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

Objective of the IAASB Discussion

The objective of this agenda item is to obtain the Board’s views on the recommendations of the ISA 600 Task Force (the ‘Task Force’) for the proposed revisions to ISA 600 as presented in Agenda Item 2-B.

Materials Presented

Agenda Item 2-A Discussion of Other Significant Changes to Requirements and Application Material

Agenda Item 2-B Draft of Proposed ISA 600 (Revised) — Clean

Agenda Item 2-C Draft of Proposed ISA 600 (Revised) — Marked

Agenda Item 2-D Conforming and Consequential Amendments to ISA 300

Introduction

1. This agenda item is organized as follows:
   - Section I describes significant matters that relate to the proposed revisions, as included in Agenda Item 2-B;
   - Section II describes the conforming and consequential amendments, as included in Agenda Item 2-D; and
   - Section III includes the Task Force’s views on the way forward.

2. Appendix 1 summarizes recent Task Force activities, including outreach. In developing the agenda materials, the Task Force took into account the comments from Board members during the September 2019 IAASB meeting as well as feedback received on outreach. The draft minutes of the September 2019 IAASB meeting are included in Appendix 2.

Approach for the Discussion of the Agenda Items

3. The Task Force Chair will present the agenda items in the following order:
   - The revisions to the proposed standard, using Agenda Item 2-B as the basis for discussion. In walking through the standard, the Task Force Chair will refer to the matters highlighted in section I of this agenda item and the other significant changes discussed in Agenda Item 2-A. The Task Force Chair will walk through the standard in sections and will take comments on the requirements together with the related application material.

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1 ISA 300, Planning an Audit of Financial Statements
• The conforming and consequential amendments, as included in Agenda Item 2-D.
• The way forward toward the March 2020 meeting.

4. The Task Force believes that the Board will benefit from focusing on the clean version due to the nature of the revisions. However, Agenda Item 2-C may be useful in understanding the changes from the drafting presented to the Board in September 2019, and, for certain paragraphs, from extant ISA 600.

5. Section I of this agenda item describes the most significant changes to the requirements and application material as presented in Agenda Item 2-B. These changes often relate to several paragraphs (requirements or application material) and therefore benefit from being discussed collectively. Consequently, a more detailed explanation of the changes is provided in this agenda item. Agenda Item 2-A provides background information on other significant changes made by the Task Force to the requirements and application material, and the rationale for those changes.

6. The significant changes explained in section I of this agenda item and in Agenda Item 2-A are in comparison to the drafting presented to the Board in September 2019, except for changes to certain paragraphs (as indicated), which are in comparison to extant ISA 600.

Coordination Activities

ISA 220 Task Force

7. The Task Force continued its liaison with the ISA 220 Task Force on several matters, including the definition of the engagement team. The goal of the liaison is to make sure that proposed ISA 600 (Revised) is aligned with the changes made to proposed ISA 220 (Revised) and, given the close relationship between the two standards, make sure that there is a proper linkage between the standards, i.e., that the requirements and guidance in proposed ISA 600 (Revised) build on, and are consistent with, the principles and requirements in proposed ISA 220 (Revised).

8. Since the September 2019 meeting, the Chair and Staff of the task forces had two teleconferences. In addition, the Chair and one other member of the ISA 600 Task Force are also members of the ISA 220 Task Force.

9. The ISA 220 Task Force proposes changes to the definition of the engagement team, which are presented in Agenda Item 9, Section III-A. The definition of engagement team and the related coordination with the International Ethics Standards Board for Accountants (IESBA), will be discussed in the Board’s session on proposed ISA 220 (Revised). The Chair and Staff of the Task Force are participating in the discussions on this definition with the ISA 220 Task Force and IESBA and will continue to do so. The draft of proposed ISA 600 (Revised) as presented in Agenda Item 2-B is aligned with the revised definition as proposed by the ISA 220 Task Force.

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2 Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements
Other IAASB Task Forces

10. To make sure that proposed ISA 600 (Revised) is aligned with changes made in the other quality management standards, the Chair and Staff of the Task Force participate in the quality management coordination calls. In these calls, the Chairs and Staff of the ISQM 1, ISQM 2, ISA 220 and ISA 600 Task Forces discuss matters that are of mutual interest. If needed, the Task Force will further liaise with the ISQM 1 and ISQM 2 Task Forces on matters that require coordination, including the wording used in some of the requirements and application material. In addition, one Staff member on ISA 600 Task Force is also Staff on ISQM 2 Task Force.

International Ethics Standards Board for Accountants

11. As mentioned above, the Task Force is involved in the discussions between the ISA 220 Task Force and IESBA on the definition of the engagement team. In addition, the ISA 600 Task Force was asked to comment on the proposals of the IESBA Fees Task Force with respect to group audits. The Task Force discussed these proposals in its October 2019 Task Force meeting and provided IESBA’s Fees Task Force with feedback.

