

Discussion of Significant Changes to Requirements and Application Material¹

This paper is intended to provide background information on the significant changes made by the ISA 600² Task Force (the Task Force) to the requirements and application material in extant ISA 600, as reflected in the draft in **Agenda Item 9-C**, and the rationale for those changes.

Reference	Significant Changes and the Rationale for Those Changes
Scope	
Paragraph 1	<ul style="list-style-type: none"> - This paragraph has been revised to focus on the special considerations in a group audit engagement, including special considerations when component auditors are involved. A reference to other ISAs, in particular ISA 220 (Revised),³ ISA 315 (Revised)⁴ and ISA 330,⁵ has been added to address the key public interest issue that the standard should highlight that all the other ISAs apply to a group audit. <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Paragraph A1A has been moved from paragraph 2 in extant ISA 600 and revised to indicate that ISA 220 (Revised) applies in circumstances where an auditor involves other auditors in an audit that is not a group audit. This was done to help clarify when ISA 600 (Revised) would or would not be applicable, i.e., ISA 600 (Revised) applies when the engagement is for an audit of group financial statements, as defined.

¹ The Task Force is aware of the work that the ISA 315 Task Force has been doing in response to comments received on ED-315 in relation to concerns about the length, complexity and understandability of that ED. The Task Force notes further discussions by the Board are likely needed on whether, and the extent to which, changes to the presentation in ISA 315 (Revised) should (or could) be used for other standards. The Task Force will further reflect on these matters in the context of ISA 600 (Revised) after the September 2019 IAASB meeting.

² International Standard on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

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

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵ ISA 330, *The Auditor's Responses to Assessed Risks*

Reference	Significant Changes and the Rationale for Those Changes
Paragraph 2	<ul style="list-style-type: none"> - Given the changes made to paragraph 1, the Task Force was of the view that this paragraph was better placed as application material to paragraph 1 (see paragraph A1A).
Paragraph 3	<ul style="list-style-type: none"> - This paragraph, along with related application material, has been moved to the section that describes the group engagement team’s response to the assessed risks of material misstatement (paragraph 24).
Paragraph 4	<ul style="list-style-type: none"> - This paragraph highlighted a specific aspect of ISA 220 and has been deleted. A reference to ISA 220 (Revised) is included in paragraph 1 and all special considerations in a group audit engagement that are based on requirements in ISA 220 (Revised) are included in the ‘Use of Component Auditors’ section.
Paragraph 5	<ul style="list-style-type: none"> - This paragraph highlighted a specific aspect of ISA 220 and has been deleted. A reference to ISA 220 (Revised) is included in paragraph 1 and all special considerations in a group audit engagement that are based on requirements in ISA 220 (Revised) are included in the ‘Use of Component Auditors’ section.
Objectives	
Paragraph 8	<ul style="list-style-type: none"> - The objectives have been revised to describe the key outcomes of applying the requirements of the standard, consistent with the public interest issues relating to: <ul style="list-style-type: none"> • Sufficiency of the work performed, including involvement in the work of component auditors, for the group engagement partner to take overall responsibility for the group audit; • Obtaining sufficient appropriate audit evidence to provide a basis for expressing an opinion on the group financial statements; • Sufficiency of involvement in the work of component auditors. <p>The Task Force believes that these objectives appropriately reflect the intended outcomes of applying the requirements in the revised standard.</p>

Definitions	
Paragraph 9	<p><i>Definitions</i></p> <ul style="list-style-type: none"> - Changes have been made to reflect input from the IAASB at the June 2019 meeting and further Task Force discussions. In particular: <ul style="list-style-type: none"> • The reference to separate [or discrete] financial information was removed from the definition of component to address concerns raised by the IAASB and to focus on the special consideration for a group audit of inclusion of financial information in the group financial statements through a consolidation process. • The definition of group financial statements has been changed from the indicative wording discussed with the IAASB in June 2019 to align more closely with the definition of a group. • The definition of group-wide controls in extant ISA 600 has been deleted. See further discussion in section III of Agenda Item 9. • The definition of significant component in extant ISA 600 has been deleted because, under the risk-based approach, there is no longer a requirement to identify significant components. However, as discussed in section IV of Agenda Item 9, the Task Force has considered application material for the stand-back requirement that would provide guidance for the group engagement team, as part of the stand-back evaluation, to consider whether sufficient work has been done at components that are individually financially significant. • The reference to the consolidation process in the Definitions section has been retained and placed in a separate paragraph to highlight its importance as a special consideration in a group audit. A reference to the requirements of the applicable financial reporting framework also has been added, along with application material (see below). <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Paragraph A5 has been moved to the section that describes the assessment of the risks of material misstatement. See application material paragraph A47G, which supports the requirement in paragraph 24. - Paragraph A7 of extant ISA 600 has been deleted. When a member of the group engagement team performs procedures on the financial information of a component, such individual would be subject to the direction, supervision and review requirements in ISA 220 (Revised).

