Objective of the IAASB Discussion
The objective of this agenda item is to obtain the Board’s views on the ISA 600 Task Force’s (the ‘Task Force’) direction and proposals on:

- The key public interest issues to be addressed;
- A risk-based approach to planning and performing a group audit engagement (including indicative drafting); and
- The application of other ISAs in a group audit, including special considerations in an audit of group financial statements (including indicative drafting).

Introduction

1. This agenda item includes the views of the Task Force on several key areas of the ISA 600 project, including:
   - The key public interest issues to be addressed (Section I);
   - A risk-based approach to planning and performing a group audit engagement (the new approach to scoping a group audit) (Section II);
   - The special considerations in an audit of group financial statements. This section includes a discussion of the definition of a component, group financial statements and consolidation process (Section III); and
   - The way forward (Section IV).

2. For Sections II and III, the Task Force has included indicative drafting to illustrate how the risk-based approach to planning and performing a group audit engagement (see Agenda Item 6-A) and the special considerations in an audit of group financial statements related to proposed ISA 220 (Revised)\(^1\) (ED-220) (see Agenda Item 6-B) 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.

3. Appendix 1 shows the Task Force’s preliminary view on the possible structure of the requirements section of ISA 600 (Revised). Appendix 2 summarizes recent Task Force activities, including outreach. In developing the agenda items, the Task Force took into account the feedback provided by Board members during the March 2019 IAASB meeting. The draft minutes of that meeting are included in Appendix 3.

---

\(^1\) Proposed ISA 220 (Revised), Quality Management for an Audit of Financial Statements
Section I: Public Interest Issues

4. In December 2016, the IAASB approved the project proposal\(^2\) for the revision of the IAASB’s international standards relating to quality control and group audits. The Task Force discussed which of the public interest issues included in the project proposal were key public interest issues for the project to revise ISA 600. These key public interest issues are included in the table below.

<table>
<thead>
<tr>
<th>KEY PUBLIC INTEREST ISSUES(^3)</th>
<th>DESCRIPTION OF ISSUE(S) TO BE ADDRESSED</th>
</tr>
</thead>
<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;br&gt;• Group structures in today’s world. 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;br&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>
</tr>
<tr>
<td></td>
<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)(^4) and ISA 330.(^5)</td>
</tr>
<tr>
<td></td>
<td><strong>Adaptability and Scalability</strong>&lt;br&gt;The wide variation in the structure of group entities and their environments 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>
</tr>
</tbody>
</table>

\(^2\) The project proposal can be found at the following link: [http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal-Approved_0.pdf](http://www.iaasb.org/system/files/meetings/files/20161205-IAASB_Agenda_Item_9A-GA-and-QC-Project-Proposal-Approved_0.pdf).

\(^3\) 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.

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

\(^5\) ISA 330, *The Auditor’s Responses to Assessed Risks*
<table>
<thead>
<tr>
<th>Encouraging Proactive Management of Quality at the Engagement Level</th>
<th>Managing and Achieving Quality in a Group Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstrating how the requirements in ISA 220 (Revised) would be applied to manage and achieve audit quality in a group audit and consider the revisions needed to sufficiently direct, supervise and review the work of the engagement team⁶ in such circumstances.</td>
<td></td>
</tr>
</tbody>
</table>

**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.”

Considering the ‘residual risk’ and whether this risk is adequately addressed by the planned audit procedures.

**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.

**Fostering the Appropriate Exercise of Professional Skepticism**

Emphasizing the importance of professional skepticism, including when:

- Planning and performing the group audit; and
- The group engagement team evaluates whether sufficient appropriate audit evidence has been obtained to provide a basis for the opinion on the group financial statements.

---

⁶ The Task Force has considered the definition of “engagement team” in ED-220 and, for purposes of Task Force discussions and indicative drafting, considers the “engagement team” for a group audit to be the “group engagement team” and any “component auditors.” See paragraph 48.
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).

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 320.7

Matter for IAASB Consideration
1. The IAASB is asked for its views on the identified key public interest issues as described in the table above.

