

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

**Please note: This is the IAASB ISA 600 Issues Paper that was discussed by the Board at the June 2021 IAASB meeting (Agenda Item 4). This paper is provided to the IAASB CAG Representatives in September 2021 for reference purposes.**

#### Objectives of the IAASB Discussion

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

- The draft of proposed ISA 600 (Revised) as presented in **Agenda Item 4-C**, including:
  - The Board's views on the following matters discussed in this Agenda Item:
    - Risk-Based Approach (Section I-A); and
    - Documentation (Section I-B); and
  - Other significant changes to the draft since March 2021 as described in **Agenda Item 4-A**; and
- The ISA 600 Task Force's (the Task Force) analysis of respondents' comments related to several remaining questions in the Explanatory Memorandum (EM) to the [Exposure Draft of Proposed ISA 600 \(Revised\)](#) (ED-600) as described in **Section II** of this Agenda Item and in **Agenda Item 4-B**. Section II of this Agenda Item deals with:
  - Audit Evidence from an Audit Performed for Another Purpose (Section II-A); and
  - Professional Skepticism (Section II-B).

#### Materials Presented

<b>Agenda Item 4</b>	Issues Paper
<b>Agenda Item 4-A</b>	Explanation of significant changes to the requirements and application material
<b>Agenda Item 4-B</b>	Summary of respondents' comments to ED-600 and the Task Force's views and recommendations
<b>Agenda Item 4-C</b>	Proposed ISA 600 (Revised) – Marked
<b>Agenda Item 4-D</b>	Proposed ISA 600 (Revised) – Clean
<b>Supplements A1-A7</b>	NVivo report with respondents' comments on questions 2, 3, 5, 7, 8(c), 9 and 12 of ED-600
<b>Supplements B1.-B.7</b>	NVivo summary analysis for questions 2, 3, 5, 7, 8(c), 9 and 12 of ED-600

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

<b>Supplement C</b>	Proposed ISA 600 (Revised) in the traditional format
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## Introduction

1. In March 2021, the Task Force discussed the following key themes and the related drafting with the Board (see Agenda Item 5 of the March 2021 Board meeting):
  - (a) Introduction, including scope and applicability, and definitions;
  - (b) Risk-based approach;
  - (c) Communications with component auditors;
  - (d) Materiality; and
  - (e) Documentation.

The Board's views on these key themes are captured in the draft minutes of the March 2021 IAASB meeting (see **Appendix 2** to this Agenda Item).

2. Since the March 2021 IAASB meeting, the Task Force analyzed questions 2, 3, 5, 7, 8(c), 9 and 12 to ED-600. The Task Force also continued to enhance proposed ISA 600 (Revised) based on the comments received from the Board and the Task Force's further analysis of respondents' comments to ED-600. The Task Force's activities since the March 2021 Board meeting are included in **Appendix 1** to this Agenda Item.
3. This agenda item summarizes the Task Force's discussions and views relating to the following topics:

Matters relating to the draft of proposed ISA 600 (Revised)

- Risk-Based Approach (Section I-A); and
- Documentation (Section I-B);

Matters relating to the summary of respondents' comments to ED-600

- Audit Evidence from an Audit Performed for Another Purpose (Section II-A); and
- Professional Skepticism (Section II-B)

4. **Agenda Item 4-A** provides background information on, and an explanation of, other significant changes made by the Task Force to the requirements and application material of proposed ISA 600 (Revised) and the rationale for those changes.
5. **Agenda Item 4-B** summarizes respondents' comments and the Task Force's views and recommendations relating to the following questions in the EM:
  - (a) Question 2 – Separate section for considerations when component auditors are involved;
  - (b) Question 3 – Professional skepticism;
  - (c) Question 5 – Scalability;
  - (d) Question 7 – Acceptance and continuance;
  - (e) Question 8 – Practical challenges in implementing the risk-based approach;
  - (f) Question 9 – Common controls and centralized activities; and
  - (g) Question 12 – Other matters.

## Approach for the Discussion of the Agenda Items

6. The Task Force Chair will walk through **Agenda Item 4-C** and refer to the related matters highlighted in Section I of this Agenda Item and the matters highlighted in **Agenda Item 4-A**, as appropriate. **Appendix 4** sets out the planned approach for the discussion, with references to **Agenda Item 4-C** 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.
7. After walking through **Agenda Item 4-C**, the Chair will ask the Board to provide input on the matters for IAASB consideration as set out in Section II of this Agenda Item and will ask the Board for its views on the summary of respondents' comments to ED-600 and the task force's views and recommendations as set out in **Agenda Item 4-B**.
8. **Supplement C** is provided for information purposes only and will not be used during the Board meeting.

## Coordination Activities

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

9. The Staff and Chairs of the Task Force and the Less Complex Entities Task Force met once since the March 2021 IAASB meeting as part of the ongoing interaction between the two Task Forces.
10. Staff supporting the Task Force will meet with Staff supporting the Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group before the June 2021 IAASB meeting to discuss how the CUSP Working Group's proposed drafting principles and guidelines may need to be considered in drafting proposed ISA 600 (Revised).

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

11. 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 Forces' Chair and Staff met once with the IESBA Task Force on matters of mutual interest. In this meeting, the IESBA Task Force Chair and Staff suggested enhancements to proposed ISA 600 (Revised). **Agenda Item 4-A** highlights the changes made based on these discussions.

## Section I – Draft of Proposed ISA 600 (Revised)

### Section I-A – Risk-Based Approach

#### **Related paragraphs in Agenda Item 4-C:**

- Overall Group Audit Strategy: Paragraph 17A and related application material (paragraphs A33A–A33I).
- Identifying and Assessing the Risks of Material Misstatement: Paragraphs 26B–26C and related application material (paragraphs A72B–A72I).
- Responding to the Assessed Risks of Material Misstatement: Paragraphs 33 and 37 and related application material (paragraphs A86–A93).

### *Background*

#### Previous Task Force and IAASB Discussions

12. In March 2021, the Board discussed the Task Force's proposals related to the risk-based

approach (see Agenda Item 5 of the March 2021 Board meeting, Section II). Overall, the Board supported the changes to the standard, especially the addition of a section on the overall group audit strategy and group audit plan. Based on the Board's comments and comments from respondents to ED-600, the Task Force further enhanced these sections. The matters below explain the structural changes and other significant changes to the paragraphs related to the risk-based approach.

## Structural Changes

### Overall group audit strategy and group audit plan

13. In the March 2021 Board meeting, the Board suggested reducing or streamlining the application material in the 'Overall Group Audit Strategy' Section as the volume of material was distracting the key messages.
14. In response, the Task Force restructured the application material and included subheadings. The section is now split up into four distinct areas and each of the sections starts with the key messages:
  - (a) The continual and iterative nature of planning and performing a group audit (paragraphs A33A–A33C in **Agenda Item 4-C**);
  - (b) Establishing the overall group audit strategy and group audit plan (paragraphs A33D–A33E in **Agenda Item 4-C**);
  - (c) Components at which to perform audit work (paragraph A33F in **Agenda Item 4-C**); and
  - (d) Resources (paragraphs A33G–A33I in **Agenda Item 4-C**).