	<ul style="list-style-type: none"> - New paragraphs A5A and A5B have been added to provide additional guidance relating to the definition of the consolidation process.
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	
Paragraph 11	<ul style="list-style-type: none"> - Paragraph 11 and related application material will be included in the ‘Auditor’s Report’ section. The drafting for this section will be presented to the Board in the December 2019 meeting.
Paragraph 11A	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - The Task Force considered input from the IAASB during the June 2019 meeting on the indicative drafting of this paragraph and further discussed how the requirement could be drafted to best reflect the special considerations relating to leadership responsibilities for managing and achieving quality on a group audit. In that regard the Task Force: <ul style="list-style-type: none"> • Aligned the lead-in with the lead-in of other paragraphs. • Deleted text that was deemed repetitive of ISA 220 (Revised). <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Added application material (paragraph A9A) explaining that in a group audit it may not be possible or practicable for the group engagement partner to solely deal with all the requirements in ISA 220 (Revised) and describing how the group engagement partner can manage quality in a group audit.
Acceptance and Continuance	
Paragraph 11B	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - The Task Force considered input from the IAASB during the June 2019 meeting on the indicative drafting of this paragraph and further discussed how the requirement could be drafted to best reflect the special considerations relating to acceptance and continuance in a group audit. In that regard the Task Force: <ul style="list-style-type: none"> • Aligned the lead-in with the lead-in of other paragraphs.

	<ul style="list-style-type: none"> • Deleted text that was deemed repetitive of ISA 220 (Revised). <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Clarified the introduction of paragraph A11 to clarify that the understanding relates to determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, and not to obtaining an understanding of the entity and its environment as required by ISA 315 (Revised). - Added a paragraph explaining why it may be more complex to obtain sufficient appropriate audit evidence in a group audit (paragraph A12A).
<p>Paragraph 13</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> - Enhanced the application material related to access to information and people. For more information see Agenda Item 9, section III. - Deleted paragraph A13 as it is not consistent with the risk-based approach.
<p>Terms of Engagement</p>	
<p>Paragraph 14</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - Paragraph is deleted as it did not describe a special consideration in an audit of group financial statements. <p><i>Application Material</i></p> <ul style="list-style-type: none"> - The application material will be moved to other sections in the standard: <ul style="list-style-type: none"> • Paragraph A20 will be included in the section that describes the group engagement team’s communications with component auditors. The drafting for this section will be presented to the Board in the December 2019 meeting. • Paragraph A21 will be included in the ‘Auditor’s Report’ section. The drafting for this section will be presented to the Board in the December 2019 meeting.

Planning an Audit of Group Financial Statements	
Paragraph 15	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - Paragraph is deleted as it did not describe a special consideration in an audit of group financial statements.
Paragraph 16	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - See Section III of Agenda Item 9.
Understanding the Entity and Its Environment, the Applicable Reporting Framework and the Entity's System of Internal Control	
Paragraph 17	<p><i>Requirements</i></p> <ul style="list-style-type: none"> - The Task Force considered input from the IAASB during the June 2019 meeting on the indicative drafting of this paragraph and further discussed how the requirement could be drafted to best reflect the special considerations relating to understanding the entity and its environment, the applicable reporting framework and the entity's system of internal control in a group audit. In that regard the Task Force: <ul style="list-style-type: none"> • Aligned the lead-in with the lead-in of other paragraphs. • Deleted bullets (a) and (b) as presented to the Board in June 2019 as these were deemed not to be a special consideration in an audit of group financial statements (i.e., an additional understanding may be needed, but the baseline understanding is required by ISA 315 (Revised)). • Enhanced the other bullets presented to the Board in June 2019 by focusing on the special considerations in an audit of group financial statements. The Task Force is of the view that, in obtaining an understanding the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, the following matters are special considerations in an audit of group financial statements: <ul style="list-style-type: none"> ▪ The degree of centralization of the group's information system and the commonality of controls across the group. In a group audit, there may be different information systems and it is therefore important for the group engagement team to understand which information systems are used for which components; ▪ The consolidation process, which is unique to a group audit and fundamental to the definition of a component; and

	<ul style="list-style-type: none"> ▪ The consistency of accounting policies and practices across the group. <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Added application material (paragraph A26A) that explains what a shared service center means in the context of this standard.
<p>Assessing the Risks of Material Misstatement</p>	
<p>Paragraph 20A</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - The Task Force considered input from the IAASB during the June 2019 meeting on the indicative drafting of this paragraph and further discussed how the requirement could be drafted to best reflect the special considerations relating to assessing the risks of material misstatement in a group audit. In that regard: <ul style="list-style-type: none"> • The Task Force concluded that the baseline requirement in ISA 315 (Revised) for identifying and assessing the risks of material misstatement applies to an audit of group financial statements. Accordingly, the requirement has been revised to refer to ISA 315 (Revised) and to focus on the involvement of component auditors (i.e., the special consideration in a group audit). • The requirement reflects the ‘two-way street’ of 1) communicating to component auditors the risks of material misstatement of the group financial statements identified by the group engagement team that are relevant to the work of the component auditor, and 2) determining whether the component auditor is aware of risks of material misstatement at the component level that affect the group financial statements. <p><i>Application Material</i></p> <ul style="list-style-type: none"> - New paragraph A26B was added to explain that the group engagement team’s understanding of the system of internal control, including those controls that are implemented throughout the group, affects the identification and assessment of the risk of material misstatement of the group financial statements. - New paragraph A29A has been added to provide additional guidance about why the assessment of the risks of material misstatement may be more difficult in a group audit, and why the involvement of component auditors may be needed. - Paragraph A31 was deleted as paragraph 20A covers this content.