Section II: Risk-Based Approach to Planning and Performing a Group Audit

Background
5. The Task Force discussed with the IAASB at its March 2019 meeting that the approach in extant ISA 600 may not result in the auditor developing the most appropriate procedures / responses to the risks of material misstatement of the group financial statements, including the determination of components where procedures need to be performed to obtain audit evidence to support the opinion on the group financial statements. Accordingly, enhancements to ISA 600 would include:

• Greater alignment with the requirements in ISA 315 (Revised) and ISA 330;
• A greater focus on the group engagement team’s responsibility, with the assistance of component auditors8 as needed, to:
  o Assess the risks of material misstatement at the group financial statement level and assertion level for the group financial statements, and
  o Determine the nature, timing and extent of planning further audit procedures, as determined under ISA 330; and
• A greater focus on planning the most appropriate approach to obtaining sufficient appropriate audit evidence (i.e., not just defaulting to “an audit” of the component financial statements). The auditor’s focus should be on whether and how the assessed risks are addressed through work performed at the group level by the group engagement team or through work performed at the component level, including by component auditors.

---

7 ISA 320, Materiality in Planning and Performing an Audit
8 The Task Force had preliminary discussions about whether the term “component auditors” could be replaced with “other auditors.” For the purposes of this paper and the indicative drafting, the Task Force has retained the term “component auditor.”
6. The IAASB supported the Task Force’s further development of this approach. However, concerns were expressed about calling it a “top-down” risk-based approach, as this may imply that the identification, assessment and response to the risks of material misstatement of the group financial statements is done by the group engagement team without input, when and to the extent necessary, from component auditors with respect to certain components. It was suggested that the approach be described as a “group engagement team led risk-based approach.” The Task Force agrees that the contemplated approach should be driven by the group engagement team, but believes it would be simpler to refer to it as a “risk-based approach” because the foundation to planning and performing the group audit rests in ISA 315 (Revised) and ISA 330.

Risk-Based Approach Explained

7. The ISAs require the auditor to understand the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control, and to identify, assess and respond to risks of material misstatement. In a group audit, the group engagement team may not be able to obtain sufficient audit evidence (for example, when components are located in different geographical locations) and therefore may use component auditors to obtain audit evidence.

8. The risk-based approach can be characterized as thinking about what, how and when, by whom and where, for example:
   - What – identifying the significant accounts, classes of transactions or disclosures in the group financial statements, and the breakdown of account balances and classes of transactions by component, to identify and assess risks of material misstatement of the group financial statements at the account and assertion levels;
   - How and when – determining the most appropriate audit strategy (e.g., centralized testing when appropriate) and the nature, timing and extent of procedures to address the assessed risks of material misstatement of the group financial statements; and
   - By whom and where – determining whether the group engagement team or component auditors will obtain the audit evidence, and where procedures need to be performed to obtain audit evidence, in response to the assessed risks of material misstatement.

Obtaining an Understanding of the Entity and Its Environment and the Entity’s System of Internal Control

9. The foundation of the risk-based approach is the group engagement team’s understanding of the entity and its environment, including the system of internal control, in accordance with ISA 315 (Revised). Special considerations in applying ISA 315 (Revised) to an audit of group financial statements primarily relate to, and are focused on, the additional considerations and complexities faced by a group engagement team when auditing an entity that includes more than one component, for example:
   - The understanding of the entity and its environment is often more complex due to the wide variety of group structures, and businesses that may exist across multiple geographical locations or jurisdictions. The way the group is managed may also add complexities, particularly if there are multiple lines of business, which may be in different industries (e.g., a captive insurance company for a manufacturing entity).
   - In connection with understanding the information system relevant to financial reporting:
     - In a group, there may be multiple information systems, or the information systems may be centralized.
It is more likely that shared service centers may be used in a group environment.

Paragraph 35(c) of the exposure draft of proposed ISA 315 (Revised)\(^9\) requires the auditor to obtain an understanding of the financial reporting process used to prepare the entity’s financial statements. In an audit of group financial statements, the consolidation process is an important part of the financial reporting process, and likely would require additional audit effort when the consolidation process is more complex due to a significant amount of intercompany transactions or elimination entries, or when the group uses consolidation software (e.g., Hyperion) that interfaces with multiple general ledger systems from different business units.

10. When dealing with different structures, businesses and information systems, the group engagement team may need to involve component auditors to assist in obtaining the understanding required to identify and assess risks of material misstatement, including, as appropriate, performing risk assessment procedures at one or more components.

11. Because of the above, the Task Force is of the view that the special considerations related to understanding the entity and its environment and the entity’s system of internal control are:

- The group’s organizational structure, ownership and governance;
- The group’s business model;
- The design and implementation of controls over the group’s information system; and
- The accounting policies and practices used by the group.

