

The following questions on the Exposure Draft of proposed ISA 600 (Revised)<sup>1</sup> (ED-600) were answered by members of the ISA 600 Task Force in the webinar held on August 13, 2020. Each section timing corresponds to when the Task Force answered the series of questions in the webinar recording.

Scope of the Standard (6:26)

1. Can you further explain when ED-600 applies and how that relates to the determination of components?
2. Would ED-600 apply to a single entity with branches or divisions?
3. Would a shared service center be considered a component for purposes of ED-600?
4. Does the scope of ED-600 include investments in other entities carried at cost?

Linkages with other standards (17:42)

5. The IAASB approved ISA 315 (Revised 2019)<sup>2</sup> in September 2019 and is close to finalizing its quality management standards (ISQM 1<sup>3</sup>, ISQM 2<sup>4</sup>, ISA 220 (Revised)<sup>5</sup>). Can you clarify the relationship of ED-600 with the quality management standards and ISA 315 (Revised 2019)?
6. A group will normally have its own system of internal controls in place to control and monitor all activities. How does ED-600 take this system of internal control into account in planning and executing the group audit?
7. Can you explain the difference between engagement team, group engagement team and component auditors?

Restrictions on access to people and information (24:18)

8. ED-600 includes enhanced application material paragraphs on how the group engagement team may be able to overcome restrictions to access people and information. For equity investments and non-controlled entities there may be publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments. Does the group auditor still need to access the work papers of component auditors or just simply rely on publicly available information?
9. ED-600 (Revised) paragraph A30, states that when the group engagement team cannot overcome restrictions on access to information and people, the group engagement team may communicate about the restrictions to the group engagement team's firm, regulators, listing authorities, or others. Where does "others" refer to?

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<sup>1</sup> Proposed International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

<sup>2</sup> ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement

<sup>3</sup> 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

<sup>4</sup> Proposed ISQM 2, Engagement Quality Reviews

<sup>5</sup> Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements

10. Will the standard also improve the ability of regulators to access working paper files of component auditors for components in foreign jurisdictions?

Risk-based approach (32:38)

11. What is the underlying reason for changing the approach of scoping a group audit?
12. ED-600 paragraph A97 includes a number of options to scope a group audit. Can you clarify how the scoping works in practice and can you explain why extant ISA 600<sup>6</sup> had option for an “audit of the financial information of the component using component materiality”, and ED-600 does not have that option?
13. How would the group engagement team apply the risk-based approach in the situation where there are a large number of individually financially insignificant components?
14. In ED-600, is the concept of analytical procedures performed at group level replaced by substantive analytical procedures?
15. To what extent can the group engagement team use the risk assessment performed for an audit due to statutory, regulatory or other reasons? Paragraph 42 discusses the concept of using evidence from an audit performed for another purpose, but only in the context of responding to the assessed ROMMs, not risk assessment.

Materiality (47:24)

16. Extant ISA 600 includes a definition of ‘component materiality’ and is used when an ‘audit’ of the financial information of the component is performed. Can you explain why the concept of ‘component materiality’ has not been included in ED-600?
17. How are the uncorrected misstatements identified at component level evaluated (i.e., against what materiality threshold)?
18. Will there be any further guidance in ISA 600 (Revised) about how to calculate component performance materiality?
19. Will ISA 320<sup>7</sup> be revised to include the definition of ‘aggregation risk’?

Communication with and involvement in the work of component auditors (57:57)

20. Under ED-600, what is the expected form of communications and what is the frequency of the communications? More specifically in relationship to the risk-based approach, is it expected that the component auditor releases an “opinion” on the component’s financial information?
21. ED-600 includes a new requirement that requires the group engagement team to communicate with component auditors about the component auditor’s responsibilities and the group engagement team’s expectations. How will the changes in ED-600 address the effectiveness of the communications process between group and component auditor?
22. Does ED-600 clarify the role and responsibilities of a component auditor?

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<sup>6</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>7</sup> ISA 320, *Materiality in Planning and Performing an Audit*

Documentation (65:15)

23. Extant ISA 600 requires the group audit engagement documentation to include an analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components. Why wasn't this requirement included in ED-600?
24. ED-600 now has a requirement regarding the group engagement team's determination of components for purposes of planning and performing the group audit. Why was this added and how does it relate to the extant requirement to include an analysis of components and the type of work performed?

Other Matters (73:48)

25. Appendices 4 and 5 in extant ISA 600 were not included in ED-600, as explained in paragraph 98 of the EM. Will the IAASB consider providing similar guidance for auditors, for example, a template containing example group audit instructions?
26. ED-600 included an invitation for firms to do field testing of the proposals. Will there be a more proactive effort on the part of the IAASB to engage with firms to understand the effects of moving from a significant component approach to a risk-based approach led by the group engagement team? For example, to better understand changes in group engagement team behavior/mindset and the identification and response to risk of material misstatement of the group financial statements under the new approach?
27. The reference to joint auditors in paragraph 7(h) of extant ISA 600 is not included in ED-600, but the IAASB has proposed a consequential amendment to the application material to proposed ISA 220 (Revised). Why did the IAASB decide not to keep the reference to joint auditors in ED-600?
28. The ISA 600 series are intended to cover using the work of others in an audit of financial statements (e.g., ISA 610 (Revised 2013)<sup>8</sup> deals with using the work of internal auditors; ISA 620<sup>9</sup> deals with using the work of an auditor's expert). ED 600 (Revised) clarifies the role and responsibilities of the group engagement partner in a group audit, particularly involvement throughout the audit, and clarifies how other ISAs are to be applied in a group audit. This goes beyond "using the work of a component auditor." Should ISA 600 (Revised) still be grouped under the ISA 600 series?

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<sup>8</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

<sup>9</sup> ISA 620, *Using the Work of an Auditor's Expert*