Responding to the Assessed Risks of Material Misstatement

Paragraph 24

Requirements

- The lead-in is aligned with the lead-in of other paragraphs.

Application Material

- Added application material that:
 - Explains that inherent risk factors at the component level may result in risks of material misstatement of the group financial statements and also may affect the determination of the nature and extent of the work to be performed on the financial information of a component (paragraph A47A);
 - Highlights that including an element of unpredictability in the type of work to be performed, the components at which procedures are performed and the extent to which the group engagement team is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information (paragraph A47B). This paragraph is partly based on paragraph A51 of extant ISA 600;
 - Retains the options for performing work at components based on paragraph 27 of extant ISA 600 (paragraph A47C) as paragraph 27 was deleted (see below). To further explain and differentiate the options, application material was added for each option (Paragraphs A47D-A47F);
 - Explains that, in deciding whether to perform an audit of the financial information of the component, the group engagement team may consider the financial significance of the component relative to the overall group financial statements (paragraph A47G). This paragraph is based on paragraph A5 of extant ISA 600 and also includes guidance on when a component may be financially significant;
 - Explains that the group engagement team may use the audit evidence from another audit (for example, a statutory audit) if the group engagement partner has been sufficiently involved (paragraph A47H). This paragraph is based on paragraph 3 of extant ISA 600; and
 - Explains that, if there is an intention to rely on the operating effectiveness of controls that operate throughout the group, the group engagement team or component auditors are required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls (paragraph A50A).

	<ul style="list-style-type: none"> - Aligned application material that was included in extant ISA 600 (paragraphs A47, A49, A50) with the risk-based approach.
Paragraph 25, 26, 27, 28 and 29	<p><i>Requirements</i></p> <ul style="list-style-type: none"> - These requirements are no longer needed because they are not consistent with risk-based approach. For example, the risk-based approach doesn't require the group engagement team to identify significant components. <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Application material has been deleted (paragraphs A48, A51, A52, A53) or aligned (paragraphs A47, A49, A50) with the risk-based approach.
<i>Consolidation</i>	
Paragraph 32	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - This requirement has been deleted because the revised standard no longer refers to group-wide controls. See section III of Agenda Item 9 for further discussion. Furthermore, paragraph 33 requires the group engagement team to design and perform further audit procedures on the consolidation process (which includes tests of controls if deemed appropriate).
Paragraph 33	<p><i>Requirement</i></p> <ul style="list-style-type: none"> - Added to paragraph 33 that the group engagement team's further audit procedures on the consolidation include, if applicable, further audit procedures on sub-consolidations. <p><i>Application Material</i></p> <ul style="list-style-type: none"> - Application material was added: <ul style="list-style-type: none"> • To highlight why the group engagement team's involvement in sub-consolidations is important (paragraph A55A); and • That explains possible audit procedures on sub-consolidations (paragraph A55B).

Using the Work of Component Auditors

Paragraphs 37A, 37B

Requirements

- The Task Force considered input from the IAASB, including with respect to the indicative drafting presented in Agenda Item 6-B for the June 2019 meeting, and has revised the requirements and related application material accordingly. In particular:
 - Changed the requirements to focus on component auditors, as ISA 220 (Revised) already applies to the group engagement partner’s responsibilities with respect to other members of the group engagement team. Accordingly, the requirements now address the special considerations in a group audit regarding the involvement of component auditors. This change also enhances scalability, as these requirements would not apply when there are no component auditors involved in the group audit.
 - Changed the structure by eliminating the subheadings shown in the June 2019 indicative drafting and making separate requirements for applying the requirements of ISA 220 (Revised) with respect to relevant ethical requirements and the competence and capabilities of the engagement team.
 - Deleted sub-requirements relating to 1) determining that sufficient and appropriate resources are assigned or made available by the component auditor’s firm and 2) taking responsibility for the nature, timing and extent of direction and supervision of the component auditors, as both are covered by the requirements for the engagement partner in ISA 220 (Revised).
 - Added a sub-requirement (see paragraph 37B(c) in **Agenda Item 9-C**) for the engagement partner to determine whether information can be obtained about the results of the monitoring and remediation process with respect to the component auditor’s firm and determine the relevance and effect, if any, on the work performed by the component auditor and the group audit. Paragraph 37C (see below) applies if such information is not available.

Application Material

- Added several new paragraphs to provide additional guidance about why these requirements may be more challenging in a group audit and matters the group engagement partner may take into consideration in fulfilling the requirements.

Paragraph 37C	<p><i>Requirement</i></p> <ul style="list-style-type: none">- The requirement in paragraph 20 of extant ISA 600 has essentially been retained but moved into the section dealing with using the work of component auditors.
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