12. The Task Force will further discuss and develop the special considerations related to the understanding the entity and its environment and the entity’s system of internal control.

Identifying, Assessing and Responding to the Risks of Material Misstatement

13. As noted in paragraph 5 above, scoping a group audit based on the identification of components (and identification of those that are significant) will not always result in an appropriate approach to the identification and assessment of the risks of material misstatement at the group financial statement level, and the planning and performance of appropriate procedures to respond to those risks.

14. For example, the requirement to perform an audit of financial information at significant components may not appropriately focus the work of a component auditor on risks of material misstatement of the group financial statements that need to be addressed (i.e., particularly when the risks of material misstatement related to individual components’ financial information vary in nature, type and significance). Also, the current approach can be interpreted to allow for focusing the audit effort on significant components with little or no additional audit work done on the remaining components.

15. The Task Force is of the view that a risk-based approach to planning and performing a group audit is more appropriate as it better focuses the group engagement team on identifying the significant accounts, classes of transactions or disclosures in the group financial statements, and the related risks of material misstatement. This approach will more closely align ISA 600 with the principles in ISA 315 (Revised) and will address some of the challenges and concerns raised in response to the Invitation to Comments (ITC).\(^{10}\)


16. Under the risk-based approach, the group engagement team is responsible for the identification, assessment and responses to the risks of material misstatement. However, this does not mean that the group engagement team cannot involve component auditors to assist with the risk assessment. The Task Force is of the view 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. 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, as noted in paragraph 9 above, one or more components may be in different lines of business or industries.

17. After the group engagement team has assessed the risks of material misstatement at the group financial statement level, with the assistance of component auditors as needed, the group engagement team needs to determine the most appropriate strategy and the nature, timing and extent of procedures to address the assessed risks of material misstatement in accordance with ISA 330. The group engagement team considers the most effective and efficient responses to the assessed risks, which may involve obtaining audit evidence in different ways. For example, planning and performing audit procedures related to litigation and claims might be done by the group engagement team on a group-wide basis because this area is managed centrally by the entity, even though component financial information may also include disclosures related to litigation and claims.

18. The group engagement team also needs to determine who will obtain the audit evidence in response to the assessed risks of material misstatement. The decisions about who will obtain the audit evidence, and when this should be done, depend on the facts and circumstances—it may be the group engagement team itself or it may be a component auditor. Factors that may be relevant in making this decision, include, for example:
   - The competency and capabilities of the component auditor;
   - Whether an audit is required at the component level by statute, regulation or for another reason; and
   - Whether there is an internal audit function that, for example, monitors the system of internal control.

Evaluating the Work of Component Auditors and Sufficiency and Appropriateness of Audit Evidence Obtained

19. The Task Force also discussed enhancing the ‘stand-back’ requirements in extant ISA 600 by requiring the auditor to evaluate whether there are any financially significant components or material account balances on which no further audit procedures were performed.

Key Similarities and Changes

Similarities

20. The risk-based approach to planning and performing a group audit has a different focus than the approach in extant ISA 600, but many of the underlying concepts remain the same. For example:
   - The objective of an audit of group financial statements remains to obtain sufficient appropriate audit evidence to provide a basis for expressing an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
   - Understanding the entity and its environment remains a fundamental part of the standard.
• The communications with and the involvement of component auditors. Two-way communication between component auditors and the group engagement team throughout the audit remains critically important under the risk-based approach. The involvement of component auditors also remains very important throughout a group audit engagement, including in performing the risk assessment procedures if directed by the group engagement team, and in identifying, assessing and responding to the risks of material misstatement, when appropriate.

Changes

21. As described earlier in this section, the new risk-based approach aligns ISA 600 closer to the approach in ISA 315 (Revised) by focusing on identifying and assessing risks at the group level and determining that the planned scope of work appropriately responds to those risks, rather than the current approach whereby the scope of the work is driven primarily by the identification of components and determination of their significance.

22. Given the focus on significant classes of transactions, account balances and disclosures in the group financial statements, and the identification and assessment of risks of material misstatement at that level, instead of the identification of components, there may be no need to retain a requirement to identify components that are significant. The Task Force believes that the proper application of the risk-based approach will result in appropriate procedures being performed on significant account balances, classes of transactions, and disclosures at locations that would be considered significant due to size or risk under extant ISA 600. However, the Task Force recognizes that in some instances it may still be useful to identify components that are significant due to their financial significance and will add application material in that regard in the standard.