ISA 315 (Revised 2019)\(^5\)

12. In making revisions to extant ISA 600, the Task Force has taken into account the changes made to ISA 315 (Revised 2019). As an important foundational standard to ISA 600 (Revised), the Task Force endeavored to make sure that the requirements and application material was consistent with the most recent changes to ISA 315. In addition, as discussed with the Board in June 2019, the Task Force focused on the special considerations relating to identifying and assessing the risks of material misstatement in an audit of group financial statements. These special considerations are described in paragraphs 17 and 20A, and the related application material, in Agenda Item 2-B.

Public Interest Issues

13. In June and September 2019, the Board discussed the key public interest issues that will be addressed in the revision of ISA 600, as presented in the table in Appendix 3. The third column indicates, at a high-level, of the key paragraphs in proposed ISA 600 (Revised) that address the key public interest issues. The Task Force will continue to update this table as further revisions are made prior to the finalization of the proposed standard.

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\(^3\) Proposed 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

\(^4\) Proposed ISQM 2, Engagement Quality Reviews

\(^5\) ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement
Section I: Issues Relating to the Proposed Revisions

I-A – Restrictions on Access to People and Information

Background

14. In September 2019 the Task Force presented several examples of restrictions on access to people and information that may occur in a group audit. In general, the Board supported the Task Force’s proposals on access to people and information at the component level but asked the Task Force to consider:

- Adding further guidance on how the group engagement team may be able to overcome various access issues.
- Adding further guidance on the implications of access issues on the auditor’s report.
- Clarifying the difference between restrictions that are imposed by management and restrictions arising from other reasons (e.g. due to law or regulation, or to other causes such as war, civil unrest or disease).

15. In the Task Force’s outreach, stakeholders also asked the Task Force for guidance on how the group engagement team may be able to overcome various access issues. Matters noted included, when the group has a non-controlling interest in an entity that is accounted for by the equity method and group management and the group engagement team do not have access to component management, those charged with governance of the component, or the component auditor.

16. Based on the matters raised as discussed above, the Task Force made several changes to the proposed standard. These changes are described below.

Changes to the Requirements

17. Extant ISA 600 included the following requirement (paragraph 14) that was based on requirements in ISA 210.6

‘The group engagement partner shall agree on the terms of the group audit engagement in accordance with ISA 210.’

18. The Task Force deleted this requirement in the draft presented to the Board in September 2019 as it did not describe a special consideration. In its deliberations, the Task Force concluded that the special consideration in a group audit relates to the fact that group management needs to acknowledge and understand its responsibility to provide the engagement team with unrestricted access to relevant individuals within the group. Therefore, the Task Force added paragraph 11B to address this point. In addition, paragraph 11C requires the group engagement partner to consider the effect of the audit when group management cannot provide the engagement team with unrestricted access to persons within the group due to restrictions that are outside the control of group management.

Structure of the Requirements and Application Material

19. In response to comments from the Board in September 2019, the Task Force decided to refocus the application material on how to overcome access restrictions. The Task Force was of the view that it would be best to have all relevant application material related to access in one section (except with respect to

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6 ISA 210, Agreeing the Terms of Audit Engagements
the effect of access restrictions on the auditor’s report -- see paragraph A12G). This application material supports the requirement in paragraph 11D to determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained. The Task Force believes that this appropriately reflects how and when the auditor should think about restrictions to access to people and information, including possible ways to overcome any access restrictions.

20. The application related to restrictions is structured as follows:

- Paragraph A12C highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The Task Force purposely kept this guidance at a high-level and only included a few examples, to avoid the perception that all restrictions are listed in this paragraph.

- Paragraph A12D focuses on how to overcome possible restrictions. Given the interest of stakeholders and the Board on this topic, the Task Force expanded the paragraph by including several examples. Also see the next section – ‘Access Restrictions Related to an Equity-Accounted Investment.

- Paragraph A12E focuses on the effects when it is not possible to overcome restrictions to access people and information. This paragraph highlights that, if group management imposes restrictions on access to people or information, the restriction may cause the group auditor to reconsider the reliability of group management’s responses to the group engagement team’s inquiries and may call into question group management’s integrity.

- Paragraph A12F explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.

**Access Restrictions Related to an Equity-Accounted Investment**

21. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the component auditor. The Task Force developed guidance on how the group engagement team may overcome the restrictions in this circumstance. Paragraph 12D includes the following three options:

- Considering the information that may be available from group management, as group management also needs to obtain the component’s financial information in order to prepare the group financial statements.

- Reviewing the terms of joint venture agreements, or the terms of other investment agreements, for provisions relevant to right of access.

