

## Agenda Item B.2 (For Reference)

### Proposed ISA 600 (Revised)<sup>1</sup> – Issues Paper

**Please note: This is the ISA 600 Issues Paper that will be discussed by the IAASB in March 2021 which is provided to the CAG Representatives in March 2021 for reference purposes.**

#### Objectives of the IAASB Discussion

The objectives of this Agenda Item are to obtain the Board's input on:

- The ISA 600 Task Force's (the Task Force) analysis of respondents' comments on the [Exposure Draft of Proposed ISA 600 \(Revised\)](#) (ED-600) related to materiality and documentation;
- The Task Force's views and recommendations related to the scope and applicability of proposed ISA 600 (Revised), the risk-based approach, communications with component auditors, materiality and documentation; and
- The drafting as included in **Agenda Item 5-A**.

#### Introduction

1. In December 2020, the Task Force discussed the following four key themes with the Board based on the Task Force's analysis of responses to ED-600:
  - (a) The scope and applicability of proposed ISA 600 (Revised), including the definition of group financial statements and the description of the term 'consolidation process';
  - (b) The revised definition of a component;
  - (c) The risk-based approach, including communications with component auditors; and
  - (d) The revised definition of engagement team.

The Board's views on these key themes are captured in the draft minutes of the December 2020 IAASB meeting (see **Appendix 2** to this Agenda Item).

2. After the December 2020 IAASB meeting, the Task Force further developed its thinking on these themes and also discussed two other themes: materiality and documentation. For all of these themes, the Task Force has provided drafting as presented in **Agenda Item 5-A** (Proposed ISA 600 (Revised) – Marked from ED) and **Agenda Item 5-B** (Proposed ISA 600 (Revised) – Clean).
3. With respect to the Task Force's analysis of respondent comments on materiality and documentation, NVivo reports are provided for reference purposes (see table below). **Appendix 3** to this Agenda Item explains the approach to analyzing comments.

| Question or Topic | Agenda Paper – Summary of NVivo Analysis | Agenda Paper – Respondent Comments |
|-------------------|--|------------------------------------|
| Question 10       | Supplement B.1 to Agenda Item 5          | Supplement A.1 to Agenda Item 5    |
| Question 11       | Supplement B.2 to Agenda Item 5          | Supplement A.2 to Agenda Item 5    |

<sup>1</sup> Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

| Question or Topic | Agenda Paper – Summary of NVivo Analysis | Agenda Paper – Respondent Comments |
|-------------------|--|------------------------------------|
| Question 11 (a)   | Supplement B.3 to Agenda Item 5          | Supplement A.3 to Agenda Item 5    |
| Question 11 (b)   | Supplement B.4 to Agenda Item 5          | Supplement A.4 to Agenda Item 5    |

4. **Agenda Item 5-A** reflects the Task Force’s discussion and views in response to comments received from respondents to ED-600 and the input from the Board in December 2020. This paper describes the significant revisions made to proposed ISA 600 (Revised) and the Task Force’s rationale in the following sections:
  - (a) Introduction, Including Scope and Applicability, and Definitions (Section I);
  - (b) Risk-Based Approach (Section II);
  - (c) Communications with Component Auditors (Section III);
  - (d) Materiality (Section IV); and
  - (e) Documentation (Section V).
5. Other changes in **Agenda Item 5-A** were made to clarify certain points or to address editorial comments from respondents to ED-600 that are not discussed in this paper.
6. The Task Force’s activities since the December Board meeting are included in **Appendix 1** to this Agenda Item.

#### Approach for the Discussion of the Agenda Items

7. The IAASB is being asked for its views on the Task Force’s revisions to proposed ISA 600 (Revised), as presented in **Agenda Item 5-A**, with respect to the matters discussed in the Sections of this Agenda Item. As a result, The Task Force Chair will walk through **Agenda Item 5-A** and refer to the related matters highlighted in Sections I–V of this Agenda Item. **Appendix 4** sets out the planned approach for the discussion, with references to **Agenda Item 5-A** and the related sections in this Issues Paper. The Board is requested to provide comments on the requirements and the related application material at the same time.

#### Liaison with other IAASB Task Forces and Working Groups

8. Since the December 2020 IAASB meeting, the Task Force’s Staff met once with the Less Complex Entities (LCE) Task Force’s Chair and Staff to discuss the interaction between the LCE standard and proposed ISA 600 (Revised).

#### Liaison with the International Ethics Standards Board for Accountants

9. In addition to regular liaison between the Task Force’s Staff and Staff on the International Ethics Standards Board for Accountants’ (IESBA) Engagement Team – Group Audits Independence Task Force (IESBA Task Force), the Task Force’s Chair and Staff met once with the IESBA Task Force on matters of mutual interest. The Task Force’s Chair and Staff updated the IESBA Task Force on the comments received on ED-600 and the proposed changes to the standard to date. In addition, the change of the term ‘group engagement team’ to ‘group auditor’ was discussed and supported by the IESBA Task Force.

## Number of Respondents to ED-600

10. After the papers for the December 2020 IAASB meeting were posted, one additional comment letter was received from the Federation of Accounting Professions Thailand. In total, 83 comment letters have been received on ED-600 and an updated list of respondents is included in **Appendix 5** to this Agenda Item. The additional comment letter was taken into account by the Task Force in its discussions following the December 2020 IAASB meeting and did not affect the key themes or analysis of comments discussed with the Board in December 2020.

## Section I – Introduction, Including Scope and Applicability, and Definitions

### Related paragraphs in Agenda Item 5-A:

- Introduction: Paragraphs 1–6 and related application material (A1–A10).
- Definitions: Paragraphs 9(b), 9(k) and related application material (A12, A16–A16B).

11. In the December 2020 IAASB meeting, the Task Force discussed comments from respondents about the scope and applicability of ED-600, along with the Task Force recommendations to address the comments and concerns raised. See Section I in [Agenda Item 4 for the December 2020 meeting](#) (the December issues paper).
12. Board members expressed support for many of the Task Force recommendations but had mixed views on some of them. In particular, Board members expressed concerns about the Task Force's recommendation for all instances of entities with branches or divisions to fall within the scope of proposed ISA 600 (Revised), as discussed further in paragraphs 17–23 below.

### Definition of Group Financial Statements ('Entry Point')

13. The Task Force discussed with the Board in December 2020 its initial recommendations regarding the definition of group financial statements, including the Task Force's view that the reference to 'consolidation process' was more appropriate than 'aggregation process.' The Board asked the Task Force to revisit whether there may be merit in focusing on an aggregation process. However, it was noted that, if the Task Force concludes that the term consolidation process continues to be appropriate, the Task Force should clarify that the term has a different meaning in proposed ISA 600 (Revised) than in financial reporting frameworks.
14. The Task Force reaffirmed its initial view that the reference to consolidation process continues to be appropriate in the definition of group financial statements, for the reasons stated in paragraphs 17 and 18 of the December issues paper. The Task Force also reaffirmed its previous view that respondent comments could best be addressed by providing a clearer link between the definition of group financial statements in paragraph 9(k) of ED-600 and the description of consolidation process in paragraph 11 of ED-600.
15. After further discussion and consideration of Board input, the Task Force concluded that the best approach is to integrate the description of consolidation process into the definition of group financial statements, i.e., provide a more complete definition since both parts need to be considered. Accordingly, paragraph 11 of ED-600 has been integrated into paragraph 9(k) in **Agenda Item 5-A**.
16. To address Board member suggestions to make the entry point clearer in the Introduction to the revised standard, the Task Force incorporated the concepts from paragraph 2 of ED-600 into paragraph 1A in **Agenda Item 5-A**. The Task Force also added paragraph A16A in **Agenda Item 5-A** to further emphasize the point that the term 'consolidation process' as used in proposed ISA

600 (Revised) is not intended to have the same meaning as ‘consolidation’ or ‘consolidated financial statements’ as defined or described in financial reporting frameworks.

### Applicability to Entities with Branches or Divisions

17. The Task Force discussed with the Board in December 2020 a number of options for addressing the various comments received on the aggregation of the financial information of branches or divisions, including the confusion regarding paragraph A17 of ED-600.
18. Some Board members expressed significant concerns about the Task Force’s initial recommendation to scope in all instances of entities with branches or divisions, noting that such an approach could have unintended consequences by increasing the scope of the standard significantly. A Board member provided an example of a less complex entity with two different product lines that has set up its accounting system with sub-ledgers to provide separate information for regulatory reporting or management purposes. This Board member noted that the application of proposed ISA 600 (Revised) in such circumstances would be overly burdensome. Other Board members supported this view.

### Task Force Views and Recommendations

19. The Task Force further discussed the applicability of proposed ISA 600 (Revised) to entities with branches or divisions. In doing so, the Task Force noted the following (also see paragraphs 20-22 below regarding the Task Force’s discussion about the Board member’s example):
  - (a) Entities with branches or divisions are within the scope of extant ISA 600.<sup>2</sup> The Task Force’s view is that including entities with branches or divisions in the scope of proposed ISA 600 (Revised) will help to provide greater consistency in application and would be responsive to calls from respondents to ED-600 for ‘brighter lines’ in terms of when the revised standard would apply.
  - (b) Group financial statements are defined in paragraph 9(k) in **Agenda Item 5-A** as ‘financial statements that include the financial information of *more than one entity or business unit* through a consolidation process’ (emphasis added). Paragraph 3 in **Agenda Item 5-A** indicates that a group may be organized in various ways, including, for example, by other economic units (*including branches or divisions*) (emphasis added). The various forms of organization are referred to as entities or business units for purposes of proposed ISA 600 (Revised). Accordingly, financial statements that include the financial information of more than one branch or division through a consolidation process would be group financial statements as defined, and therefore the revised standard would apply.
  - (c) For less complex groups (e.g., a single legal entity with only two or three branches), the group auditor may be able to perform audit procedures at the components without involving component auditors or may be able to perform audit procedures on certain classes of transactions or account balances centrally. In these circumstances, certain requirements in proposed ISA 600 (Revised) would not be relevant (e.g., requirements relating to the involvement of component auditors). Also see paragraph 28 below.

