Indicative Drafting – Risk-Based Approach

Please note that:

- The ISA 600 Task Force (the Task Force) included this indicative drafting to illustrate how the risk-based approach to planning and performing an audit of group financial statements might be presented in ISA 600 (Revised). The Task Force has only had preliminary discussions on the drafting and will continue to develop it based on input from the IAASB during the June 2019 meeting and further Task Force deliberations in July 2019;
- The paragraphs included below are marked from extant ISA 600;¹ and
- The Task Force will further discuss whether additional requirements (or sub-requirements) or application material is needed to:
  - Require communication with component auditors, if applicable; or
  - Highlight the importance of two-way communication between the group engagement team and component auditors.

Understanding the Group and its Components, and Their Environments, the Applicable Financial Reporting Framework and the Group’s System of Internal Control

17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment. When obtaining an understanding of the entity and its environment, the applicable reporting framework and the entity’s system of internal control, as required by ISA 315 (Revised), the group engagement team shall obtain an understanding of the following matters:

(a) Enhance its understanding of the group’s organizational structure, ownership and governance, its components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage; and

(b) The group’s business model, including the geographic locations of its operations or scope of activities, business lines and regulatory requirements;

(c) The group’s information system, including, obtain an understanding of as part of understanding the entity’s financial reporting process, the consolidation process, including sub-consolidations and consolidation adjustments, the instructions issued by group management to components; and — (Ref: Para. A23–A29)

<The Task Force will further discuss whether other specific aspects of the entity’s information system are important to understand in an audit of group financial statements.>

(d) The accounting policies and practices used by the group, including whether such policies and practices are communicated through a group-wide accounting and financial reporting manual.

¹ International Standard on Auditing (ISA) 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

² ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
The group engagement team’s procedures to obtain the understanding 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.

18. The group engagement team shall obtain an understanding that is sufficient to:
   (a) Confirm or revise its initial identification of components that are likely to be significant; and
   (b) Assess the risks of material misstatement of the group financial statements, whether due to fraud or error.\(^3\) (Ref: Para. A30–A31)

The Task Force was of the view that paragraph 18 could be deleted. Sub-paragraph (a) is not needed because of the focus of the risk-based approach on the identification of risks of material misstatement of the group financial statements and not the identification of significant components. Sub-paragraph (b) is reflected in new paragraph 20A below, which is based on the underlying requirement in ISA 315 (Revised).\(^4\)

The application material in paragraphs A30-A31 will be moved to support paragraph 20A.

### Identifying and Assessing the Risks of Material Misstatement

20A. In applying ISA 315 (Revised), the group engagement team shall identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, at the assertion level or the financial statement level, and determine whether any of the risks of material misstatement identified are, in the auditor’s judgment, a significant risk.

### Responding to Assessed Risks

24. As required by ISA 330,\(^5\) the auditor shall design and implement appropriate responses to address the assessed risks of material misstatement of the group financial statements at the assertion level or of the financial statement levels. In doing so,\(^1\) the group engagement team shall, for each material account balance, class of transaction or disclosure, determine the nature, timing and extent of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components (see paragraphs 26–29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30–31).

The Task Force will move the last sentence of paragraph 24 to the section of the standard dealing with the group engagement’s team involvement and will consider how best to incorporate it (e.g., as a separate requirement or as part of another requirement).

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\(^3\) ISA 315 (Revised)

\(^4\) Proposed ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement

\(^5\) ISA 330, The Auditor’s Responses to Assessed Risks, paragraphs 6-15