

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: Virtual Zoom Meeting

F1 Meeting Dates: March 8–9, 2022

Agenda Item F.1

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

Objective of Agenda Item

1. The objective of this agenda item is to report back on the IAASB CAG Representatives' comments on the project to revise ISA 600¹ made at the September 2021 CAG meeting.

Project Status

2. In December 2021, the Board unanimously approved ISA 600 (Revised) as a [final standard](#). The Board will formally release the standard after confirmation is received from the Public Interest Oversight Board (PIOB) that due process was followed. The revised standard will be effective for periods beginning on or after December 15, 2023.
3. In finalizing the standard, the Board considered the enhancements suggested by the ISA 600 Task Force and provided several suggestions to further clarify the standard. The Board also suggested a number of areas that should be emphasized in the Basis for Conclusions or implementation support material.
4. The **appendix** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Feedback

5. Extracts from the approved September 2021 IAASB CAG meeting minutes, as well as an indication of how the IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force/IAASB Response
RISK-BASED APPROACH	
Mr. Orth supported the proposed changes, specifically the additions to emphasize the important role that component auditors play in all phases of a group audit as set out in paragraph 3C and the application material. He noted that the ISA	Support noted.

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

Representatives' Comments	Task Force/IAASB Response
600 Task Force has been very responsive to respondents' comments on the exposure draft of Proposed ISA 600 (Revised) (ED-600).	
DOCUMENTATION	
Mr. Dalkin noted that the IAASB CAG has been of the view that the group auditor should take responsibility for the group audit and that this can be evidenced through documenting the group auditor's involvement. Mr. Orth and Ms. Manabat agreed.	Point noted. ISA 600 (Revised) includes robust requirements regarding the group auditor's responsibilities relating to direction, supervision and review, consistent with the requirements and guidance in ISA 220 (Revised). The revised standard also 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 additional component auditor audit documentation.
Mr. Orth supported the ISA 600 Task Force's proposals on documentation, including that the group auditor uses professional judgment in determining the need to review component auditor documentation. Mr. Munter also supported the ISA 600 Task Force's proposals on documentation and noted that the component auditor's documentation forms the basis for the group audit opinion.	Support noted.
Mr. Hansen noted that the documentation of the component auditor's competency and capabilities is often limited in practice and questioned whether the standard includes sufficient guidance in this regard.	Mr. Jui explained that proposed ISA 600 (Revised) builds upon the principles in ISQM 1 ³ and ISA 220 (Revised) ⁴ and that requirements related to competence and capabilities in those standards also apply in a group audit. He added that the ISA 600 Task Force spent considerable time aligning proposed ISA 600 (Revised) to ISA 220 (Revised). Mr. Botha agreed and referred to the guidance in paragraphs A41–A44. ⁵

³ 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*;

⁴ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁵ Paragraph references are to [Agenda Item B.2](#) of the September 2021 CAG meeting

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Munter also noted that proposed ISA 600 (Revised) should be read in conjunction with the Quality Management standards² given that the Quality Management standards will be in place when proposed ISA 600 (Revised) becomes effective.</p> <p>Mr. Orth agreed and added that the group auditor should also take into account the regulatory environment, the knowledge of the engagement team and the engagement team structure when evaluating the competence and capabilities of the component auditor. He noted that it may be useful to add application material in that regard. Mr. Munter responded that the proposed standard addresses the competency and capabilities sufficiently and that non-authoritative guidance could be added later.</p>	<p>Point noted.</p> <p>Point noted.</p> <p>ISA 600 (Revised) includes a requirement for the group engagement partner to determine that the component auditors have the appropriate competence and capabilities (paragraph 21(a)). The application material (paragraph A42) includes matters that the group engagement partner may consider in determining whether the component auditors have the appropriate competence and capabilities.</p>
OTHER MATTERS	
<p>Ms. Meng thanked the ISA 600 Task Force for addressing the key public interest issues. Mmes. Manabat and Mubarak agreed. Ms. Meng noted that a lot of listed entities are multi-national entities and was of the view that proposed ISA 600 (Revised) will enhance audit quality and will therefore benefit investors.</p>	<p>Support noted.</p>
<p>Mr. Munter noted that the ISA 600 Task Force has been responsive to respondents' comments on ED-600. Ms. McGeachy agreed.</p>	<p>Support noted.</p>
<p>Messrs. Munter and Sarmiento and Mmes. Mubarak and Meng supported the enhancements related to two-way communications between the group auditor and component auditors. In that regard, Mr. Munter highlighted the importance of having timely and regular communications.</p>	<p>Support noted.</p>
<p>Mr. Dalkin noted that proposed ISA 600 (Revised) is a special considerations standard and asked Mr.</p>	<p>Point noted</p>

