auditor to:
 - Audit the entire financial information of the component because the group engagement team has determined that further audit procedures are required on all or a significant proportion of a component's financial information. The term 'audit' is used for the purpose of communicating with the component auditor.
 - Audit one or more account balances, classes of transactions, or disclosures of the financial information of a component.
 - Perform specific audit procedures on the financial information of a component.

Paragraphs A30K-A30M of **Agenda Item 2-B** were enhanced and explain the above in more detail.

- When the group engagement team requests the component auditor to perform an audit of the entire financial information of the component or audit one or more account balances, classes of transactions, or disclosures of the financial information of a component, the auditor may request the component auditor to assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed. The group engagement may do so because component auditors may have a more in-depth knowledge of the component and, for larger group audits, it may not be practical for the group engagement team to determine the nature, timing and extent of further audit procedures to be performed (see paragraph A30J). When the component auditor assists the group engagement team in determining the nature, timing and extent of further audit procedures to be performed, the group engagement team remains responsible for determining the sufficiency and appropriateness and sufficiency of the procedures, and for the direction and supervision of the work performed by component auditors and the review of their work.