### Identifying and assessing the risks of material misstatement

15. In the March 2021 Board meeting, the Board suggested merging paragraph 24<sup>2</sup> (included in the 'Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control' section) and paragraph 31<sup>3</sup> (included in the 'Identifying and Assessing the Risks of Material Misstatement' section), as both relate to ISA 315 (Revised 2019).<sup>4</sup> It was noted that merging these paragraphs would result in a single requirement related to ISA 315 (Revised 2019) without having requirements related to materiality and communications in between.
16. The Task Force agreed that it would be clearer to have all requirements related to ISA 315 (Revised 2019) in one place but was of the view that one requirement would become very long and lack clarity. In response, the Task Force placed the 'Identifying and Assessing the Risks of Material Misstatement' section directly after the 'Understanding the Group and its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control' section. As a result, paragraph 31 was renumbered to paragraph 26B in **Agenda Item 4-C**.

### Considerations when component auditors are involved

17. In March 2021, the Board noted that referring to 'evaluation' twice in paragraph 25 of Agenda Item 5-A may be confusing. The Task Force discussed the Board's comments and noted that both the location and the wording of the requirement may have caused the confusion, and

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<sup>2</sup> Paragraph 24 in Agenda Item 5-A of the March 2021 Board meeting.

<sup>3</sup> Paragraph 31 in Agenda Item 5-A of the March 2021 Board meeting.

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

therefore has:

- (a) Aligned the wording more closely to paragraph 35 of ISA 315 (Revised 2019) and clarified that the group auditor's responsibility is to take into account the work of component auditors in evaluating whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements;<sup>5</sup> and
- (b) Aligned the location of this requirement with the corresponding requirement in ISA 315 (Revised 2109) so that it is located after the sections on the identification and assessment of risks of material misstatement in paragraph 26C in **Agenda Item 4-C**.

#### Responding to the assessed risks of material misstatement

- 18. Paragraphs A97–A101 in Agenda Item 5-A of the March 2021 Board meeting highlighted three approaches that could be used in assigning further audit procedures to component auditors:
  - (a) Design and perform further audit procedures on the entire financial information of the component;
  - (b) Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
  - (c) Perform specific further audit procedures as identified and communicated by the group auditor
- 19. These paragraphs were located in the 'Responding to the Risks of Material Misstatement' Section, as part of the subsection 'When Component Auditors Are Involved.' Board members noted that these paragraphs provide helpful guidance on how the group auditor determines the extent of work to perform at each component, regardless of whether component auditors are involved, and should therefore be moved to the main section on responding to the risks of material misstatement.
- 20. In response, the Task Force moved paragraphs A97–A101 in Agenda Item 5-A of the March 2021 Board meeting to paragraphs A90A–A90E in **Agenda Item 4-C**. These paragraphs now are application material related to paragraph 33, which deals with the group auditor's responsibility for the further audit procedures and determining the components at which to perform audit procedures. Given the move, some of the references to the involvement of component auditors in these paragraphs were removed. To retain the importance of involving component auditors, the Task Force added paragraph A90B in **Agenda Item 4-C** to highlight that component auditors can be, and often are, involved in all phases of the group audit, including in the performance of further audit procedures.

#### Other Changes

- 21. In addition to the structural changes, based on comments from the Board, the Task Force made several other changes to proposed ISA 600 (Revised) as it relates to the risk-based approach. The main changes include the following:

Overall group audit strategy and group audit plan

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<sup>5</sup> ISA 315 (Revised 2019), paragraph 35 requires the auditor to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement.

- Reference is now made to ‘group audit plan’ in the title of the section and throughout the section as the application material relates to both the overall group audit strategy and group audit plan.
- In March 2021, some Board members suggested adding back to paragraph 13 in Agenda Item 5-A of the March 2021 Board meeting relating to the identification of component auditors and the preliminary determination about whether to involve them. The Task Force recognizes that the group auditor should have a preliminary understanding of whether component auditors are needed when accepting or continuing the group audit engagement. However, given the iterative nature of a group audit, the Task Force is of the view that a determination may need to be made about whether to involve component auditors at several stages during the group audit engagement. To avoid having several similar requirements in the standard, the Task Force highlighted the iterative nature of the group audit in several places, including in paragraph A33A in **Agenda Item 4-C**. Paragraph 17A(b) in **Agenda Item 4-C** requires the group auditor to determine the resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved.
- The Task Force added paragraph A33E in **Agenda Item 4-C**. This paragraph highlights that in establishing the overall group audit strategy and group audit plan, the auditor may also use information obtained during the engagement acceptance and continuance process.
- The Task Force clarified what is meant by the ‘disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components’ in the first bullet of paragraph A33F in **Agenda Item 4-C**. The Task Force’s intent is to signal that a class of transactions, account balance or disclosure may be disaggregated over several components. For example, an accounts receivable balance may be disaggregated over many components, and the size and nature of the accounts receivable balances at each component may influence the group auditor’s decision on the components at which to perform audit work.
- The Task Force revised the third bullet of paragraph A33F in **Agenda Item 4-C** to focus on the special considerations in a group audit. Reference is therefore made to centralized activities and common controls.

Responding to the assessed risks of material misstatement

- The Task Force removed the reference to ‘limited number of significant classes of transactions, account balances or disclosures’ in paragraph A90D in **Agenda Item 4-C** and has instead referred to the risks of material misstatement.

## Section I-B – Documentation

### Related paragraphs in Agenda Item 4-C:

- Paragraphs 45–45A and related application material (paragraphs A112C–A113)
- Paragraph 49 and related application material (paragraphs A114A–A115B)
- Paragraph 57 and related application material (paragraphs A123B–A130A)

## Background

### Previous Task Force and IAASB Discussions

22. In March 2021, the Task Force presented its analysis of respondent comments on Questions 11, 11(a) and 11(b) of the EM to ED-600 related to documentation, along with the Task Force's initial views and recommendations (see Section V of Agenda Item 5 of the March 2021 IAASB meeting).
23. The Task Force noted the strong level of support for the proposals related to documentation in ED-600, while also acknowledging that many useful comments and suggestions were provided for additional matters that should be required to be documented, or for which additional guidance may be needed or would be helpful.
24. The Task Force explained that the proposed revisions to the documentation section of proposed ISA 600 (Revised) as presented in Agenda Item 5-A for the March 2021 Board meeting were based on the Task Force's analysis of the comments received on ED-600 and a robust discussion about how best to respond to the comments. This included a discussion of a separate detailed analysis of respondents' suggestions for additional requirements in paragraph 57 of ED-600.
25. Board members expressed support for the direction of the Task Force's proposed revisions to the documentation section of proposed ISA 600 (Revised), while offering comments and suggestions to further clarify certain points. However, certain concerns were raised about whether the proposed revisions were appropriately responsive to respondents' suggestions for additional documentation requirements or went far enough to address the special considerations for a group audit.

#### *Task Force Views and Recommendations*

26. The Task Force considered the input from the Board and further analyzed and discussed respondent comments on ED-600 related to documentation, particularly the suggestions for additional requirements in paragraph 57 of proposed ISA 600 (Revised).
27. Since March 2021, the Task Force held discussions with the Public Interest Oversight Board and other stakeholders on this topic. The Task Force observed that the comments on ED-600 related to documentation, including comments from Monitoring Group members, generally related to the following key themes:
  - (a) The level of detail expected to support the group auditor's review of component auditor documentation. In particular, a Monitoring Group respondent indicated that the group auditor should be required to demonstrate the extent of oversight (i.e., direction and supervision) and how the group auditor reached its conclusions regarding the sufficiency and appropriateness of the nature and extent of procedures performed by component auditors.
  - (b) Related to (a), the extent to which component auditor documentation should be included in the group auditor's audit file.
  - (c) 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.
  - (d) Documentation of the communications between the group auditor and component auditors.
28. These themes are consistent with the themes discussed with the Board in March 2021 (see paragraph 97 in Agenda Item 5 of the March 2021 Board meeting). The other theme identified in March 2021 related to the basis for group engagement partner's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the work requested. See paragraphs 46–48 below for a further discussion on this matter.
29. The Task Force continues to be of the view that the documentation requirements in proposed

ISA 600 (Revised) should be principles-based and build on the principles of ISA 230.<sup>6</sup> Similar to extant ISA 600<sup>7</sup> and other ISAs, paragraph 57 of proposed ISA 600 (Revised) has a footnote reference to several relevant paragraphs in ISA 230, including paragraphs 8–11 and A6–A7. The reference to paragraph A6 of ISA 230 is important because it indicates that other ISAs contain specific documentation requirements to clarify the application of the principles of ISA 230 in the particular circumstances of those other ISAs.

