

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

Meeting Dates: September 8-9, 2021

Agenda Item B

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

Objective of Agenda Item

1. The objectives of this agenda item are to:
 - Report back on the IAASB CAG Representatives' comments on the project to revise ISA 600 made at the March 2021 CAG meeting; and
 - Obtain Representatives' views on proposed ISA 600 (Revised).¹

Project Status

Proposed ISA 600 (Revised)

2. Since the March 2021 meeting the ISA 600 Task Force (the Task Force) further developed the draft of proposed ISA 600 (Revised) based on respondents' comments on the [Exposure Draft of Proposed ISA 600 \(Revised\)](#) (ED-600) and input from the IAASB, IAASB CAG and outreach.
3. Task Force presented to the IAASB initial drafting related to some key areas in March 2021 and presented a full draft of proposed ISA 600 (Revised) to the Board in June 2021.
4. In developing the current draft of proposed ISA 600 (Revised) (as presented in **Agenda Item B.2**) the Task Force liaised with:
 - Other IAASB Task Forces and Working Groups, including the:
 - Complexity, Understandability, Scalability and Proportionality Working Group;
 - Professional Skepticism Working Group;
 - Technology Working Group; and
 - Audit Evidence Task Force.
 - International Ethics Standards Board for Accountants' Engagement Team – Group Audits Independence Task Force.
 - Key stakeholders, including:

¹ Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- 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.

Analysis of Comments to ED-600

5. Prior to the March 2021 the Task Force analyzed comments from respondents to ED-600 related to the following key themes: definition of engagement team (part of Question 1 in the Explanatory Memorandum to ED-600); scope and applicability (Question 4); definition of component (Question 6); risk-based approach (Questions 8 and 8(a)); communications with component auditors (Question 8(b)); materiality (Question 10); and documentation (Question 11).
6. Since March 2021, the Task Force analyzed the remaining questions in the EM:
 - Linkages with other standards (Question 1);
 - Separate section for considerations when component auditors are involved (Question 2);
 - Professional skepticism (Question 3);
 - Scalability (Question 5);
 - Acceptance and continuance (Question 7);
 - Practical challenges in implementing the risk-based approach (Question 8(c));
 - Common controls and centralized activities (Question 9);
 - Other matters (Question 12); and
 - Translation and effective date (Question 13).

Way Forward

7. The Task Force is planning for the approval of proposed ISA 600 (Revised) at the December 2021 IAASB meeting.
8. After the September 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 September 2021 Board meeting; and
 - Feedback received on outreach with key stakeholders before finalizing the standard; and
 - Liaising with the International Ethics Standards Board for Accountants' Engagement Team – Group Audits Independence Task Force on matters of mutual interest.

IAASB CAG Discussion in September 2021

9. For purposes of the IAASB CAG discussion, the Task Force prepared a presentation highlighting key areas and the most significant changes to proposed ISA 600 (Revised) since the March 2021 CAG meeting (**Agenda Item B.1**).
10. The Task Force Chair will focus on the changes to ED-600 relating to:
- Risk-based approach (**Agenda Item B.2**, paragraphs 17A, 24, 26B, 33, 34, 35, 36, 49 and 50, **Agenda Item B.3**, section I-A);
 - Documentation (**Agenda Item B.2**, paragraphs 45A and 57, **Agenda Item B.3**, section I-B and **Agenda Item B.4**, section I-A);
 - Other changes to the standard as included in **Agenda Item B.2**, including:
 - Scope and applicability;
 - Communications;
 - Materiality;
 - Professional skepticism (see **Agenda Item B.3**, section II-B and **Agenda Item B.4**, section I-B); and
 - Audit evidence from statutory or other audits (see **Agenda Item B.3**, section II-A); and
 - Effective date (see **Agenda Item B.4**, section II-C)
- Representatives are encouraged to read these sections in preparation for the CAG meeting.
11. The areas included in paragraph 10 were selected based on the comments from respondents to ED-600 and discussions with the IAASB in March and June 2021. Representatives will have the opportunity to comment on other areas as well.
12. The questions that are being asked of Representatives are set out below.

Matters for IAASB CAG Consideration

- 1) The Representatives are asked for their views on:
- (a) The changes made to proposed ISA-600 (Revised) related to the risk-based approach;
 - (b) The changes made to proposed ISA-600 (Revised) related to documentation;
 - (c) Any other changes made to proposed ISA-600 (Revised); and
 - (d) The proposed effective date of ISA-600 (Revised).

