

Meeting: IAASB
Meeting Location: New York, USA
Meeting Date: June 19–22, 2017

Agenda Item 7

Group Audits

Objectives of Agenda Item

1. The objectives of this Agenda item are:
 - To inform the IAASB about the issues that have been discussed by the Group Audits Task Force (GATF) relating to International Standard on Auditing (ISA) 600,¹ including the relationships among and between the Group Audits project and other IAASB projects; and
 - To obtain the IAASB's views on the way forward with respect to the Group Audits project.

GATF

2. The GATF comprises the following members:
 - Megan Zietsman, IAASB Deputy Chair and Task Force Co-Chair;
 - Bob Dohrer, IAASB Member and Task Force Co-Chair;
 - Len Jui, IAASB Member;
 - Wolf Böhm, IAASB Technical Advisor; and
 - Josephine Jackson, IAASB Technical Advisor.

Background

3. At the September 2016 IAASB and the IAASB Consultative Advisory Group (CAG) meetings, the Group Audits Working Group provided proposals for potential revisions to ISA 600 to enhance the application of a risk-based approach to the scoping of a group audit.
4. In December 2016, the IAASB approved a project proposal² for the revision of ISA 600 to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction of ISA 600 with the other ISAs.

Activities of the GATF

5. The GATF has had two physical meetings since the December 2016 IAASB meeting to progress the project, including a discussion of the following issues:
 - Scoping of a group audit engagement, including:

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

² [Enhancing Audit Quality: Project Proposal for the Revision of the IAASB's International Standards Relating to Quality Control and Group Audits](#)

- Obtaining an understanding of the group and its components (including the structure of the group and use of shared service centers);
- Obtaining an understanding of the component auditor and determining the extent of involvement by the group engagement team in the work of the component auditor;
- Identifying and assessing the risks of material misstatement; and
- Responding to identified risks of material misstatement.

The GATF discussed how alternative approaches to scoping an audit engagement would work with different group structures, including consideration of how to apply a more top-down approach.

- Acceptance and continuance, including:
 - Placing particular focus on identifying prior to acceptance and to the extent possible, situations where there may be difficulty in obtaining sufficient appropriate audit evidence, including where access to audit evidence or component auditors may be restricted; and
 - Considerations regarding the terms of engagement.
- Communications between the group engagement team and the component auditors, including the communication of non-compliance with laws and regulation in light of recent revisions to the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants in this regard.
- The necessary work effort of the group engagement team in relation to the consolidation process, particularly regarding sub-consolidations.
- Group audits involving component auditors when the component auditor is from within the group engagement team's network versus when the component auditor is from outside the network.

Interaction with Other Projects

6. In the project proposal the IAASB recognized that there is a strong linkage between ISA 600 and other International Standards, in particular ISQC 1³, ISA 220,⁴ and ISA 315 (Revised).⁵
7. In the course of the GATF's discussions, it became clear that some of the key issues being addressed by the GATF are incremental to issues being considered in connection with other IAASB projects. That is, a basic issue may be addressed in one standard but the unique application of that standard in a group audit scenario needs to be addressed in ISA 600. The GATF is of the view that in some cases, the more detailed requirements will be included in other ISAs (for example, in ISA 220 or ISA 315 (Revised)), and the content in ISA 600 would be focused more on guidance on how to apply the requirements to group audits. Following are examples of the overlap between other International Standards and ISA 600:

³ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*

⁴ ISA 220, *Quality Control for an Audit of Financial Statements*

⁵ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

- Issues related to the acceptance and continuance of an engagement, communications, direction, supervision and review (ISQC 1 and ISA 220);
 - Issues related to identification and assessment of risks of material misstatement (including significant risks), consideration of internal control (including identifying and understanding controls relevant to the audit), and consideration of information technology and related risks (ISA 315 (Revised)).
8. Also, as described in **Agenda Item 4-A**, the overarching requirements regarding consideration and use of network level functions by firms in relation to firm's systems of quality management would be established in ISQC 1, with further consideration at the engagement level being addressed in ISA 220. ISA 600 would then 'build' on those standards for the aspects that would be particular to group audit situations, potentially mainly through application material that would provide further guidance for those specific aspects (e.g., assessing the competence of component auditors).⁶

Way Forward

9. Although the GATF has discussed many ISA 600-specific issues since the last IAASB discussion, the GATF has noted that the nature of the public interest issues at hand has given rise to a need for the GATF to engage more directly with the Quality Control Task Force (QCTF), ISA 220 Task Force (ISA 220 TF) and ISA 315 (Revised) Task Force (ISA 315 (Revised) TF) to help formulate the overarching requirements in those standards. These requirements, in turn, will become the building blocks to dealing with group audit specific matters within ISA 600.
10. While the GATF has made progress on some issues that are specific to ISA 600 (such as possible enhancements to the approach to the scoping of the group audit, a possible way forward for the approach to equity method investments, and sub-consolidations), the GATF proposes that it continue to prioritize engaging directly with the QCTF, ISA 220 TF and ISA 315 (Revised) TF to provide appropriate input regarding the connection points between those projects and ISA 600.
11. A presentation will be given to the IAASB on the GATF discussions to date on these matters and the way forward for the GATF, which will take into account any feedback received from the Steering Committee meeting on June 19th, 2017.

Matter for IAASB Consideration

1. The IAASB is asked for its views on the interrelationships and dependencies between ISA 600 and the projects to revise ISQC 1, ISA 220, and ISA 315 (Revised) as discussed above, and how the GATF should proceed.

Material Presented

A presentation will be provided during the Board week.

⁶ The issues related to networks have been dealt with in a separate paper—see Agenda Item 4-A. Group audit issues include concerns about a group engagement team placing reliance on the firm or network quality control policies and procedures without due consideration of an appropriate basis for doing so.