30. The Task Force noted that respondents to ED-600 strongly supported linkages to other ISAs. Repeating requirements of other ISAs, including documentation requirements, may create the perception that proposed ISA 600 (Revised) is a stand-alone standard with all the requirements for a group audit. Accordingly, the Task Force is of the view that an appropriate balance is needed between the requirements in proposed ISA 600 (Revised) and those in other relevant ISAs.
31. The Task Force also recognizes, however, that additional documentation requirements are appropriate in proposed ISA 600 (Revised) to address certain special considerations for group audits. Several such requirements already had been included in ED-600.

#### Changes to the Documentation Requirements and Related Application Material

32. In developing its proposed further revisions to the documentation section included in **Agenda Item 4-C**, the Task Force discussed and updated the analysis of suggested additions to paragraph 57 of proposed ISA 600 (Revised). The Task Force discussed each matter and determined whether the matter:
  - (a) Is addressed by the requirements of ISA 230 or other relevant ISAs, and whether additional application material may be needed to explain the linkage to the other standards; or
  - (b) Relates to special considerations for a group audit for which a specific documentation requirement or application material would be appropriate in proposed ISA 600 (Revised).
33. Appendix 3 of this Agenda Item provides a summary of the matters suggested by respondents to ED-600 and the Task Force's discussion and views. Several of those matters relate to the key themes noted in paragraph 27 above. A more complete description of the significant changes to paragraph 57 in **Agenda Item 4-C**, and the related application material, is provided below.

#### Changes to the general application material to paragraph 57

34. The Task Force added paragraph A123B in **Agenda Item 4-C** to reinforce the reference to paragraph A6 of ISA 230 and that other ISAs contain documentation requirements that apply to group audits.
35. The Task Force revised paragraph A124 in **Agenda Item 4-C** to include a more factual statement about what comprises the audit documentation for a group audit. This was done in response to concerns expressed by Board members about whether the wording of paragraph A124 was clearly communicating the Task Force's intent 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.
36. Respondents to ED-600 asked for guidance on the assembly and retention of the audit documentation for a group audit. The Task Force discussed that the assembly and retention of

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<sup>6</sup> ISA 230, *Audit Documentation*

<sup>7</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*



audit documentation is addressed in ISQM 1,<sup>8</sup> and added paragraph A124x in **Agenda Item 4-C** to provide the link.

Documentation of the direction, supervision and review of component auditors

37. The Task Force noted that the themes described in paragraph 27 above broadly relate to the direction and supervision of component auditors and the review of their work. The Task Force noted that paragraphs 45(b) and 49 in **Agenda Item 4-C** also are related to the direction, supervision and review of the work performed by component auditors and considered changes to those paragraphs, and related application material, in connection with the revisions to the documentation section in **Agenda Item 4-C**. The changes to paragraphs 45(b) and 49 in **Agenda Item 4-C** are therefore included in the discussion below.
38. The Task Force strengthened paragraph 57(d) in **Agenda Item 4-C** by adding a specific reference to the group auditor's review of parts of the component auditor's audit documentation. This addition provides a link to the requirement in paragraph 45A of **Agenda Item 4-C** and results in the wording of paragraph 57(d) being similar to paragraph 50(b) of extant ISA 600.
39. Changes to the application material to paragraph 57(d) included the following:
  - (a) The Task Force moved paragraphs A124A–A124C to paragraphs A127A–A127B in **Agenda Item 4-C** because they relate to the inclusion of component auditor documentation in the group auditor's audit file.
  - (b) Paragraph A124D in **Agenda Item 4-C** was added to indicate that the group auditor's firm policies or procedures may describe or provide guidance about the documentation of the group auditor's direction, supervision and review. The Task Force also determined that a link to the relevant requirements and guidance in ISA 220 (Revised)<sup>9</sup> would be helpful given the comments and concerns raised with respect to the direction, supervision and review of component auditors. Accordingly, the Task Force added paragraph A48A in **Agenda Item 4-C** relating to the engagement partner's responsibilities for the nature, timing and extent of the direction, supervision and review of members of the engagement team.
  - (c) Respondents to ED-600 expressed concern about the extent of documentation that may be needed for a group audit regarding the description of the planned direction and supervision of engagement team members, as required by ISA 300.<sup>10</sup> The Task Force added a sentence to paragraph A125 in **Agenda Item 4-C** to clarify that, when component auditors are involved, the extent of such descriptions will often vary by component and is influenced by the factors in paragraphs A33F and A33G in **Agenda Item 4-C** relating to the determination of components at which to perform audit work, and the nature, timing and extent to which component auditors are to be involved.
  - (d) Paragraph A127 in **Agenda Item 4-C** was revised to be consistent with the changes made to paragraph 45A in **Agenda Item 4-C** as discussed in paragraphs 40-41 below.
  - (e) Paragraph A127A in **Agenda Item 4-C** retains the point previously included in paragraph A124 that component auditor documentation need not be replicated in the group auditor's audit file. Paragraph A127A also retains the point previously included in paragraph A124A

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<sup>8</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>9</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>10</sup> ISA 300, *Planning an Audit of Financial Statements*

that, depending on the facts and circumstances, the group auditor may decide to replicate or retain copies of certain component auditor documentation in the group auditor's audit file (e.g., for ease of accessibility).

- (f) Paragraph A127A in **Agenda Item 4-C** has been clarified to indicate that the group auditor may include a listing or summary of the significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit. This was done in response to Board member comments in the March 2021 IAASB meeting that the documentation in the group auditor's audit file supporting the group auditor's conclusions about the work performed by component auditors may take various forms.
40. To further highlight the importance of the group auditor's review of component auditor documentation, the Task Force moved paragraph 45(b) into a separate requirement in paragraph 45A in **Agenda Item 4-C**. The Task Force considered whether the factors in paragraph A113 of **Agenda Item 4-C** could be incorporated into the requirement but concluded that doing so could lead to a 'checklist approach' to documenting whether each of the factors applied for each component. However, the Task Force concluded that the requirement could be strengthened by requiring the group auditor to consider the nature, timing and extent of the work performed by the component auditor, and the competence and capabilities of the component auditor, in making the determination about the review of the component auditor's documentation. The Task Force was of the view that this makes the requirement more specific while retaining its principles-based nature.
41. The Task Force also enhanced the application material to paragraph 45A in **Agenda Item 4-C** by:
- (a) Adding paragraph A112C in **Agenda Item 4-C** to provide a link to the requirement in paragraph 30 of ISA 220 (Revised) regarding the nature, timing and extent of the engagement partner's direction, supervision and review.
  - (b) Revising paragraph A113 in **Agenda Item 4-C** to refer to paragraph A51 in **Agenda Item 4-C**, which includes factors that the group auditor may take into account in tailoring the nature, timing and extent of the direction and supervision of the component auditor, and the review of their work, to the facts and circumstances of the group audit. The points in paragraph A113 were recast as other factors that may affect the nature, timing and extent of the group auditor's determination in accordance with paragraph 45A (i.e., factors to supplement those in paragraph A51).