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<sup>2</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

20. The Task Force considered the concerns raised by the Board as described in paragraph 18 above. In particular, the Task Force discussed at length the example provided by the Board member and concluded that additional clarification was needed in proposed ISA 600 (Revised). In this regard, the Task Force noted the following:
- (a) The concerns raised related to the concept of divisions, and not to branches.
  - (b) Based on its understanding of the circumstances in the example, this scenario was never intended to fall within the scope of ED-600. The Task Force's view is that, in some cases, a single legal entity may configure its information system to separately account for different products or service lines. This may be done, for example, to comply with the reporting requirements of a regulatory authority (e.g., to comply with the terms of a trade or operating license) or for management purposes (e.g., to assess the performance of a product or service line). In these circumstances, the financial statements of the single legal entity are not considered to be group financial statements because there are no separate entities or business units (e.g., divisions). Although the term 'division' may be subject to different interpretations, divisions of a group for purposes of proposed ISA 600 (Revised) often have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger).
  - (c) Accordingly, because there is not more than one entity or business unit in this example, the entity's financial statements are not group financial statements and proposed ISA 600 (Revised) would not apply. The Task Force has added application material (see paragraph A2B in **Agenda Item 5-A**) to address the Board's concerns and to clarify this point.
21. In discussing the example and the application material in paragraph A2B in **Agenda Item 5-A**, the Task Force explored whether the application material could be expanded to contrast the situations in which proposed ISA 600 (Revised) would apply versus when it would not apply. For example, the Task Force considered whether the application material in paragraph A2B could be replaced by the following two paragraphs:
- (a) In some cases, a single legal entity may be organized with more than one entity or business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those entities or business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is required to be aggregated in preparing the single entity's financial statements, the entity's financial statements meet the definition of group financial statements because the financial statements include the financial information of more than one entity or business unit through a consolidation process (see paragraph 9(k)(iii) in **Agenda Item 5-A**).
  - (b) In other cases, a single legal entity may configure its information system to capture information for more than one product or service line for regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no separate aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information in a single general ledger for regulatory or management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA.

22. The Task Force had mixed views about whether to include the more detailed application material in the revised draft of the proposed standard in **Agenda Item 5-A**, noting the following:
- (a) References to ‘aggregation,’ ‘separate aggregation,’ or ‘disaggregation’ of financial information may lead to confusion similar to that expressed by respondents with respect to paragraph A17 of ED-600. As a result of this confusion and comments from respondents, and in connection with integrating paragraph 11 into paragraph 9(k) in **Agenda Item 5-A**, the Task Force deleted paragraph A17.
  - (b) Paragraph A2B in **Agenda Item 5-A** was added to clarify that, in circumstances such as those described in paragraph 20(b) above, the financial statements of the single legal entity do not include the financial information of more than one entity or business unit. Therefore, such financial statements would not be group financial statements as defined in paragraph 9(k), i.e., there is no consolidation process because the financial information is for a single entity with no other entities or business units. An additional contrasting paragraph such as that shown in paragraph 21(a) above therefore may not be needed.
  - (c) On the other hand, the more detailed application material may still be useful guidance in determining whether proposed ISA 600 (Revised) would apply in different circumstances. Such guidance could, however, be provided outside of the standard as part of implementation support materials.
23. The Task Force also discussed the option of allowing the use of professional judgment in determining whether proposed ISA 600 (Revised) would apply in certain circumstances. The Task Force reaffirmed its previous conclusion that this option would not be appropriate because it would be contrary to the desire of respondents for ‘brighter lines’ and could lead to inconsistent application.

#### **Retention of Paragraph 2 of Extant ISA 600**

24. As discussed with the Board in December 2020, the Task Force always intended to provide a link to paragraph A1 of ISA 220 (Revised)<sup>3</sup> and noted that such a link could be provided by repeating this paragraph in proposed ISA 600 (Revised) or by including a reference to it.
25. The Board supported the link to paragraph A1 of ISA 220 (Revised) but did not have strong views about whether it should be done through a simple reference or by repeating the paragraph in proposed ISA 600 (Revised).
26. The Task Force concluded that the best approach is to include the wording of paragraph A1 of ISA 220 (Revised), with minor revisions to fit within the context of proposed ISA 600 (Revised). See paragraph 1B in **Agenda Item 5-A**.

#### **Other Changes to the Introduction and Definitions**

27. As noted in paragraph 15 of the December issues paper, the Task Force discussed expanding the Introduction section of proposed ISA 600 (Revised) to explain its scope and applicability more fully, and to highlight certain other key concepts early in the standard. Accordingly, the Introduction section has been expanded, with appropriate sub-headings added. In addition to the matters discussed in paragraphs 13–26 above, other changes to the Introduction and Definitions

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<sup>3</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

are described below.

#### *Scope and Applicability – Scalability Considerations*

28. The Task Force noted that the requirements of proposed ISA 600 (Revised) are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely by the group auditor, some requirements in proposed ISA 600 (Revised) are not relevant because they are conditional on the involvement of component auditors. This may be the case for an audit of a less complex group when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. In other circumstances, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the account balance or class of transactions for one component represents a substantial portion of the respective significant account balance or class of transactions in the group financial statements (also see paragraph 82 below). Paragraph A2C in **Agenda Item 5-A** has been added to highlight this scalability.

#### *Groups and Components*

29. In the December 2020 IAASB meeting, the Board supported the Task Force's initial recommendations relating to the determination of components for purposes of the group audit. See paragraphs 40–45 of the December issues paper.
30. Accordingly, the Task Force has revised paragraph 3 in ED-600 by breaking it into paragraphs 3 and 3A in **Agenda Item 5-A**. In doing so, the Task Force:
- (a) Removed references to 'management's view' and 'auditor's view,' which the Task Force felt may not have been sufficiently clear and may have given rise to a number of comments from respondents to ED-600;
  - (b) Revisited the guidance in paragraph A2 of extant ISA 600 to emphasize that a group may be organized in various ways, and that the group's information system (including its financial reporting process) may or may not be closely aligned with the group's organizational structure; and
  - (c) Indicated that that proposed ISA 600 (Revised) provides flexibility for the group auditor to determine components based on the group auditor's understanding of the group and its environment.
31. In the view of the Task Force, this revised wording better highlights that the group auditor's determination of components is based on the group's organizational structure and information system, including its financial reporting process, as required by ISA 315 (Revised 2019).<sup>4</sup> Other factors, such as the presence of shared service centers, or a common information system and common system of internal control, also affect the group auditor's determination of components, including when it may be appropriate to combine certain entities or business units for purposes of planning and performing the group audit.

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

32. The related application material to these paragraphs has been revised, including moving paragraph A54 of ED-600 to become paragraph A3A. In addition, the example in paragraph A5 in **Agenda Item 5-A** has been revised to better align with the wording in paragraphs 3 and 3A.

#### *Definition of a Component*

33. Respondents to ED-600 questioned why the definition did not include a reference to entities or business units. Respondents also pointed to an apparent inconsistency between paragraph A12 of ED-600, which referred to entities or business units, while the definition of component in paragraph 9(b) of ED-600 did not. Accordingly, the Task Force has revised the definition (see paragraph 9(b) in **Agenda Item 5-A**) to include an entity or business unit, or a function or activity (or some combination thereof) for purposes of planning and performing audit procedures in a group audit.

#### *Involvement of Component Auditors*

34. In connection with the changes with respect to the risk-based approach (see Section II below), the Task Force revised the introduction section of proposed ISA 600 (Revised) to give greater prominence to the involvement of component auditors in a group audit.
35. Paragraph 3B in **Agenda Item 5-A** links to the requirement in ISA 220 (Revised) for the engagement partner to determine that sufficient and appropriate resources are assigned or made available to the engagement team in a timely manner. The engagement team for a group audit includes component auditors, and therefore proposed ISA 600 (Revised) requires the group auditor to determine the nature, timing and extent of involvement of component auditors. Paragraph 3B also indicates that component auditors may have greater experience and a more in-depth knowledge of the components and their environments. Therefore, component auditors can be, and often are, involved in all phases of the group audit, as was noted in paragraph 4 of ED-600.
36. The Task Force has not yet discussed the use of the work of statutory auditors but intends to do so after the March 2021 IAASB meeting as part of a more holistic discussion about using audit evidence from an audit performed for another purpose (paragraph 42 of ED-600). The Task Force acknowledged that many comments were received in this area from respondents to ED-600, and that additional guidance may need to be provided in proposed ISA 600 (Revised). Such guidance may include, for example, coordination between the group auditor and a component auditor about whether, and the extent to which, work performed for the audit of the financial statements of a component for statutory, regulatory or other reasons may be appropriate for purposes of the group audit.

#### *Responsibilities of the Group Engagement Partner and Group Auditor*

37. The Task Force revised paragraph 6 in **Agenda Item 5-A** to align with the construct in paragraph 9 of ISA 220 (Revised). The wording in paragraph 6 of ED-600 was developed before the wording in ISA 220 (Revised) was finalized.

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

1. The IAASB is asked for its views on the Task Force's revisions to proposed ISA 600 (Revised), as presented in **Agenda Item 5-A**, with respect to the matters discussed in Section I above.



## Section II – Risk-Based Approach

### Related paragraphs in Agenda Item 5-A:

- Overall Group Audit Strategy: Paragraphs 13, 17A and related application material (A33A–A33J).
- Engagement resources: Paragraphs A40–A40A.
- Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control: Paragraph 25 and related application material (A53–A55, A71–A71D).
- Identifying and Assessing the Risks of Material Misstatement: Paragraphs 31–32 and related application material (A78–A79D).
- Responding to the Assessed Risks of Material Misstatement: Paragraphs 33 and, 37 and related application material (A85–A88B and A96–A101).
- Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained: Paragraph 49 and related application material (A114A–A115).

### Background

38. On balance, respondents to ED-600 noted significant support for the principles of the risk-based approach and the overall premise that the group auditor takes responsibility for the risk assessment procedures and work performed to support the group audit opinion. On the other hand, respondents challenged what appears to be a presumption in ED-600 that the group auditor should directly perform, or take over much of, what component auditors are doing under extant ISA 600. In that regard, respondents highlighted the important role that component auditors play in a group audit. Respondents also indicated that for some group audits a focus on significant components may continue to be appropriate.
39. In the December issues paper, the Task Force included several recommendations on how to address the concerns raised by respondents while staying true to the principles of the risk-based approach. Generally, the Board supported the Task Force's recommendations although several suggestions were received as captured in the minutes (see **Appendix 2** to this Agenda Item).

### Task Force Views and Recommendations

40. Based on the input received from the Board, the Task Force further developed its thinking and made several changes to the draft of proposed ISA 600 (Revised) as set out in **Agenda Item 5-A**.