Feedback

13. Extracts from the draft March 2021 IAASB CAG meeting minutes, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force/IAASB Response
SCOPE AND APPLICABILITY	
<p>Ms. Meng noted the importance of getting the entry point to the standard right and supported the ISA 600 Task Force's proposals in that regard.</p> <p>Ms. Manabat agreed and added that the ISA 600 Task Force's proposals are responsive to the comments received on exposure.</p>	Support noted.
<p>Ms. Blomme supported the addition of a paragraph similar to paragraph 2 of extant ISA 600 (paragraph 1B of proposed ISA 600 (Revised)). She highlighted the importance of signaling that proposed ISA 600 (Revised) may be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. Ms. Weng agreed. Ms. Blomme also supported the new paragraph on the involvement of component auditors in the Introduction section (paragraph 3B of proposed ISA 600 (Revised)) and explained the concerns about audit firm concentration in Europe. She asked the ISA 600 Task Force to keep these concerns in mind when finalizing the standard as some respondents to ED-600 were of the view that ED-600 disadvantaged non-network firms.</p>	<p>Point noted.</p> <p>Mr. Jui noted that the Task Force's main goal is to enhance audit quality but that the ISA 600 Task Force will keep the concerns in mind.</p> <p>The Task Force has retained the paragraph similar to paragraph 2 of ISA 600 (paragraph 1B of proposed ISA 600 (Revised)) and the new paragraph of involvement of component auditors in the Introduction section (paragraph 3B² of proposed ISA 600 (Revised)). Furthermore the Task Force emphasized the importance of involving component auditors throughout the standard.</p>
<p>Mr. Yurdakul supported the enhanced definition of group financial statements, noting that the link to consolidation process is more appropriate than aggregation process.</p>	Support noted.

² Paragraph 3B in the [March 2021 Draft of proposed ISA 600 \(Revised\)](#)

Representatives' Comments	Task Force/IAASB Response
RISK-BASED APPROACH	
Ms. Manabat and Mr. Hirai supported the enhancements to the risk-based approach, especially the changes made to clarify the important role that component auditors play in a group audit.	Support noted.
Mr. Hirai noted that the ISA 600 Task Force had not reinstated the concept of a significant component and was of the view that such a concept would still be useful.	Point not accepted. Mr. Jui explained that even though the concept has not been retained, the application material still explains that the nature and amount of assets, liabilities and transactions may influence the group auditor's determination at which components to perform audit work.
Mr. Hirai noted that the proposed standard includes several references to professional judgment, including in the risk-based approach and materiality sections. He highlighted that such references make it more challenging for regulators to enforce the standard and suggested to include a requirement to document the auditor's professional judgments.	Point not accepted. Mr. Jui explained that proposed ISA 600 (Revised) only includes special considerations when auditing a group and that all other ISA apply, including ISA 230. ³ Mr. Jui added that ISA 230 requires the auditor to document significant matters arising during the audit and the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
OTHER COMMENTS	
Ms. Landell-Mills noted that only one investor submitted a comment letter to ED-600 and questioned whether the views of this respondent were aligned with investor concerns more broadly. In this regard, she noted that professional skepticism was highlighted in the presentation as an area where there was broad agreement but it is an area of particular concern for investors.	Point noted. Mr. Jui noted that the Corporate Reporting User's Forum submitted a comment letter and explained that investors also indirectly provided input through other comment letters. For example, some stakeholders reached out to investors and included investors' views in their comment letters. Mr. Botha added that other respondents also represent the public interest and reflect the views of users of the financial statements in their

³ ISA 230, *Audit Documentation*

Representatives' Comments	Task Force/IAASB Response
	comments letters and through outreach. In that regard, he highlighted that four Monitoring Group members and eight regulators and oversight bodies responded to ED-600.

Material Presented – IAASB CAG Papers

Agenda Item B.1 Presentation

Agenda Item B.2 Proposed ISA 600 (Revised) – Clean

Material Presented – IAASB CAG Reference Papers

Agenda Item B.3 IAASB Issues Paper June 2021

Agenda Item B.4 IAASB Issues Paper September 2021

Appendix A

Project Details and History

Project: Group Audits – ISA 600

Link to IAASB Project Page: [Group Audits – ISA 600](#)

Task Force Members

The Task Force comprises:

- Len Jui, IAASB Deputy Chair and Task Force Chair (supported by Susan Jones);
- Josephine Jackson, IAASB Member;
- Edo Kienhuis, IAASB Member (supported by Jamie Shannon);
- Eric Turner, IAASB Member;
- Wolf Böhm, IAASB Technical Advisor; and
- Dora Burzenski, Correspondent Member.

Summary

	IAASB CAG Meeting	IAASB Meeting
Project Commencement	March 2015 September 2015 September 2016	December 2014 March 2015 June 2015 September 2015 December 2015 June 2016 September 2016
Project Proposal	November 2016 Teleconference	December 2016
Development of Exposure Draft	March 2017 September 2017 March 2019 September 2019 March 2020	June 2017 September 2017 December 2017 March 2019 June 2019 September 2019

		December 2019 January 23, 2020 March 2020
Development of Final ISA	September 2020 March 2021	December 2020 March 2021 June 2021

IAASB CAG Discussions: Detailed References

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

	<p><u>September 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item K)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2</p> <p><u>March 2020</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</p> <p><u>September 2020</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item C)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york</p>
Development of Final ISA	<p><u>March 2021</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-march-8-9-2021-virtual</p>