Evaluation about whether sufficient appropriate audit evidence has been obtained

42. The Task Force noted that the 'stand back' in paragraph 49 in **Agenda Item 4-C** about whether sufficient appropriate audit evidence has been obtained to provide a basis for the group audit opinion includes audit evidence obtained from the work performed by component auditors. As explained in paragraph A123C in **Agenda Item 4-C**, the audit documentation for the group audit supports the group auditor's evaluation in accordance with paragraph 49.
43. Given the concerns raised as described in paragraph 27 above, the Task Force discussed ways to strengthen the link between the documentation requirements and the stand back in paragraph 49, particularly with respect to the work performed by component auditors. For example, the Task Force considered whether the information described in paragraph A115A in **Agenda Item 4-C** could be included in the requirement in paragraph 49 with respect to the audit evidence obtained from the work performed by component auditors.
44. Based on its discussions, the Task Force concluded that paragraph 49 is appropriate as it is

written because it clearly states that the group auditor is required to evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors. Revising the requirement to place more emphasis on evaluating the audit evidence obtained from the work performed by component auditors takes the focus off of the need to evaluate all of the audit evidence obtained.

45. The Task Force noted, however, that paragraph A115A in **Agenda Item 4-C** is nonetheless helpful in providing guidance about what the group auditor may take into account in the 'stand back' with respect to the evidence obtained from the work of component auditors. Paragraph A115A was revised to clarify that the group auditor considers more than just the communications from the component auditor, including the component auditor's findings or conclusions, in evaluating whether sufficient appropriate audit evidence has been obtained. The group auditor's evaluation also takes into account the two-way communications and the ongoing interactions as part of the direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor's review of the component auditor's audit documentation in accordance with paragraph 45A in **Agenda Item 4-C**.

#### Competence and capabilities of component auditors

46. As described in paragraph 119 in Agenda Item 5 of the March 2021 Board meeting, the Task Force previously discussed whether to add a requirement to document the group auditor's determination about the competence and capabilities of component auditors. The Task Force initially concluded that such a requirement was unnecessary because this determination is likely to be documented in other ways.
47. After further discussion, the Task Force concluded that such a documentation requirement is appropriate given that the involvement of component auditors is an important special consideration for a group audit. Accordingly, paragraph 57(ca) in **Agenda Item 4-C** was added to require documentation of the basis for 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 4-C**.
48. The Task Force also added paragraph A124z in **Agenda Item 4-C** to provide a link to ISQM 1 regarding the firm's policies or procedures that address the competence and capabilities of the engagement team.

#### Understanding the group and its environment, including the group's system of internal control

49. Respondents to ED-600 suggested providing stronger links to ISA 315 (Revised 2019), including additional guidance about the application of the requirements in that standard to group audits. In particular, respondents suggested requiring documentation about the understanding of the consolidation process, given its linkage to the definition of group financial statements and therefore the 'entry point' into proposed ISA 600 (Revised).
50. With respect to risk assessment procedures for a group audit, and the identification and assessment of the risks of material misstatement of the group financial statements, the Task Force discussed that the documentation requirements of paragraph 38 of ISA 315 (Revised 2019) apply to a group audit, and therefore initially concluded that no additional documentation requirements would be needed in proposed ISA 600 (Revised).
51. Based on further discussion, the Task Force concluded that it would be appropriate to include a specific documentation requirement for the matters in paragraph 24(c) of **Agenda Item 4-C** relating to an understanding of the group's system of internal control. These special

considerations for a group audit include commonality of controls, centralization of activities related to financial reporting, and the consolidation process. Accordingly, the Task Force added paragraph 57(cb) in **Agenda Item 4-C**.

Matters related to communication with component auditors

52. To address comments from respondents to ED-600, the Task Force clarified paragraph 57(e)(i) in **Agenda Item 4-C** to indicate that these communications relate to fraud, related parties and going concern.
53. The Task Force discussed whether the requirement in paragraph 57(e) in **Agenda Item 4-C** could be clarified or enhanced to include all of the communications between the group auditor and component auditors. The Task Force was concerned that going beyond the matters addressed in paragraph 57(e) would suggest that every communication and discussion throughout the course of the group audit would need to be documented, which would be overly burdensome. The Task Force was of the view that the focus of paragraph 57(e) on more significant matters relevant to the group audit continues to be appropriate.
54. The Task Force noted that component auditors are part of the engagement team for a group audit and are subject to the requirements for direction, supervision and review in ISA 220 (Revised). In that regard, the Task Force noted that documentation of the interactions with component auditors would inherently result from the requirement in paragraph 57(d) of **Agenda Item 4-C** to document the nature, timing and extent of the group auditor's direction and supervision of component auditors, and the review of their work.

Other changes to the application material to paragraph 57

55. The Task Force added paragraph A124y in **Agenda Item 4-C** to provide guidance for the requirement in paragraph 57(b) regarding the basis for the group auditor's determination of components for purposes of planning and performing the group audit. The Task Force noted that the documentation of the basis for the determination of components could be evidenced in various ways, including fulfillment of other requirements in proposed ISA 600 (Revised).
56. The Task Force revised paragraph A130 in **Agenda Item 4-C** to clarify that the restrictions refer to those described in paragraph A29 in **Agenda Item 4-C**.

**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 4-C**, with respect to the matters discussed in Section I above.

## Section II – Summary of Respondents' Comments to ED-600

57. **Agenda Item 4-B** summarizes respondents' comments related to questions 2, 3, 5, 7, 8(c), 9 and 12 in the EM and the Task Force's views and recommendations in response to the comments.
58. With the analysis of these questions, the Task Force has presented to the Board its analysis of all questions in ED-600, except for Question 1 (linkages with other standards) and Question 13 (translations issues and the effective date).
59. For Question 1, the Task Force discussed a Staff-prepared overview of the key themes identified in respondents' comments, including comments from Monitoring Group members. The Task Force also had an initial discussion about ways to address the comments, including through revisions to proposed ISA 600 (Revised).

60. The Task Force will further update the draft of proposed ISA 600 (Revised) after the June IAASB meeting for the matters raised related to Question 1 and is of the view, based on the analysis performed to date, that this will not result in significant changes to the standard.

## **Section II-A: Using Audit Evidence from an Audit Performed for Another Purpose**

### *What We Heard*

61. Paragraphs 74-78 in **Agenda Item 4-B** describe respondents' comments related to using audit evidence from an audit performed for another purpose (e.g., from a statutory audit of a group entity that also is a component for purposes of the group audit).