- Considering other sources of information that, although not sufficient on their own, may corroborate or otherwise contribute to evidence obtained from communications with the component auditor or component management.
I-B – Materiality Considerations in a Group Audit

22. Agenda Item 9 for the September 2019 IAASB meeting described the issues identified in the Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*,\(^7\) relating to materiality considerations relevant to group audits. The Task Force further discussed these issues and reaffirmed the views discussed with the IAASB in September 2019 that:

- The concept of aggregation risk should be further emphasized in ISA 600 (Revised); and
- Additional guidance would be helpful regarding the factors that the auditor may consider in establishing component performance materiality, as well as the threshold to be used for communicating misstatements to the group engagement team.

23. The Task Force also noted support from the IAASB in the September 2019 discussion that these materiality considerations can best be addressed through a combination of:

- Clarifying and strengthening the requirements or application material in the revised standard; and
- Providing additional guidance outside of the standard, e.g., through implementation support materials such as practical examples, FAQs, or Staff guidance.

24. The proposed requirements and guidance relating to materiality for a group audit engagement are presented in paragraph 17B and related application material in Agenda Item 2-B and are further described below.

*Definitions*

Aggregation Risk

25. Given the calls for greater clarity about the concept of aggregation risk, the Task Force concluded that it would be appropriate to include a definition in the revised standard. Accordingly, the Task Force added the definition in paragraph 9(aA), consistent with the description of the concept of aggregation risk in ISA 320\(^8\) and in paragraph A43 of extant ISA 600 (now paragraph A29D).

26. Aggregation risk exists and needs to be addressed in all audits of financial statements, but is particularly important to understand and address in a group audit engagement. Paragraph A29C was added to emphasize that, in a group audit engagement, there is a greater likelihood that audit procedures will be performed on accounts, classes of transactions or disclosures that are disaggregated across components, i.e., on the separate financial information of a number of different components. Therefore, broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or the group engagement team.

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\(^8\) ISA 320, *Materiality in Planning and Performing an Audit*
Component Performance Materiality

27. In accordance with ISA 320, performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole (i.e., to address aggregation risk). The group engagement team sets performance materiality at the group financial statement level (i.e., group performance materiality), but also needs to determine a materiality amount for purposes of performing procedures on disaggregated component financial information.

28. The terms ‘component materiality’ and ‘component performance materiality’ are both used in extant ISA 600. Notwithstanding the history of discussions leading to the inclusion of both terms in extant ISA 600, and a desire to be consistent with the underlying concepts in ISA 320, the Task Force noted that the use of both terms may be leading to confusion or, at a minimum, unnecessarily complicating the requirements and guidance in the standard.

29. In the view of the Task Force, the term ‘component materiality’ implies the materiality amount for the financial statements of a component as a whole that would be set in accordance with ISA 320 when an audit of the component is required by statute, regulation or for another reason. Under the risk-based approach in ISA 600 (Revised), the group engagement determines the most appropriate approach to obtain sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements, which may involve audit procedures being performed at the component level. The Task Force believes that the materiality amount to be used in performing audit procedures on the disaggregated component financial information is most appropriately referred to as ‘component performance materiality.’

30. Accordingly, the Task Force has changed ‘component materiality’ to ‘component performance materiality’ and revised the definition to recognize that this is an amount set by the group engagement team to reduce to an appropriately low level the aggregation risk resulting from the disaggregation of account balances, classes of transactions or disclosures across components for purposes of performing audit procedures (see paragraph 9(d) in Agenda Item 2-B).

31. The Task Force also added a definition of group performance materiality, as discussed below.

Changes to the Requirements and Application Material

32. The following is a summary of the significant changes to the materiality requirements and application material from extant ISA 600:

- The requirements in paragraphs 17B(a) and 17B(b), and the related application material in paragraph A42, of extant ISA 600 have been deleted. The Task Force believes that these requirements simply repeat relevant requirements of ISA 320, and are therefore not special considerations for a group audit engagement.

- The requirement to determine component performance materiality (now paragraph 17B(a) in Agenda Item 2-B) has been revised consistent with the changes to the definitions as described above, and the related application material paragraph A29D also has been revised accordingly. This requirement clearly indicates that the component performance materiality amount shall be lower than group performance materiality. Because the term group performance materiality is not otherwise used or referred to in the ISAs, the Task Force added a definition, consistent with ISA 320, as noted in the previous paragraph.

- As discussed with the IAASB at the September 2019 meeting, the Task Force added
application material paragraph A29E to describe the factors the group engagement team may take into account in setting component performance materiality. Importantly, these factors focus on matters that affect aggregation risk, i.e., the extent of disaggregation across components, and expectations about the nature, frequency and magnitude of misstatements in component financial information.

- To address issues identified by regulators and audit oversight bodies regarding the clearly trivial threshold, the Task Force has revised the requirement in paragraph 17B(d) of extant ISA 600 (now paragraph 17B(b) in Agenda Item 2-B) to indicate that the clearly trivial threshold at the component level shall not exceed the threshold established at the group level. The application material in paragraph A45 (now paragraph A29F) was revised accordingly.