### Structure

41. Based on comments from respondents to ED-600 and the Board, it became clear that ED-600 was missing a clear framework on how to apply the risk-based approach, especially in relation to:
- (a) What needs to be done to identify, assess and respond to the risks of material misstatement of the group financial statements.
  - (b) Who needs to do the work (i.e., the most appropriate allocation of effort between the group auditor and component auditors).

42. In response, the Task Force made the following changes to the structure of the standard:
  - (a) In the Introduction, a new paragraph was added (paragraph 3B in **Agenda Item 5-A**) to highlight upfront the important role that component auditors play in a group audit (see paragraph 35 above).
  - (b) A new requirement was added (paragraph 17A in **Agenda Item 5-A**) that highlights the special considerations in a group audit related to the development of the overall group audit strategy (see paragraphs 45–50 below):
  - (c) Paragraphs 32 of ED-600 was merged into paragraph 25. When component auditors are involved in performing risk assessment procedures, they would generally be involved in both obtaining an understanding and the identification and assessment of risks of material misstatement (see paragraphs 51–56 below).
  - (d) Paragraph 33 in **Agenda Item 5-A** was clarified by highlighting that determining the components at which to perform further audit procedures, and the nature, timing and extent of the work to be performed at those components forms part of the group auditor's responsibility for the nature, timing and extent of further audit procedures to be performed. (see paragraphs 57–58 below).
43. The Task Force also acknowledged that, notwithstanding the structure of the standard, planning and performing a group audit is not a linear process; initial decisions made may need to be changed based on information obtained as the group audit progresses. For example, unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, may cause the group auditor to modify the overall group audit strategy and thereby the resulting planned nature, timing and extent of further audit procedures. Highlighting the iterative nature of a group audit may help in highlighting that initial decisions may be changed throughout the group audit, for example, the risks of material misstatement, components at which to perform audit work and involvement of components auditors.
44. The Task Force highlighted the iterative nature of a group audit in several places in the standard, including in the following sections:
  - (a) Overall group audit strategy. Paragraph A33A in **Agenda Item 5-A** explains that planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Paragraph A33D in **Agenda Item 5-A** highlights that because of changes in the audit, the group auditor may modify its determination of the components at which to perform audit work, as well as the nature, timing and extent of component auditor involvement.
  - (b) Identifying and assessing the risks of material misstatement. Paragraph A78 in **Agenda Item 5-A** explains that the group auditor's process to identify and assess the risks of material misstatement of the group financial statements is cumulative and iterative. This paragraph was already included in ED-600 and has not changed.
  - (c) Evaluating the sufficiency and appropriateness of audit evidence obtained. Paragraph A114A in **Agenda Item 5-A** explains that the audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor's attention that differs significantly from the information on which the risk assessment was based.

### Overall Group Audit Strategy

45. Extant ISA 600 included the following two paragraphs that are based on ISA 300:<sup>5</sup>
- 15. *The group engagement team shall establish an overall group audit strategy and shall develop a group audit plan in accordance with ISA 300.*
  - 16. *The group engagement partner shall review the overall group audit strategy and group audit plan.*
46. In the development of ED-600, the Board concluded that paragraph 15 did not include a special consideration for group audits. Paragraph 16 was deemed to be useful for all audit engagements, and therefore a consequential amendment to ISA 300 was proposed in ED-600 to extend the requirement to all audits.
47. In its deliberations, the Task Force noted the importance of setting the overall group audit strategy. The overall group audit strategy sets out what, how, by whom and where the audit work will be performed. This is how the Board characterized the risk-based approach in the Explanatory Memorandum to ED-600.<sup>6</sup> The overall group audit strategy helps to build a framework on how to approach the group audit and helps the group auditor to, for example:
- (a) Identify the resources needed, including the amount of resources to be allocated and the nature of resources to be deployed for specific audit areas (e.g., deploying experienced team members for high-risk areas or the assignment of experts to address complex matters); and
  - (b) Determine the nature, timing and extent of audit work to be performed, including the components at which to perform audit work and the nature of the audit work.
48. As noted in paragraph 46 above, extant ISA 600 paragraph 15 does not include special considerations for a group audit. The Task Force is of the view that the special considerations in setting the overall group audit strategy relate to:
- (a) The components at which audit work will be performed; and
  - (b) The resources needed to perform the engagement, including the nature, timing and extent of component auditor involvement.
- Therefore, the Task Force proposes to include a separate requirement in paragraph 17A in **Agenda Item 5-A** to address these special considerations for establishing the overall group audit strategy.
49. Paragraph 13 of ED-600 included a preliminary determination about whether to involve component auditors. Given that this is now covered by the new requirement for establishing the overall group audit strategy, the Task Force deleted the last sentence of paragraph 13 in **Agenda Item 5-A**. This also addresses concerns from respondents to ED-600 and Board members that the acceptance and continuance stage of the audit is too early to make a determination about whether to involve component auditors.

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<sup>5</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>6</sup> Paragraph 50 of the Explanatory Memorandum to ED-600 states that: The risk-based approach for a group audit can be characterized as thinking about what, how and by whom and where, work is to be performed.

50. The application material to Paragraph 17A in **Agenda Item 5-A** further explains the special considerations described in paragraph 48 above:
- (a) Paragraphs A33A–A33D include general information about how the overall group audit strategy fits into the continual and iterative nature of planning and performing a group audit. These paragraphs explain that the group auditor may obtain information from various sources and highlights how the process of establishing the overall group audit strategy may assist the group auditor in developing expectations for the group audit.
  - (b) Paragraph A33E includes matters that may influence the group auditor’s determination of components at which audit work needs to be performed, including the nature and amount of assets, liabilities and transactions, at the location or business unit. The Task Force is of the view that these factors may help address comments raised by respondents to ED-600 about the removal of the concept of significant components and that the financial significance of components also drives the determination of the components at which audit work may be performed.
  - (c) Paragraphs A33F–A33J include guidance on the resources needed to perform the group audit engagement. Paragraph A33F sets out factors that may influence the group auditor’s determination about whether to involve component auditors. These factors are based on the material included in Appendix 1 and paragraph A71 of ED-600. Paragraph A33H highlights that component auditors will often be involved in all phases of the group audit. The Task Force is of the view that having the factors in paragraph A33F, and highlighting the importance of having component auditors involved, helps in addressing concerns raised by respondents to ED-600 about the strong focus on the group auditor’s responsibility and a top-down approach to the group audit that may undermine the important role of the component auditor.

*Risk Assessment and Identifying and Assessing the Risks of Material Misstatement*

51. In addressing the comments from respondents as set out in paragraph 41 above, the Task Force made several changes to the sections on ‘Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control’ and ‘Identifying and Assessing the Risks of Material Misstatement.’
52. Paragraphs 25 and 32 of ED-600 required the group auditor to ‘consider’ the results of risk assessment procedures performed by the component auditors. Respondents noted that this wording may be too weak and dismissive of the role of component auditors and suggested that the requirement be changed to “the group auditor shall evaluate the results.” The Task Force agreed with this suggestion and changed the wording in paragraph 25 in **Agenda Item 5-A** accordingly.
53. The Task Force also noted that when component auditors are involved in risk assessment procedures, they would generally be involved in both obtaining an understanding of the group and the identification and assessment of risks of material misstatement. Therefore, the Task Force merged paragraph 32 into paragraph 25. The flow of the requirements related to these sections is therefore as follows:
- (a) Paragraph 24 in **Agenda Item 5-A** requires the group auditor to obtain an understanding of the group and highlights several considerations (no change from ED-600).
  - (b) When component auditors are involved in the design and performance of risk assessment procedures, including the identification and assessment of risks of material misstatement of the group financial statements, paragraph 25 in **Agenda Item 5-A** applies. This

paragraph requires the group auditor to evaluate the component auditor's procedures.

- (c) Paragraph 31 in **Agenda Item 5-A** then requires the group auditor to take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements. When component auditors are involved, this would include the component auditor's work in accordance with paragraph 25 in **Agenda Item 5-A**.

#### Application Material

- 54. Paragraph A71A in **Agenda Item 5-A** explains that the auditor's evaluation as required by paragraph 25 includes the design and performance of the risk assessment procedures and the results of those procedures by noting that this evaluation includes the work performed by component auditors.
- 55. Because paragraph 32 was merged into paragraph 25, the application material related to paragraph 32 was moved to paragraph 25 (paragraphs A82 and A83 of ED-600) and paragraph 31 (paragraph A84 of ED-600).
- 56. To enhance the structure of the standard and to better explain what needs to be done to identify and assess the risks of material misstatement of the group financial statements, the Task Force made the following changes to the application material:
  - (a) Paragraph A71 in **Agenda Item 5-A** is partly deleted as it is now covered by the application material related to paragraph 17A.
  - (b) Paragraphs A71A, A71B, A79A and A79B in **Agenda Item 5-A** were added to further explain how ISA 315 Revised 2019) is applied in a group audit.

#### *Responding to the Assessed Risks of Material Misstatement*

- 57. To enhance the structure of the standard and to provide a clearer framework on how to apply the risk-based approach, the Task Force highlighted in paragraph 33 in **Agenda Item 5-A** that determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components forms part of the group auditor's responsibility for the nature, timing and extent of further audit procedures to be performed.
- 58. In addition, the Task Force made several changes to the application material related to paragraphs 33 and 37 in ED-600:
  - (a) Paragraphs A86 to A88 in ED-600 explained how the group auditor, in responding to the assessed risks of material misstatement, could approach the group audit: i.e., performing further audit procedures centrally, at the component or a combination thereof. Respondents to ED-600 noted that the application material placed increased focus on the group auditor performing procedures centrally and that the involvement of component auditors was portrayed in ED-600 as a less desirable approach. In response to these comments, the Task Force changed the application material related to paragraph 33 in **Agenda Item 5-A** to be more neutral by including factors that guide the auditor in making a decision whether to perform further audit procedures centrally or at the component level.
  - (b) In response to comments from respondents to ED-600 about the importance of involving component auditors, the Task Force included paragraph A88A in **Agenda Item 5-A** to highlight that, when further audit procedures are performed centrally, component auditors may still be involved in the performance of the further audit procedures.
  - (c) Paragraph A97 of ED-600 included three approaches for assigning further audit procedures to component auditors (e.g., design and perform further audit procedures on the entire

financial information of the component, design and perform further audit procedures on one or more classes of transactions, account balances or disclosures or perform specific further audit procedures). Respondents to ED-600 noted that it was not clear when to use each of the approaches. In response, the Task Force made several changes to paragraphs A98-A101 in **Agenda Item 5-A** to address this concern:

- For each approach, the Task Force described when the approach could be used to assign procedures to component auditors. In doing so, the Task Force re-ordered and merged paragraphs included in this section.
- Examples were added for each approach to further clarify when the approach could be used to assign further procedures to component auditors.
- Sub-headings were added to clarify the structure of this section.