### *Task Force Views and Recommendations*

62. The Task Force discussed respondents' comments and acknowledged that the intended purpose of paragraph 42 in ED-600 lacked clarity and therefore created significant confusion among respondents. Paragraph 42 of ED-600 implied that audit evidence from an audit performed for another purpose could only be used if the audit had been completed and the auditor's report issued. This led respondents to question whether the scope of the paragraph was too limiting, as there are other situations in which the group auditor may be able to leverage the work performed on an audit for statutory or other purposes.
63. Based on the Task Force members' experience, the Task Force discussed what is happening in practice today. In these discussions, it became clear that there are many different ways in which the group audit and the audit performed for another purpose can be structured and coordinated. Addressing these matters comprehensively in the standard is out of scope for this project as proposed ISA 600 (Revised) focuses on the special considerations that apply to a group audit (and not practical considerations or interactions related to the work being undertaken for an audit performed for another purpose).
64. Based on the comments from respondents and Task Force discussions, the Task Force proposes the following way forward:
- Proposed ISA 600 (Revised) should continue to focus on the group audit only and not explain in detail the practical considerations or interactions that are needed between the group auditor and the component auditor related to the work being undertaken for an audit performed for another purpose.
  - Paragraph 42 should be deleted given that it is creating significant confusion. The Task Force considered clarifying its intentions but is of the view that it would require more guidance and questioned whether that was warranted. The Task Force also noted that paragraph 42 could be misused by respondents as is highlighted in **Agenda Item 4-B**. The Task Force will consider whether the application material to paragraph 42 can be re-purposed and included elsewhere in the standard.
  - Including application material in the Introduction to proposed ISA 600 (Revised) to acknowledge that, in some circumstances, the audit procedures performed by a component auditor for an audit of the component for statutory or other reasons may also be appropriate for purposes of the group audit. For example, wording such as the following could be added after paragraph A8 in **Agenda Item 4-C**:

*A group auditor may involve a component auditor in all phases of the audit and may determine that the most appropriate approach is to request the component auditor to perform risk assessment procedures at a component and design and perform further audit procedures in*

*relation to the entire financial information of the component.*

*In some cases, component auditors may also perform an audit of the financial statements of a component, whether for statutory or other reasons, particularly when a component is a legal entity. When a component auditor performs audit work for the purposes of the group audit and for an audit of the component financial statements concurrently, some or all of the work for the audit of the component financial statements may fulfill the requirements for audit work on the component financial information as set forth by the group auditor. Component auditors may also adapt the work they perform on the audit of the financial statements of the component to concurrently fulfill the needs of both that audit and the requirements set forth by the group auditor.*

65. The Task Force is also considering issuing non-authoritative guidance as part of the implementation materials related to proposed ISA 600 (Revised) to explain the interactions between a group audit and an audit performed for another purpose.

## **Section II-B: Professional Skepticism**

66. Section 2 of the EM to ED-600 set out the public interest matters identified by the IAASB relating to the group audits project and how they were addressed in ED-600. One of the key public interest matters identified was fostering the appropriate exercise of professional skepticism.
67. Section II of **Agenda Item 4-B** includes the Task Force's analysis of the comments received from respondents to ED-600 on Question 3 relating to professional skepticism.
68. The Task Force noted that respondents to ED-600 expressed concerns that the risk-based approach as outlined in ED-600 could be detrimental to the exercise of professional skepticism by component auditors or could limit the information available to the group auditor in making informed decisions about the identification and assessment of the risks of material misstatement of the group financial statements. The Task Force is of the view that the changes to the structure of the standard from ED-600, along with clarifications to the requirements and application material relating to the involvement of component auditors, help to address these concerns.
69. The Task Force discussed respondents' suggestions for additional guidance or examples of the circumstances where there may be challenges to the exercise of professional skepticism in a group audit. The Task Force also noted the suggestions for stronger links to ISA 220 (Revised) and the stand back requirements in proposed ISA 600 (Revised).
70. Based on its discussion of the comments received, the Task Force has made the following changes in **Agenda Item 4-C**:
- (a) Expanded paragraph A9A to include more examples of the challenges to the exercise of professional skepticism in a group audit engagement.
  - (b) Added paragraph A9B to emphasize the importance of two-way communication between the group auditor and component auditors in setting expectations, including with respect to the need for the component auditors to exercise professional skepticism in the work performed for purposes of the group audit.
  - (c) Added paragraph A9C to explain that the exercise of professional skepticism by engagement team members, including component auditors, may be evident from the group auditor's direction, supervision and review. The Task Force also added a link to the evaluation of the sufficiency and appropriateness of audit evidence required by paragraph 49 in **Agenda Item 4-C**.
  - (d) Expanded the requirement in paragraph 12 to include the group engagement partner's

responsibility for creating an environment for the engagement that emphasizes the expected behavior of engagement team members. The Task Force noted that this helps to address respondents' comments for a stronger link to ISA 220 (Revised) regarding the engagement team behavior, including the exercise of professional skepticism. Paragraph A19A in **Agenda Item 4-C** also was added to provide additional guidance in this regard.

71. With respect to the comments from Monitoring Group members relating to professional skepticism, the Task Force noted the following:
  - (a) The changes to paragraphs A9A–A9C in **Agenda Item 4-C** help to address the suggestions for examples specific to group audits, including reinforcing that paragraph 5 in **Agenda Item 4-C** applies to component auditors as part of the engagement team.
  - (b) Paragraph 26C in **Agenda Item 4-C** clarifies the group auditor's responsibility to take into account the work of component auditors in evaluating whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. Paragraph 26C links to paragraph 35 of ISA 315 (Revised 2019) and therefore helps to address the comment relating to the need for the group auditor to stand back at the risk assessment stage to determine that the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements.
  - (c) Documentation of the exercise of professional skepticism is not specific to group audits and relates pervasively to designing and performing audit procedures and obtaining and evaluating audit evidence. Accordingly, the Task Force noted that coordination between the Audit Evidence Task Force and the Professional Skepticism Working Group would be appropriate to explore how this may best be addressed.
72. The Task Force will coordinate with the Professional Skepticism Working Group regarding further suggestions for guidance on challenges to the exercise of professional skepticism in a group audit, or examples that could be added to proposed ISA 600 (Revised).

#### Matter for IAASB Consideration

2. The IAASB is asked for its views on:
  - (a) The summary of respondents' comments (as presented in Section V of **Agenda Item 4-B**) and the proposed way forward on using audit evidence from an audit performed for another purpose (as set out in **Section II-A** of this Agenda Item).
  - (b) The summary of respondents' comments (as presented in Section II of **Agenda Item 4-B**) and the proposed way forward on professional skepticism (as set out in **Section II-B** of this Agenda Item).
  - (c) The summary of respondents' comments to ED-600 and the Task Force's views and recommendations as presented in **Agenda Item 4-B**:
    - Question 2 – Separate section for considerations when component auditors are involved;
    - Question 5 – Scalability;
    - Question 7 – Acceptance and continuance;
    - Question 8 – Practical challenges in implementing the risk-based approach;

- Question 9 – Common controls and centralized activities; and
  - Question 12 – Other matters.
- (d) Whether there are any issues raised by respondents, in addition to those summarized by the Task Force in **Agenda Item 4-B**, that the Task Force should consider.

## Way Forward

73. The Task Force is working towards the approval of proposed ISA 600 (Revised) at the December 2021 IAASB meeting.
74. After the June 2021 meeting the Task Force will focus on:
- Further revisions to the draft of proposed ISA 600 (Revised), based on:
    - Comments received from the Board in the June 2021 Board meeting; and
    - Feedback received on outreach;
  - Any necessary changes to the appendices to proposed ISA 600 (Revised);
  - Liaising with other IAASB Task Forces and Working Groups and the IESBA Task Force on matters of mutual interest;
  - Conforming and consequential amendments; and
  - Analysis of comments received and NVivo reports for questions 1 and 13 of ED-600.



## 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 March 2021 IAASB meeting, the Task Force held seven videoconference meetings.