- Paragraph 22 and the related application material in paragraph A46 of extant ISA 600 have been deleted as there is no longer a requirement in the revised standard to perform an audit of the financial information of significant components. In addition, as noted in Agenda Item 2-A, the revised standard now requires the group engagement team to determine component performance materiality and communicate it to component auditors.

- As noted in Agenda Item 2-A, paragraph 23 of extant ISA 600 has been moved to become paragraph 24A in the revised standard.

I-C – Role of Component Auditors

Background

33. Agenda Item 6\(^9\) of the June 2019 IAASB meeting described the risk-based approach and the role that component auditors. The paper noted that, although the group engagement team is responsible for the identification, assessment and responses to the risks of material misstatement of the group financial statements, the group engagement team can involve component auditors to assist with the risk assessment. The paper also noted that the involvement of component auditors to assist in performing risk assessment procedures at one or more components may be appropriate depending on the facts and circumstances because, for example, component auditors may have greater knowledge of local jurisdictional matters that may give rise to a risk of material misstatement at the group financial statement level. Also, component auditors are part of the engagement team and can therefore perform risk assessment procedures with appropriate direction, supervision and review by the group engagement team.

34. In the drafting presented to the IAASB at its September 2019 meeting, the Task Force included its views on how to best involve component auditors in:

- Understanding the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control.
- Obtaining an understanding of the entity and in the identification, assessment and responses to the risks of material misstatement.

35. Based on feedback received on the drafting presented to the Board and at the GPPC outreach meeting, the Task Force further enhance the drafting.

Responsibility and Involvement of Component Auditors

General Principles

36. The Task Force continues to hold the view that the group engagement team is responsible for the identification, assessment and responses to the risks of material misstatement. Component auditors may, depending on the facts and circumstances, be involved if they may have a more in-depth knowledge of the components at which they perform audit procedures than the group engagement team is expected to have.

37. There are many factors that influence whether component auditors may be involved in the identification, assessment and responses to the risks of material misstatement, for example:

- The number of locations;
- The nature of the business / operations;
- The system of internal control, including the information system; and
- Previous experience with the component auditor.

38. When component auditors are involved the group engagement team remains responsible for the identification, assessment and responses to the risks of material misstatement. The group engagement team therefore needs to direct and supervise the work performed by component auditors and review their work. The nature, timing and extent of the direction and supervision, including two-way communication between the group engagement team and the component auditor, depends on the facts and circumstances of the engagement (see paragraph 37D and related application material of proposed ISA 600 (Revised) in Agenda Item 2-B).

How Proposed ISA 600 (Revised) Addresses the General Principles

39. The general principles, as outlined in the section above, are taken into account when drafting the standard. This paragraph explains in more detail how the engagement team's responsibility and the involvement of component are addressed in proposed ISA 600 (Revised), as presented in Agenda Item 2-B.

Understanding the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control

- The group engagement team is responsible for understanding the entity and its environment, the applicable reporting framework and the entity’s system of internal control. However, as noted in paragraphs 36 and 37 of this agenda item, the component auditors may be involved given that they may have a more in-depth knowledge of the components and the component’s business activities. Paragraph 17 of Agenda Item 2-B therefore requires the group engagement team, to the extent necessary, communicate with component auditors or component management to discuss about the business activities that may give rise to a risk of material misstatement of the group financial statements.

- Application material highlights that the risk identification and assessment process is iterative and dynamic\footnote{ISA 315 (Revised 2019), paragraph 7, states that the auditor’s understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control are interdependent with concepts within the requirements to identify and assess the risks of material misstatement} and that the group auditor may develop initial expectations about the risks of...
material misstatement based on the group auditor’s understanding of the group obtained during client acceptance and continuance (see paragraph A23B of Agenda Item 2-B). The initial expectations may be further refined as the auditor progresses through the understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control and the identification and assessment of the risks of material misstatement (see paragraph A23C of Agenda Item 2-B).

Identifying and assessing the risks of material misstatement

- The group engagement team’s procedures to obtain an understanding of the entity and its environment, the applicable reporting framework and the entity’s system of internal control shall be performed to the extent necessary to provide an appropriate basis for the identification and assessment of risks of material misstatement at the group financial statement and assertion levels (see paragraph 17A of Agenda Item 2-B).

- Based on the understanding obtained, the group engagement team assesses the risks of material misstatement of the group financial statements and communicates the assessed risks of material misstatement that are relevant to the work of the component auditor (see paragraph 20A of Agenda Item 2-B).

- The application material highlights that group engagement team may assign the performance of risk assessment procedures to component auditors, to assist the group engagement team in identifying and assessing risks of material misstatement of the group financial statements (see paragraph A29A of Agenda Item 2-B). Paragraph A29B highlights circumstances when the group engagement team may perform the risk assessment procedures without input from the component auditor (also see paragraph 37 of this agenda item).