#### *Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained*

59. To close the loop on the iterative nature of an audit, the Task Force enhanced the application material related to paragraph 49 by adding paragraph A114A in **Agenda Item 5-A**. The application material is based on ISA 330,<sup>7</sup> paragraph A60, and the main purpose of this application material is to reinforce that as a result of the audit evidence obtained the group auditor may modify the nature, timing and extent of the other planned audit procedures. The Task Force added the following specific examples of matters that may cause the group auditor to modify the nature, timing and extent of the other planned audit procedures in a group audit:
- (a) Misstatements identified at a component may need to be considered in relation to other components.
  - (b) The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

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

2. The IAASB is asked for its views on the Task Force's revisions to proposed ISA 600 (Revised), as presented in **Agenda Item 5-A**, with respect to the matters discussed in Section II above.

### **Section III – Communications Between the Group Auditor and Component Auditors**

#### **Agenda Item 5-A paragraphs:**

- Paragraphs 23A, 26 and related application material (A52A–A52J)
- Paragraph 44–45 and related application material (A111A–A113)

60. In the December 2020 IAASB meeting, the Task Force discussed comments from respondents about the interactions between the group auditor and component auditors throughout the group audit, along with the Task Force's initial recommendations for addressing the comments.
61. Respondents questioned the placement of the section on 'Two-Way Communication Between the Group Engagement Team and the Component Auditor' in ED-600 (paragraphs 43-45 of ED-600) and suggested that more emphasis on two-way communication could be added earlier in

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<sup>7</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

the standard. In addition, respondents noted that the wording of many of the communication requirements was more top-down from the group auditor to component auditors, and that more could be done in relation to expectations about communications from the component auditors to the group auditor (i.e., bottom-up).

62. In its discussions about the risk-based approach, the Task Force concluded that paragraph 43 of ED-600, and the related application material, is more general in nature and establishes the overall principles for two-way communication throughout the group audit. Therefore, the Task Force has moved paragraph 43 of ED-600 to become paragraph 23A in **Agenda Item 5-A**. To address comments from respondents about the perceived top-down nature of the requirements, the Task Force revised this requirement to include expectations about the nature, timing and extent of communications.
63. The related application material (paragraphs A106–A111 in ED-600) also was moved to support paragraph 23A in **Agenda Item 5-A**. The Task Force revised this application material to address respondent comments and Board input, including to provide greater clarity about the timing and form of communications and to emphasize the two-way nature of the communications.
64. With respect to paragraph 44 of ED-600, respondents perceived that communication of these matters occurs toward the end of the group audit, whereas some of the matters may need to be communicated timely throughout the course of the engagement. The Task Force agreed and has added paragraph A111A in **Agenda Item 5-A** to address this point.
65. The Task Force noted the Board's support in December 2020 for the Task Force's recommendation that the requirement in paragraph 44(c) of ED-600 be expanded to include corrected misstatements, in addition to uncorrected misstatements, of component financial information identified by the component auditor. The Task Force revised paragraph 44(c) in **Agenda Item 5-A** accordingly. The Task Force also added application material (paragraph A111B in **Agenda Item 5-A**) to provide additional guidance about the communication of misstatements (both corrected and uncorrected) of component financial information.
66. Respondents to ED-600, including a Monitoring Group member, commented on the requirement in paragraph 44(h) of ED-600 regarding the communication of the component auditor's overall findings, conclusions or opinion. Concerns expressed included, among other things, the possibility of undue reliance by the group auditor on an 'opinion' provided by a component auditor. The Task Force remains of the view that proposed ISA 600 (Revised) should provide flexibility about the form of deliverables based on the nature of the audit work the component auditor has been requested to perform.
67. However, in response to respondent comments and Board input on paragraph 44(h) of ED-600, the Task Force added application material in **Agenda Item 5-A** as follows:
  - (a) Paragraph A112A notes that the form and content of the deliverables from the component auditor are influenced by the scope of the audit work requested by the group auditor.
  - (b) Paragraph A112B explains that although component auditor's overall findings, conclusions or opinion may provide audit evidence to support the work performed by the component auditor, such information typically is not sufficient on its own. Paragraph A112B also indicates that an overall summary memorandum or report from the component auditor, including the component auditor's overall findings, conclusions or opinion, is considered in connection with the group auditor's evaluation as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion (see paragraph 49 in **Agenda Item 5-A**).

68. Respondents also asked for further clarity about the requirement in paragraph 45(b) of ED-600, in particular the extent to which it is necessary to review parts of the component auditor's audit documentation. The Task Force has revised the application material in paragraph A113 in **Agenda Item 5-A** to provide additional factors for the group auditor to consider in determining the nature, timing and extent of the review of the component auditor's audit documentation.

**Matter for IAASB Consideration**

3. The IAASB is asked for its views on the Task Force's revisions to proposed ISA 600 (Revised), as presented in **Agenda Item 5-A**, with respect to the matters discussed in Section III above.

**Section IV – Materiality**

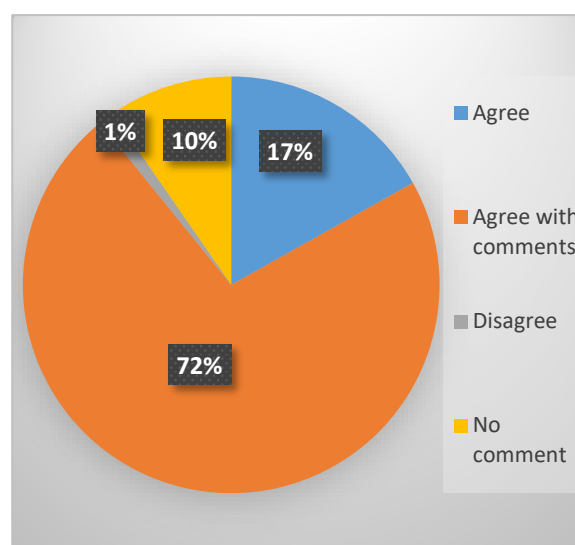
69. Given the calls for greater clarity about the concept of aggregation risk, a definition of aggregation risk was added in paragraph 9(a) of ED-600. In addition, paragraph A11 of ED-600 indicated that aggregation risk exists in all audits of financial statements but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.
70. As discussed in paragraphs 83–84 of the Explanatory Memorandum to ED-600, given the risk-based approach in ED-600, it was proposed that the materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit is most appropriately referred to as 'component performance materiality' and a definition of that term was included in paragraph 9(e) of ED-600.
71. Application material was added in paragraph A75 of ED-600 to describe the factors the group auditor may take into account in setting component performance materiality. Importantly, these factors focused 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.
72. Question 10 in the EM asked respondents:
- Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?*



## What We Heard

73. Responses to Question 10 were as follows (see the separate NVivo reports for further details):

- 14 respondents agreed with the proposals, including a Monitoring Group member – 17%;
- 60 respondents agreed with comments or concerns, including three Monitoring Group members – 72%;
- 1 respondent did not agree with the proposals – 1%; and
- 8 respondents did not have a specific response – 10%.



74. Respondents that agreed with the proposals indicated their support for the definition of aggregation risk and noted that the focus on component performance materiality would help the group auditor address aggregation risk. Although the factors to consider in determining component performance materiality in paragraph A75 of ED-600 were found to be helpful, these respondents indicated that further guidance in this area would be helpful.

75. Respondents that agreed with the proposals with comments or concerns noted the following:

### *Additional Guidance or Examples*

- In addition to the factors in paragraph A75 of ED-600, additional guidance would be helpful to assist the group auditor in appropriately and consistently determining component performance materiality. Such guidance or examples could be included as application material or provided as part of implementation support materials or other non-authoritative guidance. Specific suggestions included the following:
  - Additional qualitative considerations, such as the complexity of the group and its operations; potential implications for, or effect on, debt covenants or contractual arrangements; suspected fraud or illegal acts; and the understanding of the entity and assessment of the competence of component management.
  - Examples of how to set and allocate component performance materiality for different group scenarios, including when there are a large number of financially insignificant components or when performing procedures on only one account balance at a component, as well as for equity-method investments and joint ventures.
  - Emphasizing the need for professional judgment in setting component performance materiality as it is based on the specific circumstances of the group and not simply a mechanical calculation or percentage of a particular benchmark amount.
- The consideration of whether a lower component performance materiality may be appropriate for a particular class of transactions, account balance or disclosure (see paragraph A74 of ED-600) is overly complicated or confusing.

### *Aggregation Risk*

- (c) A Monitoring Group member, while expressing support for the definition of aggregation risk, suggested that the wording in paragraph 80 of the EM be made more explicit in the standard or the application material. Paragraph 80 states that “broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.” Other respondents supported this suggestion.
- (d) This Monitoring Group respondent also suggested that the group auditor should be required to assess, as part of the stand back evaluation in paragraph 49 of ED-600, whether aggregation risk is at an acceptable level considering all the audit evidence obtained.
- (e) Additional clarification about the concept of aggregation risk may be helpful in paragraph A11 of ED-600 to supplement the definition in paragraph 9(a) of ED-600.
- (f) Given that aggregation risk exists in all audits as noted in paragraph A11 of ED-600, the definition of aggregation risk should be included in ISA 320<sup>8</sup> through a conforming amendment. Proposed ISA 600 (Revised) would then address the special considerations of such risk in a group audit. ISA 450<sup>9</sup> also could be revised through a conforming amendment to address the concept of aggregation risk in that standard.

### *Retain the Term ‘Component Materiality’*

- (g) The IAASB should consider retaining the term ‘component materiality’ from extant ISA 600 in addition to ‘component performance materiality’ introduced in ED-600. Respondents noted that when the group auditor requests a component auditor to perform an ‘audit’ of the component’s financial information, the component auditor would need to consider both overall component materiality as well as component performance materiality.

