Proposed ISA 600 (Revised)
Staff-Prepared High-Level Summary of Key Themes Identified
Supplement A to Agenda Item 4
IAASB December 2020 Meeting
Overview of Responses to ED-600

Respondents by Region
- Global: 21
- North America: 21
- Europe: 20
- Asia Pacific: 13
- Middle East and Africa: 5
- South America: 2

Respondents by Stakeholder Groups
- Monitoring Group Members: 4
- Investors and Analysts: 1
- Regulators and Audit Oversight Authorities: 8
- National Auditing Standard Setters: 12
- Accounting Firms: 17
- Public Sector Organizations: 7
- Member Bodies and Other Professional Organizations: 27
- Academics: 4
- Individuals and Others: 2

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Question 1(a) (Linkages to Other Standards)

- Overall agreement that linkages are appropriate, particularly to the foundational standards, but with some comments or concerns
- Application of ISA 220 (Revised)
  - Definition of engagement team (implications of including component auditors (CAs) in the definition – see section IV of Agenda Item 4)
  - Operability for large, complex group audits, including responsibilities of the group engagement partner vs. component audit partner
- Relationship to ISQM 1, e.g., ability to rely on firm’s SOQM
- Application of ISA 315 (Revised 2019) – also see slides 11–14
  - Support for linkages but more guidance on how to apply to a group audit
- Could be stronger linkages to, or more guidance for, ISA 240, ISA 250 (Revised), ISA 550, ISA 570 (Revised) and ISA 620
Question 1(b) (Special Considerations)

• Also see slide 3 as some respondents answered Questions 1(a) and 1(b) together

• Overall agreement that ED-600 addresses the special considerations in a group audit, and support for building on the foundational standards
  – Consider further clarifying in paragraph 1 that all ISAs apply to a group audit

• Other special considerations that could be addressed
  – Complexities of working with CAs in different countries (language issues, cultural differences, etc.)
  – Importance of a collaborative approach between the group engagement team (GET) and CAs, focused on a common goal of a high-quality group audit
Question 2 (Structure, Separate Sections for CAs)

• Strong support for the overall structure of the standard, and particularly for the separate sections with requirements for CAs
  – Separate sections help to identify requirements when CAs are involved and therefore help with scalability
Question 3 (Professional Skepticism) (PS)

• Overall support for the focus up front (paragraph 5 and related AM)
  – Acknowledgment that the improvements in ISQM 1 and ISA 220 (Revised) will help promote the exercise of PS in all audits, including group audits

• Suggestions for further clarification and examples of areas where PS needs to be exercised (i.e., more focus on the unique circumstances of a group audit), for example
  – More guidance on unconscious biases of GET and CAs
  – Specific audit areas (e.g., intragroup cash flows, transfer pricing)

• Involvement of CAs also contributes to the exercise of PS in the group audit
Question 4 (Scope and Applicability)

• Support for the revised definition of ‘group financial statements’ and link to the consolidation process

• Comments and concerns included (see section I of Agenda Item 4)
  – Need for clarity on the definition of group financial statements
  – Confusion with respect to the aggregation of financial information of branches or divisions – paragraph A17
  – Calls to retain paragraph 2 in extant ISA 600 re: applicability to other audits that are not group audits

• Requests for guidance on applicability to
  – Shared service centers, equity method investees, funds of funds, public sector entities, ‘letter box’ audits
Question 5 (Scalability)

- Overall view that ED-600 is scalable
  - Separate sections with requirements when CAs are involved provides inherent scalability because such requirements are not relevant when CAs are not involved
  - The risk-based approach also helps with scalability
- Concerns about ‘upward’ scalability as GET may be able to do work centrally or perform procedures on components itself for a less complex group, but more difficult for a complex, geographically disperse group
- Suggestions to provide examples of how the standard can be scaled to groups of different sizes or degrees of complexity
Question 6 (Definition of Component)

• Overall support for the revised definition, including
  – GET needs flexibility in planning and performing audit procedures in view of increasingly complex group structures, including shared service centers
  – Allows the revised standard to be adaptable to complex and less complex group audit environments
  – Flexibility for GET is helpful, but approach in many cases will be aligned with the group’s legal or financial reporting structure

• Comments and concerns included (see section II of Agenda Item 4)
  – Practical challenges, e.g., identifying component management and TCWG
  – Need to understand how management operates the business
  – Documentation of rationale for GET’s determination of components
Question 7 (Acceptance and Continuance, Restrictions on Access)

- Strong support for the revisions, including the additional focus on restrictions on access to people and information
  - Agreement that ED-600 alone can’t address issues regarding access (i.e., need to work with regulators), but requests for more guidance on how to address access issues arising from restrictions imposed by local law or regulation
  - Acknowledgment that the COVID-19 pandemic, and the resulting need to work virtually, has resulted in creative approaches to overcome restrictions
  - Clarification or additional guidance needed re: restrictions related to equity-method investees – bullets in paragraph A29
- Noted that the GET can only make a ‘preliminary’ assessment of the involvement of CAs at the acceptance stage
- Confirmation that CAs will cooperate with GET – elevate A35 to requirement
- Suggestions to enhance the requirements and application material
Question 8 (Risk-Based Approach – Assessing and Responding to RoMM)