Responding to the assessed risks of material misstatement

- Once the risks of material misstatement are assessed, the group engagement team is responsible for determining the nature, timing and extent of further audit procedures to be performed (paragraph 24 of Agenda Item 2-B).

- The group engagement team may decide to use different approaches, or a combination of approaches, to gather evidence on account balances, classes of transactions and disclosures including deciding where further audit procedures need to be performed (at which components) and who will perform the further audit procedures (the group engagement team, component auditors or a combination) to obtain sufficient appropriate audit evidence to address the risks of material misstatement. Paragraphs A30B – A30F of Agenda Item 2-B were added by the Task Force and explain the different factors that the group engagement team may take into account in the determination who will perform the further audit procedures and include the matters highlighted in paragraph 37 of this agenda item.

- When the group engagement team determines that component auditors need to be involved in performing the further audit procedures, the group engagement team determines how the component auditors will be involved and may request the component auditor to:
  - Audit the entire financial information of the component because the group engagement team has determined that further audit procedures are required on all or a significant proportion of a component’s financial information. The term ‘audit’ is used for the purpose of communicating with the component auditor.
Audit one or more account balances, classes of transactions, or disclosures of the financial information of a component.

- Perform specific audit procedures on the financial information of a component.

Paragraphs A30K-A30M of Agenda Item 2-B were enhanced and explain the above in more detail.

• When the group engagement team requests the component auditor to perform an audit of the entire financial information of the component or audit one or more account balances, classes of transactions, or disclosures of the financial information of a component, the auditor may request the component auditor to assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed. The group engagement may do so because component auditors may have a more in-depth knowledge of the component and, for larger group audits, it may not be practical for the group engagement team to determine the nature, timing and extent of further audit procedures to be performed (see paragraph A30J). When the component auditor assists the group engagement team in determining the nature, timing and extent of further audit procedures to be performed, the group engagement team remains responsible for determining the sufficiency and appropriateness and sufficiency of the procedures, and for the direction and supervision of the work performed by component auditors and the review of their work.

I-D – Special Considerations for Other Audit Matters

Background

40. When a component is deemed to be significant due to its individual financial significance to the group, extant ISA 600 required the group engagement team, or a component auditor on its behalf, to perform an audit of the financial information of the component. Also, when a component was significant because it was likely to include a significant risk of material misstatement of the group financial statements due to its specific nature or circumstances, the engagement team, or the component auditor on its behalf, may also perform an audit of the financial information of the component.

41. When an audit of the financial information of a component was performed by a component auditor, the component auditor was, under extant ISA 600, responsible for the risk assessment to identify significant risks of material misstatement of the group financial statements.

42. Under the risk-based approach, as described above, the group engagement team is responsible for the identification, assessment and responses to the risks of material misstatement. During the outreach performed, stakeholders questioned whether, under the new approach, sufficient work would be performed on matters such as, fraud, related parties, going concern and subsequent events.

Changes to the Requirements and Application Material

43. The Task Force made several changes to the requirements and application material to clarify and strengthen the group engagement team’s responsibility related to fraud, related parties, going concern and subsequent events, and will consider whether further requirements or application material are needed on these topics, in addition to the matters described below.
Fraud

44. Extant ISA 600 included application material (paragraph A27, now paragraph A29C) with respect to the identification and assessment of the risks of material misstatement of the financial statements due to fraud. It also included guidance on possible topics, including fraud, that could be discussed in the engagement team’s discussions regarding the risks of material misstatement of the group financial statements (paragraph A28 and A29 of extant ISA 600).

45. The Task Force has retained this application material included in extant ISA 600.

Related Parties

46. Extant ISA 600 included a requirement (paragraph 40 (e)) with respect to related parties. The Task Force made this a separate requirement (paragraph 41B) to increase the visibility and further enhance the requirement.

47. Sub bullet (b) and (c) of paragraph 41B, as presented in Agenda Item 2-B, are similar to the requirement in extant ISA 600. Sub bullet (a) is based on extant ISA 600 but has been aligned with the risk-based approach. The group engagement team is now required to discuss with component auditors related party relationships or transactions that are relevant to the financial information of the component.

Going Concern

48. The Task Force added a requirement on going concern (paragraph 41C as presented in Agenda Item 2-B) that requires the group engagement team to:

• Discuss with component auditors any events or conditions identified by group management, or the group engagement team, that may be relevant to the financial information of the component;

• Request that component auditors communicate any events or conditions relating to the component that may be relevant to the group management’s assessment of the group’s ability to continue as a going concern; and

• Remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the group’s ability to continue as a going concern, including where component auditors have obtained audit evidence on behalf of the group engagement team.