#### Outreach

4. The Task Force Chair attended the following outreach events or meetings in which proposed ISA 600 (Revised) was prominently discussed:
  - International Organization of Securities Commissions' Committee 1, Auditing Subcommittee;
  - International Forum of Independent Audit Regulators' Standards Coordination Working Group;
  - International Federation of Accountants' Small and Medium Practices Committee; and
  - Public Interest Oversight Board.

## Appendix 2

### Draft Minutes of the March 2021 meeting

#### 1. Group Audits – Proposed ISA 600 (Revised)

Mr. Jui updated the Board on the work of the ISA 600 Task Force since the December 2020 IAASB meeting as presented in **Agenda Item 5** and **Agenda Item 5-A**. The following sets out the more significant comments from the Board in response to the ISA 600 Task Force's proposals.

##### SCOPE, APPLICABILITY AND DEFINITIONS

The Board broadly supported the ISA 600 Task Force's proposals as presented in **Agenda Item 5-A** but had several suggestions regarding the scope and applicability of the standard. The Board asked the ISA 600 Task Force to consider:

- Replacing the guidance in paragraph A2B with the wording as set out in paragraph 21 of **Agenda Item 5**. The wording in paragraph 21 of **Agenda Item 5** was deemed to more clearly contrast the situations in which proposed ISA 600 (Revised) would apply versus when it would not apply.
- Clarifying the scope of proposed by ISA 600 (Revised) for entities with branches. An example was provided for an entity with branches in different locations in one jurisdiction, and for which there is a single accounting system that enables separate financial information to be obtained for each of the branches for management purposes. It was noted that proposed ISA 600 (Revised) needs to be sufficiently scalable if such entities are in scope.
- Elevating paragraph A2C, which addresses the scalability of proposed ISA 600 (Revised), from the application material to a separate paragraph in the Introduction section.
- Clarifying whether the definition of group auditor includes component auditors, given the reference in paragraph 9(h) to 'other members of the engagement team.'
- Including additional guidance on the principles of aggregation risk and how aggregation risk is addressed in a group audit.

##### RISK-BASED APPROACH

The Board broadly supported the ISA 600 Task Force's changes as included in **Agenda Item 5-A** but had several suggestions on how to enhance the sections on the risk-based approach. The Board asked the ISA 600 Task Force to consider:

##### *Overall Group Audit Strategy*

- Reducing or streamlining the application material as some paragraphs were viewed as detracting from the key messages in this section.
- Referring to the group audit plan in the title of this section and throughout this section as the application material relates to both the overall group audit strategy and group audit plan.
- Clarifying what is meant by the 'disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components' as set out in the first bullet of paragraph A33E.
- Adding back to paragraph 13 the identification of component auditors and the preliminary determination about whether to involve them. It was noted that group auditor should have an understanding of these matters before accepting or continuing the group audit engagement.

- Including guidance on scoping a group audit when an audit is performed at a component for statutory, regulatory or other reasons.

#### *Understanding the Group*

- Merging paragraphs 24 and 31 as both paragraphs relate to ISA 315 (Revised 2019).
- Changing 'evaluate' in paragraph 25 to 'take into account.' It was noted that paragraph 25 seems to require an evaluation of the component auditors' evaluation whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of risks of material misstatement. The Board noted the reference to two evaluations may be confusing.

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

- Removing 'limited number of significant classes of transactions, account balances or disclosures' in paragraph A100 and instead refer to the risks of material misstatement. It was also suggested to remove the reference to 'specific assertion' in paragraph A101 as that was deemed limiting.

#### COMMUNICATIONS WITH COMPONENT AUDITORS

The Board broadly supported the ISA 600 Task Force's changes as included in **Agenda Item 5-A** but had several suggestions on how to enhance the sections on communications with component auditors. The Board asked the ISA 600 Task Force to consider:

- Clarifying the reference to 'report' in paragraph A52G.
- Including a requirement similar to paragraph 41(b) of extant ISA 600, which requires the component auditor to communicate whether the component auditor has complied with the group auditor's requirements.
- Clarifying that corrected misstatements in paragraph 44(c) relate to misstatements of component financial information identified by the component auditor.
- Revising paragraph A112B as the reference to 'typically not sufficient on its own' was deemed to be unclear. It was noted that the group auditor needs to meet all requirements in proposed ISA 600 (Revised) and that reading an overall summary memorandum or report from the component auditor is not sufficient.
- Revising paragraph A113(b) as the group auditor would not be able to determine the extent to which the component auditor's documentation supports significant judgments made and conclusions reached by the component auditor without first reviewing the documentation.

#### MATERIALITY

The Board broadly supported the ISA 600 Task Force's changes as included in **Agenda Item 5-A** but had several suggestions on how to enhance the section on materiality. The Board asked the ISA 600 Task Force to consider:

- Changing 'shall be lower' in paragraph 29(a) to 'shall not be greater than' group performance materiality. It was noted that in some cases a component may comprise nearly 100% of group and therefore performing audit procedures at the component using group performance materiality would be appropriate.
- Adding back the concept of component materiality for situations when the group auditor is requesting the component auditor to perform audit work on the entire financial information of a component.

## DOCUMENTATION

The Board had mixed views on the ISA 600 Task Force's changes as included in **Agenda Item 5-A**. Some Board members were of the view that the documentation section should be principles-based and should not repeat requirements in other ISAs. Other Board members indicated that additional requirements are needed to address the special considerations for a group audit or were of the view that the current draft allows for too much professional judgment by the group auditor. The Board asked the ISA 600 Task Force to consider:

- Clarifying paragraphs A124A–A124C. Board members had various comments and concerns about the intent and wording of these paragraphs. For example:
  - It was noted that the group auditor's review of component auditor's documentation can be done in different ways than described in paragraph A124A. It was suggested to provide more context and to delete the example.
  - It was questioned why the matters in the bullets in paragraph A124B would not always be in the group auditor's file.
  - It was suggested that paragraph A124C should be strengthened to more clearly specify the nature and extent of component auditor documentation included in the group auditor's file. Some Board members were of the view that this paragraph is not in the right location.
- Elevating paragraph A124 from the application material to a requirement.

## PIOB OBSERVER REMARKS

Mr. van Hulle complimented the ISA 600 Task Force on its work. With respect to the scope of the proposed standard, he noted that clarity is important but difficult given that a group's legal structure is often different than the economic reality. Mr. van Hulle suggested to further clarify the scope in view of existing group structures but not try to be too precise as professional judgment will need to play a role. Furthermore, he suggested that the documentation section should be clear with respect to the group auditor's conclusion about what the component auditor has done and the conclusions reached, as that would be in the interest of inspectors.

## WAY FORWARD

Based on the Board's comments, the ISA 600 Task Force will further develop the draft of proposed ISA 600 (Revised). In the June 2021 meeting, the ISA 600 Task Force will present a full draft of the standard and will present a summary of respondents' comments and the ISA 600 Task Force's recommendations on the way forward related to most of the remaining questions in the Explanatory Memorandum to the exposure draft of proposed ISA-600 (Revised).

## Appendix 3

### Task Force Views on Comments from Respondents to ED-600 Relating to Additional Documentation Requirements

- As described in paragraph 33 of this Agenda Item, the following table includes the matters suggested by respondents to ED-600 for consideration as additional documentation requirements in proposed ISA 600 (Revised). The table also explains how the Task Force has addressed each matter, including references to paragraphs in **Agenda Item 4-C** or other relevant ISAs. Unless otherwise indicated, references to specific paragraphs are to those in **Agenda Item 4-C**.
- Suggestions from the Monitoring Group are noted in italics in the table below. In some cases, other respondents to ED-600 also had the same suggestion.

Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
Discussions of significant matters with management, those charged with governance, and others such as regulatory authorities	<ul style="list-style-type: none"> <li>Required by paragraph 10 of ISA 230. Paragraph A14 of ISA 230 indicates that such discussions may include external parties.</li> <li>Paragraph 10 of ISA 230 also applies to significant matters discussed by component auditors with component management or those charged with governance of the component.</li> <li>Paragraph 44(f) addresses the communication by component auditors of fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component or others where the fraud resulted in a material misstatement of the financial information of the component. Paragraph 44(fa) addresses the communication by component auditors of other significant matters communicated or expected to be communicated with those charged with governance of the component. Paragraph 57(e)(ii) requires documentation of the matters in paragraph 44, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.</li> <li>Discussions of significant matters with management and those charged with governance are also addressed by ISA 260 (Revised).<sup>12</sup> Paragraph 23 of ISA 260 (Revised) contains the documentation requirements for matters communicated in accordance with that standard, whether communicated orally or in writing.</li> <li>The performance requirements in paragraphs 53A–56A address the special considerations in a group audit with</li> </ul>

<sup>11</sup> Also refer to paragraphs 2–3, 8–9 and A6–A7 of ISA 230

<sup>12</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
	respect to communications with group management and those charged with governance of the group, in addition to matters required by ISA 260 (Revised) and ISA 265. <sup>13</sup>
Group auditor rationale for determining components when the auditor's view differs from management's view (i.e., regarding the determination of components for purposes of planning and performing the group audit)	<ul style="list-style-type: none"> <li>• The Task Force noted that references to 'auditor's view' and 'management's view' have now been removed from proposed ISA 600 (Revised).</li> <li>• Paragraph 57(b) requires documentation of the <u>basis for the</u> group auditor's determination of components.</li> <li>• Paragraph A124y has been added to indicate that documentation of the group auditor's determination of components may be addressed in various ways, including through the fulfillment of other requirements in proposed ISA 600 (Revised).</li> </ul>
Level of detail expected to support the group auditor's review of component auditors working papers/rationale for component auditors documentation selected for review	<ul style="list-style-type: none"> <li>• Paragraph 57(d) requires documentation of the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's review of parts of the component auditors' audit documentation in accordance with paragraph 45A.</li> <li>• Paragraph 45A now requires the group auditor to consider the nature, timing and extent of the work performed by the component auditor, and the competence and capabilities of the component auditor, in making the determination about whether, and the extent to which, it is necessary to review parts of the component auditor's audit documentation.</li> <li>• Paragraph A113 provides guidance on the factors that the group auditor may take into account (including the factors in paragraph A51) in making the determination required by paragraph 45A.</li> <li>• The Task Force discussed that ISA 220 (Revised) includes requirements and guidance regarding the engagement partner's responsibility for the nature, timing and extent of direction and supervision of members of the engagement team, and review of their work. Accordingly, the Task Force added paragraph A48A to provide a link to ISA 220 (Revised) and to indicate that, for a group audit, the approach to direction, supervision and review will be tailored by the group auditor based on the facts and circumstances of the engagement. Paragraph A124D indicates that the group auditor's firm policies or procedures may describe or</li> </ul>

<sup>13</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
	<p>provide guidance about the documentation of the group auditor's direction, supervision and review.</p> <ul style="list-style-type: none"> <li>Paragraph A127, which is application material to paragraph 57(d), also includes references to paragraph 45A and the factors in paragraph A113.</li> </ul>
<p>Nature, timing and extent of audit procedures performed by component auditors (including relevant evidence obtained by component auditors) that have been reviewed by group auditor</p>	<ul style="list-style-type: none"> <li>Addressed by paragraphs 57(d) and A124D–A128.</li> <li>Also addressed by paragraphs 45A and A113, with the related documentation requirement in paragraph 57(d).</li> <li>Paragraph A115A provides guidance on the information that the group auditor may take into account with respect to the audit evidence obtained from the work performed by component auditors in making the evaluation required by paragraph 49 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion.</li> </ul>
<p>Outcome of those reviews including follow-up where necessary</p>	<ul style="list-style-type: none"> <li>Addressed by paragraphs 57(e) and (f).</li> </ul>
<p>Emphasize that the documentation in the group auditor file should be sufficient to enable an evaluation whether the group auditor has obtained sufficient appropriate audit evidence (including from work performed by component auditors) on which to base the group audit opinion</p>	<ul style="list-style-type: none"> <li>The Task Force added paragraph A123C to strengthen the link between the group audit documentation and the group auditor's evaluation in accordance with paragraph 49 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion.</li> <li>Paragraph A115A provides guidance on the information that the group auditor may take into account with respect to the audit evidence obtained from the work performed by component auditors in making the evaluation required by paragraph 49.</li> <li>The Task Force also noted that an objective of ISA 230 (paragraph 5(a)) is for the auditor to prepare documentation that provides 'a sufficient and appropriate record' of the basis for the auditor's report.</li> </ul>
<p>'Experienced auditor' concept should be more explicitly stated in the requirements</p>	<ul style="list-style-type: none"> <li>'Experienced auditor' wording from ISA 230 has been added as the first sentence in paragraph 57.</li> </ul>
<p>Include documentation requirements for each item listed in paragraph 44</p>	<ul style="list-style-type: none"> <li>The Task Force noted that paragraph 57(e)(ii) requires documentation of the matters in paragraph 44, but the wording in ED-600 may not have been clear. The Task Force has revised the wording to say 'in accordance with paragraph 44' to clarify that the matters relevant to the group auditor's conclusion with regard to the group audit are</li> </ul>

Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
	<p>those required to be communicated by component auditors in accordance with paragraph 44.</p> <ul style="list-style-type: none"> <li>The Task Force further noted that paragraph 57 (e)(ii) requires not only documentation that the communications in paragraph 44 were made, but how the group auditor has addressed significant matters arising from those communications that were discussed with component auditors, component management or group management.</li> </ul>
<p>Procedures performed when assessing the competence and capabilities of the component auditors</p>	<ul style="list-style-type: none"> <li>Based on further discussion, the Task Force concluded that this is a special consideration for group audits. Accordingly, paragraph 57(ca) has been added to require documentation of the basis for 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).</li> <li>Paragraph A124z also was added to provide a link to the relevant guidance in ISA 220 (Revised).</li> </ul>
<p>Expected documentation of risk assessment procedures, in particular when group auditor involves component auditors</p>	<ul style="list-style-type: none"> <li>Addressed by ISA 315 (Revised 2019), paragraph 38(b).</li> <li>The Task Force also noted that this would be documented as part of the overall group audit plan but will vary based on the nature and extent of component auditor involvement.</li> </ul>
<p>Matters required by paragraph 31 of ED-600 (identification and assessment of the risks of material misstatement of the group financial statements, including when the identification and assessment has been assigned to component auditors)</p>	<ul style="list-style-type: none"> <li>Addressed by ISA 315 (Revised 2019), paragraphs 28–34 and 38(d).</li> <li>With respect to group audits, the identification and assessment of risks of material misstatement of the group financial statements also would be addressed through the fulfillment of the requirement in paragraph 26B. The involvement of component auditors would be documented as part of the overall group audit strategy and group audit plan.</li> </ul>
<p>Scoping of the group audit, including work to be done on components, and the basis for the determination of whether and how to involve component auditors</p>	<ul style="list-style-type: none"> <li>Addressed by ISA 300, paragraphs 7–9 and 12.</li> <li>Also addressed by paragraph 57(b) with respect to the basis for the group auditor's determination of components, and fulfillment of the performance requirement in paragraph 17A.</li> <li>Paragraph A124y was added to provide further guidance about how the determination of components may be documented. Paragraph A124y refers to paragraph 17A, which requires the group auditor to determine the components at which audit work will be performed, based</li> </ul>



Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
	on the group auditor's understanding of the group's organizational structure and information system.
Assembly and archiving of group audit file	<ul style="list-style-type: none"> <li>The Task Force noted that the assembly of final engagement files is dealt with in ISQM 1. Accordingly, paragraph A124x was added to provide a link to ISQM 1, and specifically (through a footnote reference) to ISQM 1 paragraphs 31(f) and A83–A85.</li> </ul>
Group auditor instructions to component auditors	<ul style="list-style-type: none"> <li>Addressed by paragraphs 57(d) and A126 (specifically the first bullet).</li> <li>Paragraph 23A and the related application material highlight the importance of effective two-way communication between the group auditor and component auditors at appropriate points in time throughout the group audit.</li> <li>The Task Force also noted that the Board concluded that the focus in ED-600 should be on direction, supervision and review (i.e., the baseline concepts in ISA 220 (Revised)) and not on a set of 'instructions' from the group auditor to the component auditor. Accordingly, Appendix 5 to extant ISA 600 was not included in ED-600 and is proposed to be addressed through implementation support materials.</li> </ul>
Fulfillment of responsibilities re: ethical requirements	<ul style="list-style-type: none"> <li>Paragraph 41(a)(i) of ISA 220 (Revised) requires documentation of matters identified, relevant discussions with personnel, and conclusions reached with respect to the fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.</li> <li>The Task Force has clarified paragraph 20, and the related application material, regarding the group auditor's responsibility for making component auditors aware of relevant ethical requirements and confirming whether the component auditors understand and will comply with the ethical requirements that are relevant to the group audit. In addition, paragraph 44(ab) now requires the group auditor to request the component auditor to communicate whether the component auditor has complied with the ethical requirements that are relevant to the group audit, including those relating to independence.</li> <li>The Task Force also enhanced paragraph 22 and added application material in paragraph A46A describing the link to paragraphs 17 of ISA 220 (Revised) and that firm policies or procedures may provide guidance on actions the group auditor may need to take when there has been a breach of independence requirements by a component auditor.</li> </ul>

Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
Basis for determination of component performance materiality and clearly trivial threshold	<ul style="list-style-type: none"> <li>Paragraph 57(c) requires documentation of the basis for the determination of component performance materiality and the threshold for communicating misstatements in component financial information.</li> </ul>
Nature, timing and extent of group auditor's work over group management activities such as the consolidation process	<ul style="list-style-type: none"> <li>The Task Force added paragraph 57(cb) to require documentation of the key elements of the understanding of the group's system of internal control in accordance with paragraph 24(c). This includes the consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments.</li> <li>Documentation also would be evidenced through the fulfillment of paragraphs 34–36 (i.e., the performance requirements relating to designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process).</li> <li>The Task Force further noted that work performed by component auditors on the consolidation process would be subject to the direction, supervision and review of the group auditor.</li> </ul>
Group auditor's evaluation of aggregated misstatements identified (whether by group auditor or component auditors)	<ul style="list-style-type: none"> <li>Addressed by ISA 450,<sup>14</sup> paragraphs 11 and 15.</li> </ul>
Group auditor communication to component auditors about responsibilities and group auditor's expectations, including expected manner and form of communications	<ul style="list-style-type: none"> <li>Concepts addressed in paragraph 23A and related application material, but also linked to the requirement in paragraph 57(e) and AM in paragraph A126.</li> <li>Paragraph 44(aa) was added to address Board comments that the component auditor should confirm whether the component auditor has conducted its work as directed by the group auditor. Also see the requirement in paragraph 19, which has now been expanded to include confirmation that the component auditor will conduct its work as directed by the group auditor (i.e., elevated the application material in paragraph A35).</li> </ul>

<sup>14</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

Suggested Matter	Task Force Discussion/Disposition <sup>11</sup>
Communication from the group auditor to affected component auditors of the results of control or substantive testing performed by group auditor or other component auditors that could reasonably be relied on by component auditors in assessing risks of material misstatement and designing and performing further audit procedures	<ul style="list-style-type: none"> <li>The Task Force view is that, in these circumstances, documentation would be included in the group auditor's or relevant component auditor's audit file (regarding the audit procedures performed) as well as in the respective component auditor audit files (regarding the evidence provided by the group auditor or other component auditors and how it was used in assessing risks of material misstatement and designing and performing further audit procedures).</li> </ul>
Documentation of direction, supervision and review of component auditors	<ul style="list-style-type: none"> <li>The Task Force noted that the comment related more to the wording of the proposed conforming amendment to ISA 300 arising from the revised Quality Management standards (<u>description</u> of the planned direction, supervision and review) and not directly to the requirements in ED-600.</li> <li>The second sentence of paragraph A125 was added to clarify that, when component auditors are involved, the extent of the descriptions of the planned direction, supervision and review will often vary by component.</li> </ul>
How the group auditor demonstrated their application of professional judgment and professional skepticism during the group audit engagement	<ul style="list-style-type: none"> <li>The Task Force noted that there are no direct requirements in the ISAs to document the application of professional skepticism. This is demonstrated in the judgments made, including with respect to the identification and assessment of and responses to risks of material misstatement.</li> <li>Paragraph 5 provides a link to ISA 200 and the need to plan and perform the group audit with professional skepticism and to exercise professional judgment. Paragraphs A9 and A10 provide additional guidance and links to ISA 220 (Revised) and other relevant ISAs.</li> <li>The Task Force enhanced paragraphs A9–A9C to provide additional guidance relating to the exercise of professional skepticism in a group audit, including by component auditors.</li> <li>The Task Force will continue to consider areas where additional references to the application of professional skepticism in a group audit may be included in proposed ISA 600 (Revised).</li> </ul>
Group auditor determination that it is appropriate to use the work of component auditors	<ul style="list-style-type: none"> <li>The Task Force noted that documentation relating to the examples provided by the respondent to ED-600 would be addressed generally by paragraphs 57(d), (e) and (f).</li> </ul>

## Appendix 4

### Approach for the Discussion of the Agenda Items

Section in Agenda Item 4-C	Paragraphs in Agenda Item 4-C
Introduction	1–6, A1–A10
Objectives	8
Definitions	9–10, A11–A16B
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	12, A19–A20
Acceptance and Continuance	13–17, A21–A33
Overall Group Audit Strategy and Group Audit Plan	17A, A33A–A33I
Overall Group Audit Strategy and Group Audit Plan – Considerations When Component Auditors Are Involved	18–23A, A34–A52J
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control	24–26A, A53–A72A
Identifying and Assessing the Risks of Material Misstatement	26B–26C, A72B–A72I
Materiality	29–30, A73–A77B
Responding to the Assessed Risks of Material Misstatement	33–40, A86–A102
Communication about Matters Relevant to the Group Auditor's Conclusion	44–46, A111A–A113
Subsequent Events	47–48, A114
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	49–51, A114A–A116
Auditor's Report	52, A117–A118
Communication with Group Management and Those Charged with Governance of the Group	53A–56A, A119A–A123A
Documentation	57, A123B–A130A