² The Quality Management standards are ISQM 1, ISQM 2, *Engagement Quality Reviews*, and ISA 220 (Revised)

Representatives' Comments	Task Force/IAASB Response
Jui to explain what that means.	Mr. Jui explained that ISA 600 builds on the other ISAs and that group auditors, in addition to complying with ISA 600 (Revised), should also comply with all other ISAs. He added that the standard addresses practical matters in applying the other ISAs in a group audit and noted that the ISA 600 Task Force enhanced the linkages to other standard in several ways, including by including referring to the foundational standards. Mr. Botha added that the special considerations arise because there is a consolidation process in a group audit and component auditors may be involved.
EFFECTIVE DATE	
Mr. Sobel supported the Task Force's proposed effective date and noted that it is realistic. Messrs. Munter and Orth and Ms. Mubarak agreed. Mr. Munter noted that setting the effective date of a standard is a balancing act. On one hand, the earliest possible effective date will help to achieve improvements to audit quality while, on the other hand, sufficient time is needed to implement the standard. Ms. Mubarak added that time is needed to translate the standard.	Support noted
Mr. Dalkin asked Mr. Jui to explain how the effective date of ISA 600 (Revised) relates to the effective date of the Quality Management standards. Mr. Munter supported the approach as set out by Messrs. Jui and Botha.	Point noted Mr. Jui explained that the Quality Management standards will be effective one year before ISA 600 (Revised) and that the ISA 600 Task Force discussed the need for transitional guidance to explain how ISA 220 (Revised) works with extant ISA 600. Mr. Botha added that the guidance will be high-level and focused on how to apply the principles in ISA 220 (Revised) as the transitional guidance will have a limited shelf life.
Mr. Hansen questioned whether the standard could be effective as of December 15, 2022, for listed entities given the impact of the COVID-19 pandemic.	Point noted. Mr. Botha explained that a staggered implementation approach is not practical as firms in any event will need to update their methodologies and training and 12 months is not

Representatives' Comments	Task Force/IAASB Response
	sufficient for that. In that regard, he noted that insufficient time for implementation may be detrimental to audit quality.

Appendix

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	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 September 2021	December 2020 March 2021 June 2021 September 2021 December 2021

IAASB CAG Discussions: Detailed References

Project Commencement	<p><u>March 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B). http://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item F). http://www.iaasb.org/cag/meetings/new-york-usa-0</p> <p><u>September 2016</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G). http://www.iaasb.org/cag/meetings/new-york-usa</p>
Project Proposal	<p><u>November 2016</u></p> <p>See IAASB CAG meeting material (Agenda Item B). www.iaasb.org/cag/meetings/iaasb-cag-conference-call-november-29-2016-730-am-1030-am-est</p>
Development of Exposure Draft	<p><u>March 2017</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item H). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item G). http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> <p><u>March 2019</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (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 and CAG meeting minutes (Agenda Item K) 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) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</p>
Development of Final ISA	<p><u>September 2020</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item C) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york</p> <p><u>March 2021</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-march-8-9-2021-virtual</p> <p><u>September 2021</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item B) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-september-8-9-2021-virtual</p>