49. The Task Force will further discuss whether application material is needed when the group engagement team becomes aware of events or conditions relating to the financial information of a component that may affect group management’s decisions about the funding of the component.

Subsequent Events

50. Extant ISA 600 included requirements with respect to subsequent events (paragraphs 38 and 39, now paragraphs 41D and 41E). The Task Force updated the requirement to align with the risk-based approach.

51. The Task Force included additional application material related to subsequent events, as suggested in the ITC. Paragraph A61A, as presented in Agenda Item 2-B, explains why the group engagement team may ask component auditors to perform subsequent event procedures and paragraph A61B explains that engagement team may perform subsequent event procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of
the auditor’s report on the group financial statements.

Matter for IAASB Consideration
1. The IAASB is asked for its views on the changes to proposed ISA 600 (Revised) as presented in Agenda Item 2-B.

Section II: Conforming and Consequential Amendments
52. In the September 2019 IAASB meeting, the Board supported the Task Force’s proposal to extend the requirement in extant ISA 600 for the engagement partner to review the overall audit strategy and plan to all audits of financial statements.

53. Accordingly, the Task Force has proposed an amendment to ISA 300, as presented in Agenda Item 2-D. Agenda Item 2-D also includes the proposed conforming and consequential amendments resulting from proposed ISA 220 (Revised). These conforming amendments are explained in Agenda Item 9.

54. Staff will assess whether conforming or consequential amendments are needed to other IAASB standards as a result of the revisions to ISA 600. If any additional amendments are identified, the Task Force will discuss them with the Board at the March 2020 IAASB meeting or, if necessary, in a Board teleconference.

Matter for IAASB Consideration
2. The IAASB is asked for its views on the proposed conforming and consequential amendments as presented in Agenda Item 2-D.

Section III: Way Forward
55. The Task Force is working towards the approval of the exposure draft of proposed ISA 600 (Revised) as planned at the March 2020 IAASB meeting.

56. After the December 2019 meeting the Task Force will focus on:
   • Addressing comments received from the Board in the December 2019, as well as feedback received on outreach;
   • Updating the appendices of extant ISA 600 (which are not included in Agenda Item 2-B); and
   • Enhancing the application material in the areas indicated in Agenda Item 2-B.

57. Also, the Task Force will involve an IT specialist to make sure that the concepts included in the standard are aligned with today’s environment (e.g., IT systems and controls in a complex group environment).

Coordination with IESBA and Other IAASB Task Forces
58. The Task Force will continue to liaise with the ISA 220 Task Force, IESBA and other IAASB task forces to make sure that ISA 600 (Revised) is aligned with the changes made to these standards.
Appendix 1

Task Force Members and Activities, Including Outreach

Task Force Members
1. The Task Force consists of the following members:
   • Len Jui, Task Force Chair (supported by Susan Jones);
   • Robert Dohrer;
   • Rich Sharko (supported by Jamie Shannon);
   • Wolf Böhm;
   • Josephine Jackson; and
   • Dora Burzenski (Correspondent member).
2. Further information about the project can be found here.

Task Force Activities Since the September 2019 IAASB Discussion
3. The Task Force had one Task Force meeting and had four videoconferences.

Outreach Activities
4. The Task Force Chair attended the following outreach events or meetings in which ISA 600 was
   prominently discussed:
   • International Organization of Securities Commissions’ (IOSCO) Committee 1, Auditing
     Subcommittee;
   • IOSCO Committee 1;
   • International Federation of Accountants’ (IFAC) Small and Medium Practices Committee
     (SMPC);
   • Forum of Firms;
   • Global Public Policy Committee (GPPC);
   • Hong Kong Financial Reporting Council; and
   • Hong Kong Institute of Certified Public Accountants.
5. Around the December 2019 meeting, the Task Force intends to liaise with a number of key stakeholders,
   including:
   • Basel Committee on Banking Supervision;
   • International Association of Insurance Supervisors;
   • International Forum of Independent Audit Regulators’ (IFIAR) Standards Coordination Working
     Group;
   • IFAC SMPC;
   • International Organisation of Supreme Audit Institutions;
- IOSCO Committee 1, Auditing Subcommittee; and
- United States Public Company Accounting Oversight Board.
ISA 600 Draft Minutes of the September 2019 Board Meeting

Group Audits – ISA 600 (Revised)\(^\text{11}\)

Mr. Jui updated the Board on the work performed by the ISA 600 Task Force since the June 2019 meeting, as presented in Agenda Items 9, 9-A, 9-B and 9-C. In addition, he updated the Board on the outreach performed and the feedback received from the IAASB’s Consultative Advisory Group. The following sets out the more substantive comments from the Board.

PUBLIC INTEREST ISSUES

The Board supported the key public interest issues as set out by the ISA 600 Task Force in section I of Agenda Item 9 but asked the ISA 600 Task Force to further consider clarifying that for managing and achieving quality in a group audit, the deployment of sufficient and appropriate resources to perform the engagement is important.