Presentation on the Risk-Based Approach

23. During the June 2019 meeting, a further explanation of the risk-based approach to planning and performing a group audit will be provided using a slide presentation. This presentation is educational in nature and will explain the auditor’s considerations in applying the risk-based approach to simple and more complex groups.

Indicative Drafting

24. To illustrate the Task Force’s thinking with respect to the risk-based approach, the Task Force has provided indicative drafting in Agenda Item 6-A showing how the risk-based approach might be presented in ISA 600 (Revised).

Matters for IAASB Consideration

2. The IAASB is asked for its views on:
   a) The description of the risk-based approach to planning and performing an audit of group financial statements, including the Task Force’s initial thoughts about significant components as discussed in paragraph 22; and
   b) The indicative drafting as presented in Agenda Item 6-A.
Section III: Special Considerations in an Audit of Group Financial Statements

25. As discussed in Section I above, one of the public interest issues driving the revisions to ISA 600 is the fitness for purpose of the extant standard, and the need to modernize it to address the practical challenges identified by respondents to the ITC and therefore enable a more effective and efficient application of the standard in the current environment.

26. The Task Force noted that many respondents to the ITC supported clarifying and reinforcing in ISA 600 that all ISAs, when applicable, 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. An important consideration in the Task Force discussions to date about the modernization of ISA 600 has been to focus on the unique aspects of a group audit engagement and to clearly articulate how the requirements in ISA 600 build on requirements in the foundational standards.

27. Consistent with the title of the standard, the Task Force has spent considerable time identifying the special considerations that would apply in an audit of group financial statements. These considerations are described further below. The sub-headings below generally illustrate, at a high level, what the Task Force believes is an appropriate structure for ISA 600 (Revised). The objectives section of the revised standard has not yet been discussed by the Task Force and therefore is not included in the sections below.

28. A more detailed overview of the revised standard’s possible structure is included in Appendix 1, which shows the Task Force’s preliminary view on the possible structure of the requirements section of ISA 600 (Revised).

Scope and Applicability

29. Respondents to the ITC expressed various concerns about the scope and applicability of extant ISA 600, including asking for greater clarity about whether, and how, ISA 600 applies in certain circumstances.

30. The Task Force considered the input from the ITC and concluded that ISA 600 applies when the auditor is engaged to perform an audit of group financial statements, as defined (see paragraphs 42-45 below). Accordingly, paragraph 1 of extant ISA 600 could be modified as follows:

“The International Standards on Auditing (ISAs) apply to group audits. This ISA deals with special considerations that apply to an audit of group financial statements, in particular those that involve component auditors including when component auditors are involved.”

31. As discussed during the March 2019 IAASB meeting, the ITC acknowledged that certain definitions in extant ISA 600, many of which are interrelated, may need to be reconsidered. The Task Force believes that the definition of a component is particularly important as it drives the definition of group financial statements. The Task Force discussion and preliminary views on these interrelated definitions is summarized in the “Definitions” section below, including whether the term “component auditors” could be replaced with “other auditors.”

32. The Task Force noted that questions may still arise about the applicability of ISA 600 (Revised) in certain circumstances, such as when the entity has one principal operating location with a number of sales offices or inventory locations. The Task Force believes that the risk-based approach to planning and performing the engagement provides built-in scalability because the focus will be on addressing the risks of material misstatement of the group financial statements. The importance of clearly describing scalability considerations for less complex group audits also was recognized by the Task Force in its discussions.
33. The Task Force noted that when there are questions about whether ISA 600 applies to entities with multiple locations or business units, it is preferable that such entities are in the scope of the standard given that many of the special considerations related to group audits could be useful (e.g., the communication with and involvement of component auditors). The Task Force further believes that the inherent scalability of the risk-based approach would make the additional work effort minimal while providing useful guidance for auditors.

34. The Task Force intends to have further discussions about the applicability of the standard and the revisions that may be needed to paragraph 2 of extant ISA 600, i.e., in what circumstances might ISA 600 need to be adapted.

Non-Controlled Entities

35. The Task Force also discussed whether investees accounted for by the equity or cost methods of accounting should be included in the scope of the standard. Investees accounted for by the equity or cost methods of accounting are included in the scope of extant ISA 600 through the definition of the consolidation process.