### *Group Auditor Determination of Component Performance Materiality*

- (h) With respect to the requirement in paragraph 29 of ED-600 for component performance materiality to be lower than group performance materiality to address aggregation risk, additional guidance could be provided about situations in which it may be appropriate to set component performance materiality at a level that approaches group performance materiality. Examples may include situations in which the group auditor is able to test the totality of a significant account balance in the aggregate (e.g., as one population) or where the significant account balance for one component represents a substantial portion of the significant account balance in the group financial statements. In such cases, there is less (or no) disaggregation and therefore less concern about aggregation risk.
- (i) In some situations, the determination of an appropriate component performance materiality may require the involvement of the component auditor, taking into consideration the component auditor’s in-depth knowledge of the component and potential sources of misstatement of the group financial statements at the component level. A respondent also suggested considering a requirement for the group auditor to communicate group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in the context of group performance materiality, is appropriate in the circumstances.

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<sup>8</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>9</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

*Other Matters Related to Materiality*

- (j) Consider elevating the guidance in paragraph A73 of ED-600 to require the group auditor to determine a separate component performance materiality for each component where audit procedures are performed based on the specific characteristics, facts and nature of accounts at each component.
76. The respondent that disagreed with the proposals was of the view that the additional focus on aggregation risk was unnecessary because the definition in paragraph 9(a) of ED-600 does not practically differ from the definition of audit risk.

**Task Force Views and Recommendations**

**Related paragraphs in Agenda Item 5-A:**

- Materiality: Paragraphs 29–30 and related application material (A73–A77B).
- Definitions: Paragraphs 9(a) and related application material (A11).

77. The Task Force noted the strong level of support for the proposals related to materiality in ED-600 and acknowledged the useful comments and suggestions that were provided. The Task Force has considered the comments received and has provided suggested drafting in **Agenda Item 5-A** to address these comments.

*Additional Guidance or Examples*

78. The Task Force continues to believe that any worked examples of determining component performance materiality should be provided outside of proposed ISA 600 (Revised), consistent with previous Board discussions and direction to the Task Force. Although there are some methods that may be more commonly used in practice, providing examples in proposed ISA 600 (Revised), particularly examples based on one method, may have unintended consequences, including perceptions of the IAASB sanctioning a particular or ‘best’ approach.
79. The Board previously agreed that the factors in paragraph A75 of ED-600 that the group auditor may take into account in setting component performance materiality should be principles-based and should focus on matters relating to aggregation risk. The Task Force considered the additional suggestions from respondents and concluded that the list of factors remains appropriate. However, the Task Force added a sentence to paragraph A75 in **Agenda Item 5-A**, consistent with the wording in paragraph A13 of ISA 320, to indicate that determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment.
80. To address respondent comments and confusion about paragraph A74 of ED-600, the Task Force made the following revisions in **Agenda Item 5-A**:
- (a) The last sentence of paragraph A73 was moved to paragraph A74, and revised to indicate that proposed ISA 600 (Revised) does not require component performance materiality to be established for each class of transactions, account balance or disclosure at the component level; and
  - (b) The wording of the remainder of the paragraph A74 was revised to align more closely with the relevant requirements and guidance in paragraphs 10 and A13, respectively, of ISA 320. If there are circumstances in which the group auditor determines that a materiality level lower than materiality for the group financial statements as a whole is appropriate for one or more particular classes of transactions, account balances or disclosures, the group

auditor also may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.

#### *Aggregation Risk*

81. To address respondent comments relating to aggregation risk, the Task Force has included the wording from paragraph 80 of the EM in paragraph A11 in **Agenda Item 5-A**. The Task Force's view is that any additional guidance about aggregation risk is best provided outside of proposed ISA 600 (Revised) because the concept of aggregation risk is not well understood and information about the concept is not widely available.
82. As discussed in paragraph 28 above, the Task Force noted that there are circumstances in which component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk (i.e., less disaggregation of financial information when there are only a few entities or business units). The Task Force added paragraph A75A in **Agenda Item 5-A** to address this point. A cross-reference to paragraph A75A also was included in paragraph A2C in **Agenda Item 5-A** to further highlight this scalability aspect of proposed ISA 600 (Revised).
83. The Task Force discussed whether the definition of aggregation risk should be included in ISA 320 through a conforming amendment. The Task Force noted that the concept of aggregation risk is already included in paragraph A13 of ISA 320, but aggregation risk is not separately defined in that standard. The Task Force will further consider this point and will provide a recommendation to the Board at a later time.

#### *Component Materiality versus Component Performance Materiality*

84. The IAASB supported using the term 'component performance materiality' in place of 'component materiality' as explained in paragraphs 81–83 of the EM to ED-600. The Task Force noted that the Board's rationale for changing the terminology from extant ISA 600 was to differentiate the materiality used in performing audit procedures on component financial information from the materiality used in performing a standalone audit of the component (i.e., for statutory, regulatory or other reasons). Accordingly, the Task Force continues to be of the view that component performance materiality is the appropriate term.

#### *Other Changes to the Application Material Relating to Materiality*

85. The Task Force made the following additional changes to the application material in **Agenda Item 5-A** to address comments from respondents to ED-600:
  - (a) The wording of paragraph A73 was revised to clarify that paragraph 29(a) of proposed ISA 600 (Revised) requires the group auditor to determine component performance materiality for each component at which audit procedures are performed, and that this amount may be different for each component.
  - (b) Paragraphs A77A and A77B were added to provide guidance on situations in which a collaborative approach between the group auditor and a component auditor may be appropriate in determining component performance materiality, and to emphasize the importance of two-way communication, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.

**Matter for IAASB Consideration**

4. The IAASB is asked for its views on the Task Force's revisions to proposed ISA 600 (Revised), as presented in **Agenda Item 5-A**, with respect to the matters discussed in Section IV above.

**Section V – Documentation**

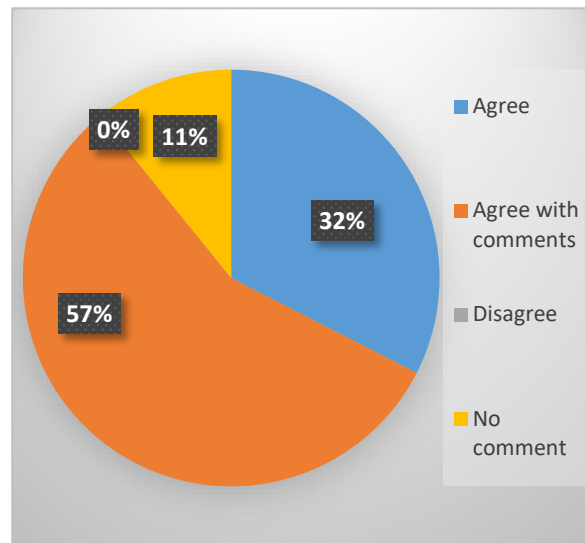
86. Based on the IAASB's discussions and input from stakeholders in response to the [Invitation to Comment](#) (ITC), *Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits*, paragraph 57 of ED-600 included enhanced documentation requirements for group audit engagements. Importantly, as for any audit engagement, the audit documentation for a group audit is subject to the requirements in ISA 230.<sup>10</sup>
87. ED-600 also included additional application material relating to documentation for a group audit. In its discussions on ED-600, the IAASB considered whether guidance could be provided regarding the nature and extent of component auditor documentation that may need to be included in the group auditor's audit file. As noted in paragraph 91 of the EM, the IAASB determined that providing examples of matters beyond those required by paragraph 57(e) of ED-600 might be viewed as incomplete in view of the many different circumstances encountered in group audits. Accordingly, paragraph A124 of ED-600 indicated that the group auditor may determine that it is appropriate to include relevant parts of the component auditor's documentation in the group auditor's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). Paragraph A124 of ED-600 also noted that the extent to which such component auditor documentation is included is a matter of professional judgment.
88. With respect to guidance on the documentation of the direction and supervision of component auditors and the review of their work, paragraph A125 of ED-600 referred to ISA 300, which requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members). Paragraph A126 of ED-600 included examples of documentation of the group auditor's involvement in the work of component auditors).
89. Paragraph A129 of ED-600 indicated that additional complexities and challenges may arise with respect to audit documentation in a group audit engagement when access to component auditor documentation is restricted. Accordingly, paragraph A130 of ED-600 was added to address those circumstances.
90. Question 11 in the EM asked respondents:
- Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:*
- (a) *Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?*
- (b) *Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?*

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<sup>10</sup> ISA 230, *Audit Documentation*

## What We Heard

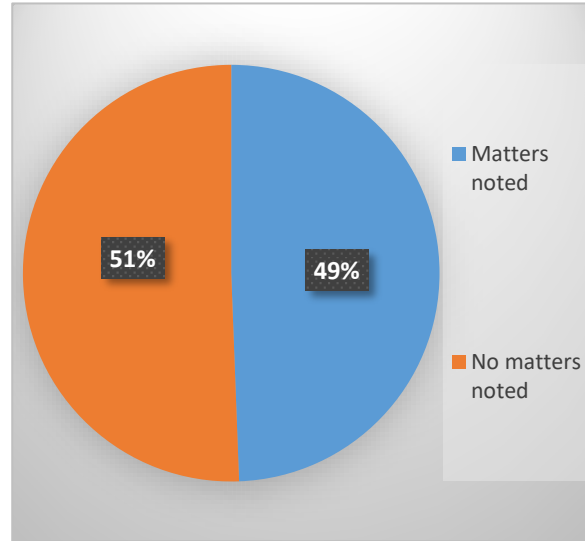
91. In analyzing the comments on question 11, the Task Force noted that respondents answered this question differently. For example, some respondents answered question 11 in its entirety. Other respondents answered questions 11(a) and 11(b) separately, while sometimes also providing overall comments about documentation. However, in most instances comments were directed to either question 11(a) (other matters that should be documented) or question 11(b) (the application material to paragraph 57 of ED-600, and specifically paragraphs A129 and A130 of ED-600).
92. For purposes of analyzing the comments, the Task Force first looked at comments on question 11 in their entirety to gauge respondents' overall support for the enhanced requirements and application material on documentation in ED-600. Therefore, the separate NVivo reports for question 11 include all documentation-related comments for ease of reference.
93. The separate responses to questions 11(a) and 11(b) were then analyzed and the summary of what we heard is presented below for each of those questions.
94. Responses to Question 11 overall were as follows (see the separate NVivo reports for further details):
- 27 respondents agreed with the proposals, including a Monitoring Group member – 32%;
  - 47 respondents agreed with comments or concerns, including three Monitoring Group members – 57%; and
  - No respondents disagreed with the proposals; and
  - 9 respondents did not have a specific response – 11%.
95. Respondents that agreed with the proposals indicated that paragraph 57 of ED-600 clearly identifies matters to be documented in a group audit engagement. Respondents also noted that the application material provides helpful guidance and flexibility for the nature and extent of audit documentation, including the use of professional judgment by the group auditor regarding component auditor documentation to be included in the group auditor's audit file.