SCOPE AND STRUCTURE OF THE STANDARD

The Board generally supported the ISA 600 Task Force’s proposals on the scope and structure of proposed ISA 600 (Revised) as set out in section II of Agenda Item 9. With respect to this, the Board asked the ISA 600 Task Force to consider:

- Clarifying the scope of the standard, for example, whether a single-entity that uses a shared service center is in the scope of the standard. There was support for providing examples of whether the standard would apply in different scenarios in implementation guidance outside of the standard, such as a ‘Frequently Asked Questions’ (FAQ) document or other Staff publication.
- Clarifying the importance of the group engagement team understanding the special considerations in a group audit related to using the work of a component auditors. In this regard, it was noted that the use of component auditors makes it harder to manage detection risk and therefore the nature and extent of direction, supervision and review is different.
- Clarifying the description of consolidation process. With that regard it was suggested looking at accounting guidance.
- Liaising with the ISA 220 Task Force about the matters to be addressed in ISA 220 (Revised) and special considerations that will be addressed in ISA 600 (Revised).
- Including, in the proposed structure of ISA 600, a section on reporting and that links to the auditor reporting standards.

ACCESS ISSUES

The Board generally supported the ISA 600 Task Force’s proposals on access to people and information at the component level as set out in section II of Agenda Item 9. With respect to this, the Board asked the ISA 600 Task Force to consider:

- Adding further guidance on how the group engagement team may be able to overcome various access issues. It was also suggested moving this application material to the requirement in paragraph

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\(^{11}\) These draft minutes are still subject to IAASB review and may therefore change.
11b(a) about whether sufficient appropriate audit evidence can reasonably be expected to be obtained.

- Adding further guidance on the implications of access issues on the auditor’s report.
- Clarifying the difference between access issues to people and information resulting from restrictions (e.g. by management, component auditors or laws and regulations) versus difficulties (e.g. because of war).

GROUP-WIDE CONTROLS

The Board supported the ISA 600 Task Force’s proposal to delete the definition of group-wide controls as described in section III of Agenda Item 9. With respect to this, the Board asked the ISA 600 Task Force to consider:

- Clarifying that group engagement teams should look to the enhanced requirements and guidance in ISA 315 (Revised) and also clarifying what the entity’s system of internal control would be in the context of a group audit.
- Including guidance that explains the group engagement team’s responsibilities regarding controls over group financial reporting, including consolidation, and on controls that are the same across the group or a part of the group.

GROUP ENGAGEMENT PARTNER REVIEW OF OVERALL GROUP AUDIT STRATEGY AND PLAN

The Board supported, as set out by the ISA 600 Task Force in section III of Agenda Item 9, amending ISA 300, extending to all audits of financial statements the requirement for engagement partner review of the overall audit strategy and plan.

DRAFTING

With respect to the drafting as presented in Agenda Item 9-B, the Board asked the ISA 600 Task Force to further consider:

- In the definition of component auditor, clarifying whether it is possible to request a component auditor to perform review procedures.
- Clarifying that the consolidation process is part of the group’s information system as described in ISA 315 (Revised).
- Deleting the reference to ‘consolidation process’ in paragraph 11B(a) and adding, in paragraph 11B(b), that the engagement partner should adequately understand the special considerations in the context of the group audit engagement.
- Related to paragraph A47C, including guidance about which of the three approaches is appropriate in certain circumstances. It was also suggested to delete this paragraph as it is not aligned with the risk-based approach.
- Clarifying the concept of a ‘financially significant’ component.
- Changing the header ‘Using the Work of Component Auditors’ to emphasize direction, supervision and review of component auditors.
MATERIALITY

The Board generally supported the ISA 600 Task Force’s proposals on materiality considerations in a group audit as set out in section IV of Agenda Item 9. With respect to this, the Board asked the ISA 600 Task Force to consider:

- Further explaining the concept of aggregation risk, including the difference between aggregation risk in a single entity audit and a group audit.
- Focusing on aggregation risk instead of component materiality and component performance materiality as the standard no longer requires the identification of significant components.
- The expectations of regulators with respect to the requirements for setting materiality in a group audit.
- Academic research that has been performed in this area.

STAND BACK

The Board generally supported the ISA 600 Task Force’s proposals on possible ‘stand back’ requirements as set out in section IV of Agenda Item 9. With respect to this, the Board asked the ISA 600 Task Force to consider:

- Including the proposed application material on whether sufficient work has been done on components that are individually financially significant earlier in the standard as it may be too late to consider this as part of the ‘stand-back’ requirements.
- Including an additional stand back requirement on whether the group engagement partner has been sufficiently and appropriately involved throughout the engagement.

IAASB CAG CHAIR REMARKS

Mr. Dalkin agreed with the summary of the CAG discussion.