• Broad support for the approach to focus on the GET’s responsibility for identifying, assessing and responding to the RoMM
  – An improvement over extant ISA 600 and an effective way to foster audit quality through a more focused risk assessment
  – Better alignment with the principles of ISA 315 (Revised 2019) and ISA 330

• Comments and concerns included (see section III of Agenda Item 4)
  – Importance of involving CA
    • More balance needed between a top-down (i.e., GET-led) and bottom-up approach
  – Concerns about removing the concept of significant component
    • Need for a clear ‘framework’ for identifying components and allocating work
    • An ‘audit’ of a component helps to ensure that RoMM at the component level that affect the GFS are identified and addressed, and drives accountability of CAs
Question 8(a) (Responsibilities of GET and CAs)

• Also see slides 11,13 and 14 as some respondents answered Questions 8, 8(a), 8(b) and 8(c) together

• Regarding the respective responsibilities of the GET and CAs, the following themes were identified (see section III of Agenda Item 4 – references below are to specific paragraphs in Agenda Item 4)
  – Importance of involving CAs (paragraphs 59-63)
  – Responsibilities of the CA (paragraph 70)
  – When to review CA documentation (paragraph 71)
  – When to visit CAs (paragraph 72)
  – Extent of oversight when CAs are from a non-network firm (paragraph 73)
Question 8(b) (Interactions between GET and CAs)

• Also see slides 11, 12 and 14 as some respondents answered Questions 8, 8(a), 8(b) and 8(c) together

• Strong support for the importance of robust two-way communications between the GET and CAs throughout the audit

• Comments and concerns included (see paragraph 76 of section III of Agenda Item 4)
  – Wording of requirements focuses more on communications from GET to CAs (i.e., is more top-down)
  – Additional clarity could be provided about timing of communications
  – Importance of clear communications
  – Clarity needed about form and content of deliverables from CA to GET, and extent to which review of CA documentation is needed
Question 8(c) (Practical Challenges)

- Also see slides 11–13 as some respondents answered Questions 8, 8(a), 8(b) and 8(c) together
- Practical challenges identified included:
  - Whether sufficient appropriate audit evidence has been obtained to respond to the assessed RoMM (ISA 330, paragraph 18)
  - More clarity is needed on use of statutory audit work and interaction with work done for purposes of the group audit
  - Risk-based approach may create competitive disadvantages for CAs from non-network firms
  - Determining which of the three testing approaches (A97) should be applied
  - How to apply the risk-based approach to a group with many insignificant components (based on financial significance or risk)
Question 9 (Common Controls and Centralized Activities)

• Strong support for the focus on common controls and centralized activities

• Comments and suggestions for improvement included
  – More focus on factors to consider in deciding to rely on common controls and how to test their operating effectiveness
  – More needed on controls designed and implemented at the group level (but not to reinstate the concept of ‘group-wide controls’)

• More guidance would be helpful on the use of shared service centers and shared evidence
Question 10 (Materiality Considerations)

- Broad support for definition of, and guidance on, aggregation risk
  - Suggestions to amend ISA 320 to include definition of aggregation risk
- Component performance materiality (CPM)
  - Strong support, with requests for guidance and examples on how to calculate CPM (examples can be provided outside of the standard)
  - Suggestions to require that CPM ‘not be greater than group performance materiality’ vs. ‘lower than group performance materiality’
- Suggestions to retain the concept of ‘component materiality’ when an ‘audit’ is performed on component financial information
- Requests for guidance for applying materiality in other situations, including when the GET performs audit procedures centrally
Question 11 (Documentation)

- Overall support for requirements in paragraph 57 of ED-600, with suggestions for other matters to be added
- Concerns about the clarity of some requirements or possibility of documentation being excessive or burdensome
  - Nature, timing and extent of direction and supervision, and review of CA work
- Clarify intent of paragraph A124, or provide more guidance on factors for GET to consider regarding CA documentation to include in the GET’s audit file
- Mixed views on paragraphs A129-A130 (when access is restricted)
  - Some believe that the ‘description’ in A130 can be a summary, while others believe that more detail may be needed to comply with ISA 230
Question 12 (Other Matters)

- Appendix 1 is viewed as helpful – consider integrating it into the Introduction or other parts of the revised standard
- Need for collaboration with other auditing standard-setters (e.g., US PCAOB) and consideration of jurisdictional requirements (e.g., EU Audit Directive) to avoid unnecessary differences
- Whether ISA 600 (Revised) is appropriately placed in the ‘600 series’ of the IAASB’s auditing standards since the focus of ED-600 is broader than using the work of others
- Support for a post-implementation review
Question 13 (Translation and Effective Date)

- No significant concerns noted with respect to translation
- Support for allowing sufficient time for implementation, including translation, changes to firm methodologies and tools, training, etc.
  - Acknowledgment that implementation of ISA 600 (Revised) will come on the heels of other significant revised standards, including ISA 540 (Revised), ISA 315 (Revised 2019), and the QM standards, therefore creating the need for a sufficiently long implementation period
  - Calls for aligning effective dates of ISA 600 (Revised) and ISA 220 (Revised)
  - If ISA 220 (Revised) will be effective before ISA 600 (Revised), need for ‘bridge guidance’ to apply ISA 220 (Revised) with extant ISA 600
- Effective date should not be mid-year (i.e., should be for calendar year-ends)
- Agreement that early implementation should be encouraged