*Question 11(a): Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?*

96. Responses to Question 11(a) were as follows (see the separate NVivo reports for further details):

- 41 respondents, including three Monitoring Group members, noted additional matters they believed should be documented, or areas where additional guidance was needed or would be helpful – 49%; and
- 42 respondents including a Monitoring Group member, noted no additional matters – 51%.



97. Of the respondents that noted additional specific matters that should be documented or for which additional guidance would be helpful, the most common suggestions related to the following:

- (a) The extent to which component auditor documentation needs to be reviewed by the group auditor (i.e., the level of detail expected to support the group auditor's review of the component auditor's work);
- (b) The extent to which component auditor documentation should be included in the group auditor's audit file;
- (c) The nature and extent of documentation to evidence the group auditor's direction and supervision of component auditors and the review of their work;
- (d) Communications between the group auditor and component auditors;
- (e) The basis for the group auditor's evaluation about whether sufficient appropriate audit evidence has been obtained, including with respect to the audit procedures performed by component auditors, to provide a basis for the group audit opinion; and
- (f) The basis for the group engagement partner's determination that component auditors have the appropriate competence and capabilities, including sufficient time.

98. Additional details on each of these points are provided below. In some cases, respondents indicated that additional guidance in these areas could be provided in the application material or outside of proposed ISA 600 (Revised).

#### Extent of Group Auditor Review of Component Auditor Documentation

99. Respondents noted that the requirements in paragraph 57 of ED-600 and related application material include clear linkages to ISA 230. However, respondents (including a Monitoring Group member) recommended including an additional requirement with appropriate guidance related to the level of detail expected to support the group auditor's review of the work of component auditors.

100. Additional suggestions from respondents in this area included the following:

- (a) Elevate to a requirement the guidance in paragraph A126 of ED-600 for the group auditor to document its rationale for the component auditor's documentation selected for review.
- (b) Clarify the intent of paragraph 57(d) of ED-600 as to whether the review of the work of component auditors is required in all cases to address any perceived inconsistency with the requirement in paragraph 45(b) of ED-600.
- (c) Require documentation of the basis for the group auditor's evaluation of the sufficiency and appropriateness of the audit procedures performed by the component auditors.

#### Extent of Component Auditor Documentation to Include in the Group Auditor's File

101. Respondents pointed to the reference in paragraph A124 of ED-600 that, in accordance with ISA 230, the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit.<sup>11</sup> Respondents, including a Monitoring Group member, suggested that this be more explicitly stated within the requirements of the revised standard.
102. Respondents had mixed views about the nature and extent of documentation relating to the work of component auditors that should be included in the group auditor's audit file. In some cases, respondents believed that, even when there are no restrictions on access, the group auditor's file should include a more detailed description of the audit procedures performed by component auditors, as well as a description of evidence obtained and the component auditor's findings and conclusions. Other respondents supported the guidance in paragraph A124 of ED-600 and the need for professional judgment by the group auditor, recognizing that the component auditor's documentation is part of the documentation supporting the group audit, and need not be replicated in the group auditor's audit file.
103. Irrespective of the mixed views, respondents indicated that additional guidance in this area would be helpful and could be provided in implementation support materials.
104. Other specific comments in this area included the following:
- (a) Additional guidance may be needed regarding the factors to consider in determining the component auditor documentation to be included in the group auditor's file, including when the ability to include component auditor documentation may be subject to local laws and regulations, such as privacy restrictions.
  - (b) Guidance such as that mentioned in (a) above may be helpful in addressing any perceptions that component auditor documentation should be in the group auditor's file because the group auditor has overall responsibility for the sufficiency and appropriateness of the documentation for the group audit, and component auditors are part of the group audit engagement team.

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<sup>11</sup> ISA 230, paragraph 8



## Extent of Documentation of the Group Auditor's Direction, Supervision and Review of Component Auditors

105. Respondents commented that the requirement in paragraph 57(d) of ED-600 to document the nature, timing and extent of the group auditor's direction and supervision of component auditors, and the review of their work, could result in a significant increase in documentation related to planning the engagement, especially for group audits with a large number of components. In particular, respondents suggested that the IAASB clarify the nature and extent of documentation intended to meet this requirement, which could range from a sign-off of the planned procedures and work allocation, to more detailed documentation outlining the rationale for assigned work, individuals, and reviewers. Respondents suggested that the extent of involvement of the group auditor is affected by the competence and capabilities of the component auditors, and that paragraph A125 of ED-600 could be enhanced in this regard.

## Communications between the Group Auditor and Component Auditors

106. With respect to documentation of the communications between the group auditor and component auditors, respondents' comments included the following:
- (a) In the view of a Monitoring Group member, certain requirements suggest that communication is required in some circumstances only if there is an issue identified by the component auditor (e.g., the requirement in paragraph 44(d) of ED-600 relating to indicators of possible management bias). This respondent suggested requiring the component auditor to state explicitly whether or not any management bias has been identified and, if so, to provide further explanation.
  - (b) A requirement to document the group auditor's communication with component auditors about their responsibilities and the group auditor's expectations in accordance with paragraph 43 of ED-600 should be considered. Alternatively, the usefulness of such documentation could be described in the application material.
  - (c) Documentation should include communications about the results of control testing or substantive procedures performed by the group auditor (or other component auditors) that might reasonably be relied upon by component auditors in performing their work.

## Group Auditor's Evaluation about Sufficiency and Appropriateness of Audit Evidence

107. Respondents suggested that the documentation for the group audit engagement should provide a basis for the group auditor's evaluation, in accordance with paragraph 49 of ED-600, about whether sufficient appropriate audit evidence has been obtained, including with respect to the work performed by component auditors, on which to base the group audit opinion. In this regard, respondents noted that the documentation requirements could be strengthened by more explicitly linking the requirements in paragraph 57 of ED-600 to the overall evaluation of the sufficiency and appropriateness of audit evidence in paragraph 49 of ED-600.
108. While supporting the requirement in paragraph 57(a), a Monitoring Group respondent was of the view that additional specificity was needed to drive the group auditor's response when there are significant matters related to restrictions on access. This respondent suggested encouraging the group auditor to request the assistance of those charged with governance of the group (or component where applicable) to obtain the necessary access, and where this is not possible, emphasizing the group auditor's responsibility to evaluate whether sufficient appropriate audit evidence can be obtained through alternative procedures or whether the group audit opinion may

need to be modified.

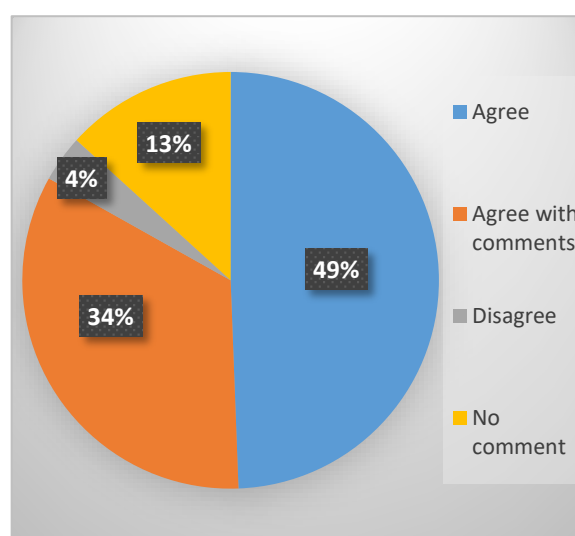
#### Group Engagement Partner's Assessment of the Competence and Capabilities of Component Auditors

109. Paragraph 21 of ED-600 requires the group engagement partner to determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the work requested of them. Respondents noted, however, that there was no requirement in ED-600 regarding the documentation of the basis for this evaluation and recommended that such a requirement be included.

*Question 11(b): Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?*

110. Responses to Question 11(b) were as follows (see the separate NVivo reports for further details):

- 41 respondents agreed with the proposals, including two Monitoring Group members – 49%;
- 28 respondents agreed with comments or concerns, including two Monitoring Group members – 34%; and
- 3 respondents disagreed with the proposals – 4%; and
- 11 respondents did not have a specific response – 13%.



111. Respondents that agreed with the proposals appreciated the IAASB's efforts to address the challenges that arise when access to component auditor documentation is restricted and noted that the guidance provided is helpful, including the linkage to ISA 230. Respondents also commended the IAASB for emphasizing that the group auditor is nonetheless required to obtain sufficient appropriate audit evidence regardless of such restrictions.
112. Respondents that agreed with the proposals but had comments or concerns often referred to their comments on the extent of component auditor documentation to include in the group auditor's audit file, noting that the guidance in paragraph A130 of ED-600 is helpful regardless of whether access to component auditor documentation is restricted. However, it was noted that the guidance lacks clarity regarding the level of detail needed for the 'description' of audit procedures performed, evidence obtained and conclusions reached by the component auditor on matters relevant to the group audit. Additional guidance would be helpful as to whether this can be done in a summary memo or whether, or in what circumstances, more details may be needed.
113. Respondents also noted that additional guidance may be needed regarding:
- (a) Cross-border issues and the possibility of remote access, and
  - (b) Evolving technologies, including the use of automated tools and techniques.

114. Two of the respondents that disagreed with the proposals cited concerns about the linkage in paragraph A130 of ED-600 to the requirements in ISA 230, but had different reasons for their concerns. The other respondent that disagreed noted that the guidance implied that the group auditor could always work around the restrictions by providing a summary of the unobtainable documentation and was of the view that additional emphasis on the need for a possible scope limitation in these circumstances may be needed.

#### Task Force Views and Recommendations

##### Related paragraphs in Agenda Item 5-A:

- Paragraph 57 and related application material (A123A–A130A).

115. The Task Force noted the strong level of support for the proposals related to documentation in ED-600. Nearly a third of respondents agreed with no comments or concerns. In addition, about half of the respondents noted no additional matters that they believed should be documented, and about half agreed with the application material in paragraphs A129 and A130 of ED-600 when access is restricted. However, many useful comments and suggestions were provided and nearly half of the respondents provided comments or suggestions for additional matters to be documented or areas where additional guidance would be helpful.
116. The Task Force has considered the comments received and has provided suggested drafting in **Agenda Item 5-A** to address these comments and suggestions.