PIOB OBSERVER REMARKS

Mr. Grund agreed with the public interest issues identified.

WAY FORWARD

The ISA 600 Task Force will consider the comments and plans to present a complete draft of proposed ISA 600 (Revised) at the December 2019 meeting. The ISA 600 Task Force will also continue its outreach to key stakeholders and coordinate with IESBA and other IAASB Task Forces as needed.
## Overview Public Interest Issues ISA 600

<table>
<thead>
<tr>
<th>KEY PUBLIC INTEREST ISSUES</th>
<th>DESCRIPTION OF ISSUE(S) ADDRESSED</th>
<th>KEY PARAGRAPHS WITHIN PROPOSED IS 600 (REVISED) [AGENDA ITEM 2-B]</th>
</tr>
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<tbody>
<tr>
<td>Keeping the IAASB’s Standard on Group Audits Fit for Purpose</td>
<td><strong>Scope of the Standard</strong>&lt;br&gt;Clarifying the scope of the standard, including whether, and how, ISA 600 applies for:&lt;li&gt;Group structures in today’s environment. For example, many entities are increasingly operating in integrated structures, such as when the transactions for the group are processed centrally (e.g., through a shared service center); and&lt;li&gt;Non-controlled entities, including equity-accounted investees and investments carried at cost.&lt;br&gt;The IAASB will also consider whether changes to the definitions are needed in view of changes in the revised standard.</td>
<td>9, 10, 10A, A5A-A5C, A26A-A26D</td>
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<td><strong>Linkages with Other Standards</strong>&lt;br&gt;Clarifying and reinforcing in ISA 600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to ISA 220 (Revised), ISA 315 (Revised) and ISA 330.</td>
<td>1, 11A, 11B, 11D, 17, 17B, 20A, 24, 37A, 37B, 37D, 41B, 41C, 41D, 44, 45, 46, 49, 50, A1A-A1B</td>
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<td><strong>Adaptability and Scalability</strong>&lt;br&gt;The wide variation in the structure of group entities and the environments in which they operate highlight the need for a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different sizes and complexity.</td>
<td>The standard is intended to be scalable because of the risk-based approach. Task Force will consider whether to add a paragraph in the Introduction section of the proposed standard to emphasize this.</td>
</tr>
</tbody>
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12 The issues identified in this table are adapted from and expand upon the issues identified in the project proposal addressing the revisions of the IAASB’s quality control standards and group audits.

13 ISA 330, *The Auditor’s Responses to Assessed Risks*
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| Encouraging Proactive Management of Quality at the Engagement Level | *Managing and Achieving Quality in a Group Audit*  
Demonstrating how the requirements in ISA 220 (Revised) would be applied to manage and achieve audit quality in a group audit, including the deployment of sufficient and appropriate resources to perform the engagement, and consider the revisions needed to sufficiently direct, supervise and review the work of the engagement team in such circumstances. | 11A, 37A, 37B, 37C, A9A-A9B, A57A-A57Q |
| Planning and Performing a Group Audit Engagement | *Planning and Performing a Group Audit Engagement*  
Focusing the auditor’s attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements and emphasizing the importance of designing and performing procedures that are appropriate to respond to those risks of material misstatement, i.e., “the right work is done by the right people at the right locations.”  
| Access to People and Information | *Access to People and Information*  
Clarifying how to address access issues in a group audit, including access to component management, those charged with governance of the component, component auditors, or information at the components (e.g., access to financial information of the component). The IAASB recognizes that ISA 600 (Revised) can’t enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted. | 11B, 11C, 11D, 13, A9D, A2C-A12H |
| Component Materiality | *Component Materiality*  
Clarifying the concepts of component materiality and aggregation risk. As noted in the September 2017 project update, the IAASB does not contemplate that the project to revise ISA 600 would involve broader changes to ISA 320. | 9(aA), 9(d), 9(kA), 17B, A29C-A29F |
| Fostering an appropriately independent and | *Fostering the Appropriate Exercise of Professional Skepticism*  
Emphasizing the importance of professional skepticism, | 44, 44A, 45, A26G-A30, A61C-A62 |
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| challenging skeptical mindset of the auditor | including when:  
- Identifying and assessing the risks of material misstatement due to fraud in components; and  
- The group engagement team evaluates whether sufficient appropriate audit evidence has been obtained (in particular by component auditors) to provide a basis for the opinion on the group financial statements. | 37D, 40, 41, 41A, A57R-A61 |
| Reinforcing the need for robust communication and interactions during the audit | Robust Communications and Interactions Between the Group Engagement Team / Group Engagement Partner and Component Auditors  
Strengthening and clarifying how ISA 220 (Revised) is augmented to address:  
- Communications between the group engagement team and component auditors, facilitating stronger two-way communications.  
- Various aspects of the group engagement team’s interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group engagement team in the work of the component auditor. |  