#### *Changes to the Documentation Requirements*

117. The Task Force noted the robust discussion by the Board about documentation matters in developing ED-600, and the Board's desire to keep the requirements and guidance principles-based and build off of the requirements of ISA 230.
118. After discussing the comments from respondents to ED-600, the Task Force has made the following revisions to the requirements in paragraph 57 in **Agenda Item 5-A**:
- (a) The first sentence of paragraph A124 of ED-600 was moved to paragraph 57 to address the comments that this point from ISA 230 be more explicitly stated in the requirements of the standard.
  - (b) Paragraphs 57(b) and 57(c) were revised to require documentation of the basis for the group auditor's determinations.
119. The Task Force discussed whether to add a requirement to document the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components, as required by paragraph 21(a) in **Agenda Item 5-A**. The Task Force concluded that such a requirement was unnecessary because this determination is likely to be documented in other ways, e.g., in the group auditor firm's policies or procedures, or with respect to the decisions made by the group auditor about the nature, timing and extent of direction, supervision and review of the engagement team and the determination to involve component auditors. The Task Force also noted that the requirement in paragraph 21(a) is a special consideration for a group audit that is based on the similar requirement in paragraph 26 of ISA 220 (Revised), for which there is no separate documentation requirement.

*Changes to the Related Application Material*

120. The Task Force concluded that a number of revisions to the application material to paragraph 57 in **Agenda Item 5-A** would be appropriate to address the various comments and suggestions from respondents. These suggested revisions are discussed further below.
121. The Task Force added paragraph A123A in **Agenda Item 5-A** to provide a stronger link between the documentation requirements in proposed ISA 600 (Revised) and the group auditor's overall evaluation of the sufficiency and appropriateness of audit evidence obtained on which to base the group audit opinion (see paragraph 49 in **Agenda Item 5-A**).
122. Respondents had various comments about the general principles for audit documentation for a group audit as described in paragraph A124 of ED-600, including suggestions for greater clarity about circumstances in which, and the extent to which, component auditor documentation may need to be included in the group auditor's file. The Task Force noted that the audit documentation for the group audit needs to comply with the requirements of ISA 230, and that the documentation requirements in paragraph 57 of proposed ISA 600 (Revised) are incremental to the requirements in ISA 230. With that in mind, and based on comments and suggestions from respondents to ED-600, the Task Force made the following changes in **Agenda Item 5-A**:
- (a) Paragraph A124 was revised to reinforce the general principle that the audit documentation for a group audit consists of the documentation in the group auditor's file together with the component auditor documentation, and that the component auditor documentation generally resides in the component auditor's audit file and need not be replicated in the group auditor's audit file.
  - (b) Paragraphs A124A and A124B were added to provide guidance for situations in which the group auditor may decide for practical reasons to include certain of the component auditor's documentation in the group auditor's audit file.
  - (c) Paragraph A124C was added to indicate that, when required by law or regulation, certain component auditor documentation may need to be included in the group auditor's audit file to facilitate the request of a regulatory authority to review documentation related to work performed by a component auditor.
123. The Task Force discussed that the wording of paragraphs A129 and A130 in ED-600 may not have been sufficiently clear to communicate the intended points. In particular, paragraph A129 in ED-600 described two circumstances in which access to the component auditor documentation may be restricted, but for which the group auditor's response may be different.
124. Paragraph A130 in **Agenda Item 5-A** has been revised to address the circumstances in which the group auditor has access to the component auditor documentation, but laws or regulations restrict the component auditor from providing documentation outside of its jurisdiction. In these circumstances, the group auditor may be able to overcome such restrictions, as described in paragraph A29 in **Agenda Item 5-A**. When the group auditor is able to review the component auditor documentation by visiting the component auditor's location, or remotely when permitted by law or regulation, the group auditor's documentation nonetheless needs to comply with the requirements of proposed ISA 600 (Revised), including with respect to the documentation of the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work.

125. If the group auditor is unable to obtain access to the component auditor documentation due to laws or regulations in a jurisdiction or other restrictions, a scope limitation may exist that may require a modification to the opinion on the group financial statements. Paragraph A130A in **Agenda Item 5-A** has been added to address this situation.

**Matter for IAASB Consideration**

5. The IAASB is asked for its views on the Task Force's revisions to proposed ISA 600 (Revised), as presented in **Agenda Item 5-A**, with respect to the matters discussed in Section V above.

**Way Forward**

126. Based on the input received from the Board, the Task Force will continue to revise the standard as needed. The Task Force will also discuss respondents' comments to the other questions in the EM and will present to the Board a full analysis of comments received and NVivo reports for all questions in June 2021. The Task Force plans to bring a complete draft of proposed ISA 600 (Revised) to the Board in June 2021.

## Appendix 1

### Task Force Members and Activities, Including Outreach

#### Task Force Members

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

#### Task Force Activities

3. Since the end of the December 2020 IAASB meeting, the Task Force held seven video conference meetings.

## Appendix 2

### Draft Minutes of the December 2020 meeting

#### Group Audits

Mr. Jui updated the Board on the work of the ISA 600 Task Force since the publication of the [ED](#) of proposed ISA 600 (Revised) (ED-600), including the outreach performed, as presented in **Agenda Item 4**. The following sets out the more significant comments from the Board in response to the ISA 600 Task Force's proposals.

#### SCOPE AND APPLICABILITY

The Board had mixed views on the ISA 600 Task Force's proposal to include all entities with branches or divisions in the scope of proposed ISA 600 (Revised). Some Board members noted that such an approach would be overly burdensome and could have unintended consequences as it would increase the scope of the standard significantly. Other Board members supported the ISA 600 Task Force's proposals noting that the proposals would clarify the entry point to the standard. The Board asked the ISA 600 Task Force to consider:

- Clarifying which entities would be scoped in and which not, and by providing more context with respect to the Task Force's proposals; and
- Removing or clarifying paragraph A17 of ED-600 as that paragraph was deemed to be confusing.

With respect to the definition of group financial statements, the Board asked the ISA 600 Task Force to consider focusing on the aggregation process rather than the consolidation process and, if the ISA 600 Task Force decides to continue with consolidation process, clarifying that the term has a different meaning in proposed ISA 600 (Revised) than in financial reporting frameworks. The Board did not have a strong view on the ISA 600 Task Force's proposal to either repeat or refer to paragraph A1 of ISA 220 (Revised), to address respondent comments regarding paragraph 2 of extant ISA 600.

#### DEFINITION OF COMPONENT

The Board broadly supported the Task Force's proposals as set out in Section II in **Agenda Item 4**. The Board asked the ISA 600 Task Force to consider:

- Using the explanation in the issues paper as the basis for developing wording for the Introduction to proposed ISA 600 (Revised) or application material; and
- Explaining that flexibility is needed for the group engagement team to plan and perform group audits given increasingly complex group structures, and that the decision to combine entities or business units for purposes of the group audit is based on the group engagement team's understanding of the group's financial reporting processes, which may be organized in a manner that is different from the group's legal structure.

#### RISK-BASED APPROACH

The Board had mixed views on the removal of the concept of significant component. Board members who supported retaining the concept noted that it is a backstop for making sure that sufficient work is performed and noted that it is easier to apply in practice than the risk-based approach. Other Board members supported the Task Force's direction as set out in Section III in **Agenda Item 4**, noting the advantages as set out in the Explanatory Memorandum to ED-600. In developing a way forward, the Board asked the Task Force to consider:

- Developing a framework on how to identify, assess and respond to the risks of material misstatement in a group audit;
- Including a stand-back requirement that requires the auditor to evaluate the audit evidence obtained for financially significant components;
- Whether the United States Public Company Accounting Oversight Board's standards include guidance that may be useful in developing a framework on how to apply the risk-based approach; and
- Identifying circumstances when an audit of a component may be required.

The Board also had mixed views on the ISA 600 Task Force's proposals to require component auditors to communicate identified misstatements in component financial information that have been corrected, in addition to uncorrected misstatements. Some Board members supported this requirement while others disagreed noting that it may be overly burdensome to communicate all corrected misstatements, particularly for group audits with a large number of components. The Board asked the ISA 600 Task Force to consider a requirement to report corrected misstatements above a specified threshold.

With respect to the other proposals as set out in Section III in **Agenda Item 4**, the Board also asked the ISA 600 Task Force to consider:

- Whether the proposed changes to clarify the involvement of component auditors based on stronger linkages to ISA 315 (Revised 2019) and ISA 220 (Revised) is sufficient. The Board suggested that the proposed ISA 600 (Revised) be more explicit on how to address the issues identified related to the involvement of component auditors;
- Being neutral on the use of non-network component auditors;
- Clarifying that the group engagement team is not solely responsible for identifying, assessing and responding to risks of material misstatements but that the group engagement team is ultimately responsible; and
- Emphasizing the importance of two-way communications, and to further consider the form and content of conclusions from component auditors.

#### DEFINITION OF ENGAGEMENT TEAM

The Board generally supported the ISA 600 Task Force's proposals as set out in Section IV in **Agenda Item 4** and asked the ISA 600 Task Force to consider:

- Clarifying the diagram included on page 32 in **Agenda Item 4**; and
- Liaising with IESBA on matters related to the definition of engagement team to avoid unintended consequences, including the proposed change of the term 'group engagement team' to 'group auditor.'

#### PIOB OBSERVER'S REMARKS

Ms. Stothers thanked the ISA 600 Task Force for its work and noted that the discussion was thoughtful, robust and thorough.

#### WAY FORWARD

Based on the Board's comments, the ISA 600 Task Force will further develop its thinking on the key themes discussed in the December 2020 meeting. In the March 2021 meeting, the ISA 600 Task Force will present drafting related to the key themes and will present a summary of respondents' comments



and the ISA 600 Task Force's recommendations on the way forward related to some of the other questions in the Explanatory Memorandum to ED-600.

## Appendix 3

### Approach to Analyzing Comments

1. NVivo was used to assist with the analysis of comments. The NVivo summaries reflect:
  - The number of respondents who ‘agreed’, ‘agreed with comments or concerns’, or ‘disagreed’ with the question. It is noted that respondents classified as ‘agreed with comments or concerns’ were those who appeared to agree but had additional concerns or suggestions. Respondents who ‘agreed’ and provided further explanations of why they agreed were classified as ‘agreed’.
  - The general themes identified from further analyzing the comments for those respondents who ‘agreed with comments or concerns’ or ‘disagreed’. In many cases, the additional comments or concerns by respondents who agreed were similar to the reasons provided by respondents who disagreed with the question, i.e., they had similar issues and concerns whether they agreed or disagreed. The general themes have therefore been numbered consistently across the three categories to reflect these similarities or have been captured under the ‘agreed with comments or concern’ category. The general themes are intended to provide an overview of key themes, and do not reflect the nuances of the individual comments. Furthermore, the general themes do not reflect one-off comments or suggestions, which have nevertheless been considered by the Task Force.
2. The following points are also important for noting as part of the NVivo analysis:
  - In certain cases, respondents’ comments on a particular question were considered more relevant to another question or another aspect of ED-600. Therefore, these comments were re-assigned to the more relevant question or aspect, so that they can be considered in the context of all other relevant comments. Furthermore, some respondents provided general comments, which were also assigned to the most relevant questions or aspects. In some cases, a comment may have been assigned to multiple areas given the relevance to multiple issues.
  - The general themes identified from further analyzing the comments only include respondents who had additional commentary. Furthermore, a respondent may have had multiple additional comments, which have been assigned to each relevant theme. As a result, the total number of respondents across all of the themes does not correlate to the total number of respondents who answered the question.

## Appendix 4

### Approach for the Discussion of the Agenda Items

| Section in Agenda Item 5-A  | Paragraphs in Agenda Item 5-A                      | Section in this Agenda Item |
|---|--|-----------------------------|
| Introduction, Including Scope and Applicability, and Definitions  |  |                             |
| • Introduction  | 1–6, A1–A10  | Section I                   |
| • Definitions   | 9(b), A12<br>9(k), A16–A16B                        | Section I                   |
| Risk-Based Approach, Including Communications with Component Auditors   |  |                             |
| • Overall Group Audit Strategy  | 13, 17A, A33A–A33J, A40–A40A                       | Section II                  |
| • Communications with Component Auditors  | 23A, 26, A52A–A52J                                 | Section III                 |
| • Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control and Identifying and Assessing the Risks of Material Misstatement | Paragraphs 25, 31, 32, A53–A55, A71–A71D, A78–A79D | Section II                  |
| • Responding to the Assessed Risks of Material Misstatement   | 33, 37, A85–A88B, A96–A101                         | Section II                  |
| • Communication Between the Group Auditor and the Component Auditor; and  | 44–45, A111A–A113                                  | Section III                 |
| • Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained   | 49, A114A–A115                                     | Section II                  |
| Materiality   | 9(a), 29, 30, A11, A73–A77B                        | Section IV                  |
| Documentation   | 57, A123A–A130A                                    | Section V                   |

## Appendix 5

### List of Respondents to the Exposure Draft of Proposed ISA 600 (Revised)

| #   | Abbrev.    | Respondent (83)  | Region |
|---|------------|--|--------|
| <b>Monitoring Group (4)</b>                     |            |  |        |
| 1.  | BCBS       | Basel Committee on Banking Supervision   | GLOBAL |
| 2.  | IAIS       | International Association of Insurance Supervisors   | GLOBAL |
| 3.  | IFIAR      | International Forum of Independent Audit Regulators  | GLOBAL |
| 4.  | IOSCO      | International Organization of Securities Commissions   | GLOBAL |
| <b>Investors and Analysts (1)</b>               |            |  |        |
| 5.  | CRUF       | Corporate Reporting Users' Forum   | GLOBAL |
| <b>Regulators and Oversight Authorities (8)</b> |            |  |        |
| 6.  | CEAOB      | Committee of European Audit Oversight Bodies   | EU     |
| 7.  | CPAB       | Canadian Public Accountability Board   | NA     |
| 8.  | CSA        | Canadian Securities Administrators   | NA     |
| 9.  | IAASA      | Irish Auditing and Accounting Supervisory Authority  | EU     |
| 10.   | IRBA       | Independent Regulatory Board for Auditors  | MEA    |
| 11.   | MAOB       | Malaysia Audit Oversight Board   | AP     |
| 12.   | NASBA      | National Association of State Boards of Accountancy  | NA     |
| 13.   | UKFRC      | Financial Reporting Council  | EU     |
| <b>National Auditing Standard Setters (12)</b>  |            |  |        |
| 14.   | AICPA      | American Institute of Certified Public Accountants   | NA     |
| 15.   | AUASB      | Australian Auditing and Assurance Standards Board  | AP     |
| 16.   | CAASB      | Canadian Auditing and Assurance Standards Board  | NA     |
| 17.   | CNCC-CSOEC | Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables | EU     |
| 18.   | HKICPA     | Hong Kong Institute of Certified Public Accountants  | AP     |
| 19.   | ICAI       | Institute of Chartered Accountants of India  | AP     |
| 20.   | IDW        | Institut der Wirtschaftsprüfer   | EU     |
| 21.   | JICPA      | Japanese Institute of Certified Public Accountants   | AP     |
| 22.   | KSW        | Austrian Chamber of Tax Advisors and Public Accountants  | EU     |
| 23.   | MIA        | Malaysian Institute of Accountants   | AP     |
| 24.   | NBA        | Royal Netherlands Institute of Chartered Accountants   | EU     |
| 25.   | NZAuASB    | New Zealand Auditing and Assurance Standards Board   | AP     |
| <b>Accounting Firms (17)</b>                    |            |  |        |
| 26.   | BDO        | BDO International  | GLOBAL |
| 27.   | BT         | Baker Tilly International  | GLOBAL |

| #  | Abbrev.    | Respondent (83)  | Region |
|--|------------|--|--------|
| 28.  | CG         | Crowe Global   | GLOBAL |
| 29.  | CR         | CohnReznick  | NA     |
| 30.  | DTT        | Deloitte Touche Tohmatsu   | GLOBAL |
| 31.  | ETY        | ETY  | MEA    |
| 32.  | EYG        | Ernst & Young Global   | GLOBAL |
| 33.  | GT         | Grant Thornton International   | GLOBAL |
| 34.  | KPMG       | KPMG IFRG  | GLOBAL |
| 35.  | MAZ        | Mazars   | GLOBAL |
| 36.  | MAZUSA     | Mazars USA   | NA     |
| 37.  | MGN        | Moore Global Network   | GLOBAL |
| 38.  | MNP        | MNP  | NA     |
| 39.  | NEXIA      | Nexia International  | GLOBAL |
| 40.  | PKF        | PKF International  | GLOBAL |
| 41.  | PwC        | PricewaterhouseCoopers   | GLOBAL |
| 42.  | RSM        | RSM International  | GLOBAL |
| <b>Public Sector Organizations (7)</b>                         |            |  |        |
| 43.  | AGA        | Office of the Auditor General of Alberta   | NA     |
| 44.  | AGC        | Office of the Auditor General of Canada  | NA     |
| 45.  | AGO        | Office of the Auditor General of Ontario   | NA     |
| 46.  | AGM        | Auditor General of the Ville de Montréal   | NA     |
| 47.  | AGSA       | Auditor General South Africa   | MEA    |
| 48.  | GAO        | U.S. Government Accountability Office  | NA     |
| 49.  | PAS        | Provincial Auditor of Saskatchewan   | NA     |
| <b>Member Bodies and Other Professional Organizations (28)</b> |            |  |        |
| 50.  | AE         | Accountancy Europe   | EU     |
| 51.  | BICA       | Botswana Institute of Chartered Accountants  | MEA    |
| 52.  | CAANZ-ACCA | Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants | GLOBAL |
| 53.  | CalCPA     | California Society of CPAs   | NA     |
| 54.  | CAQ        | Center for Audit Quality   | NA     |
| 55.  | CPAA       | CPA Australia  | AP     |
| 56.  | CPAI       | CPA Ireland  | EU     |
| 57.  | ECA        | Professional Accounting Organizations of the Europe and Central Asia Region                            | EU     |
| 58.  | EFAA       | European Federation of Accountants and Auditors for SMEs   | EU     |
| 59.  | FAP        | Federation of Accounting Professions Thailand  | AP     |

| #                                 | Abbrev. | Respondent (83)   | Region |
|-----------------------------------|---------|---|--------|
| 60.                               | FAR     | Institute for the Accountancy Profession in Sweden  | EU     |
| 61.                               | IBRACON | Institute of Independent Auditors of Brazil   | SA     |
| 62.                               | ICAEW   | Institute of Chartered Accountants in England and Wales   | EU     |
| 63.                               | ICAS    | Institute of Chartered Accountants of Scotland  | EU     |
| 64.                               | ICPAS   | Illinois CPA Society  | NA     |
| 65.                               | IIA     | Institute of Internal Auditors  | GLOBAL |
| 66.                               | IMCP    | Mexican Institute of Public Accountants   | NA     |
| 67.                               | INCP    | National Institute of Public Accountants of Colombia  | SA     |
| 68.                               | IPA     | Institute of Public Accountants   | AP     |
| 69.                               | ISCA    | Institute of Singapore Chartered Accountants  | AP     |
| 70.                               | KICPA   | Korean Institute of Certified Public Accountants  | AP     |
| 71.                               | MICPA   | Malaysian Institute of Certified Public Accountants   | AP     |
| 72.                               | NRF     | Nordic Federation of Public Accountants   | EU     |
| 73.                               | NYSSCPA | New York State Society of Certified Public Accountants  | NA     |
| 74.                               | SAICA   | South African Institute of Chartered Accountants  | MEA    |
| 75.                               | SMPAG   | International Federation of Accountants' Small and Medium Practices Advisory Group                                | GLOBAL |
| 76.                               | SRO AAS | Self-Regulatory Organization of Auditors Association<br>"Sodruzhestvo"  | EU     |
| 77.                               | WPK     | Wirtschaftsprüferkammer   | EU     |
| <b>Academics (4)</b>              |         |   |        |
| 78.                               | AFAANZ  | Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand | AP     |
| 79.                               | GRAHAM  | Lynford Graham  | NA     |
| 80.                               | HUNTER  | Hunter College Graduate Program   | NA     |
| 81.                               | LI      | Limperg Institute   | EU     |
| <b>Individuals and Others (2)</b> |         |   |        |
| 82.                               | PITT    | Pitt Consulting   | EU     |
| 83.                               | VERA    | Vera Massarygina  | EU     |