36. The Task Force was of the view that:
   - The description of the consolidation process could be clarified by taking out the reference to the cost method of accounting. This reference is a source of confusion, as it appears to imply that investments accounted for using the cost method of accounting would or could be considered components; and
   - ISA 600 should apply to investees accounted for by the equity method of accounting as many of the special considerations in ISA 600 are also applicable when the group has a component that is an equity investee. The Task Force recognizes that practical challenges have been identified with respect to access to management or the auditor of the equity-accounted investee and will consider developing additional guidance to address this matter.

Matters for IAASB Consideration

3. The IAASB is asked for its views on:
   a) The proposed structure as set out in Appendix 1; and
   b) The scope of the revised standard and the Task Force’s proposals in this regard.

Definitions

37. In its recent discussions, the Task Force considered the following definitions that are considered key to the revision of ISA 600 and, in particular, the risk-based approach to a group audit: component, group financial statements, and consolidation process. As noted in paragraph 31, this section summarizes the Task Force discussion and preliminary views on the definitions.

Component

38. The Task Force discussed that the term component is important to the risk assessment process in thinking about the “pieces” of financial information that are aggregated in preparing the group financial statements, and in considering the risks of material misstatement for a significant account or class of transactions (i.e.,
where the risks might arise) and where the group engagement team may need to focus to obtain evidence to address those risks.

39. The definition of component in extant ISA 600 is:

   “An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.”

40. The Task Force believes that the extant definition is still largely workable, but proposes a slightly revised definition of component as follows:

   “An entity or business unit activity for which group or component management prepares separate [discrete] financial information that should be included in the group financial statements.”

41. Although seemingly minor in nature, the Task Force believes that the reference to separate [discrete] financial information helps to clarify that there is a process by which management prepares financial information for inclusion in the group financial statements, and such financial information often comprises multiple accounts or classes of transactions. The Task Force also noted that business unit is a term often used by management and may be more understandable than business activity. This revised definition also may help to distinguish a subsidiary, division or branch (which generally have business activities for which financial information is prepared that is a more complete set of balance sheet and income statement accounts) from other types of business units or locations.

Group Financial Statements

42. As noted in paragraph 31, the term component is an important element of the definition of group financial statements. The definition of group financial statements in extant ISA 600 is:

   “Financial statements that include the financial information of more than one component. The term “group financial statements” also refers to combined financial statements aggregating the financial information prepared by components that have no parent but are under common control.”

43. The Task Force believes that the current definition could be improved by including a reference to the financial reporting process, which would encompass the consolidation of relevant entities in accordance with the requirements of the applicable financial reporting framework, the combining of entities under common control, or other aggregation of financial information of components, as defined. The Task Force notes that the reference to financial reporting process would be consistent with the terminology in ISA 315 (Revised). Therefore, the Task Force proposes the following revised definition:

   “Financial statements resulting from a financial reporting process that aggregates that include the financial information of more than one component. The term “group financial statements” also refers to combined financial statements aggregating the financial information prepared by components that have no parent but are under common control.”

44. With respect to a financial reporting process that “aggregates” the financial information of more than one component, the Task Force noted that this has been used to include entities that have components in more than one location (e.g., branches), that are aggregated to one set of financial statements (that may or may not be a “group” as defined by the applicable financial reporting framework). Also see paragraphs 32 and 33 above.

45. The last sentence of the extant definition essentially repeats part of the description of the consolidation process and therefore could be deleted (see further explanation in paragraphs 46 and 47 below).
46. Paragraph 10 of extant ISA 600 describes the consolidation process as follows:

“Reference to “the consolidation process” includes:

(a) The recognition, measurement, presentation, and disclosure of the financial information of the components in the group financial statements by way of consolidation, proportionate consolidation, or the equity or cost methods of accounting; and

(b) The aggregation in combined financial statements of the financial information of components that have no parent but are under common control.”

47. The Task Force discussed that this separate description of the consolidation process, which is included in the Definitions section of extant ISA 600, may be moved to application material given the reference to the financial reporting process in the proposed revised definition of group financial statements above. In complying with ISA 315 (Revised), the group engagement team would be required to obtain an understanding of the financial reporting process of the group, with a specific focus on understanding the consolidation process.

Other Definitions

48. The Task Force briefly discussed the other definitions in extant ISA 600 and will continue to discuss whether changes to these definitions are needed. In particular, as noted during the March 2019 IAASB meeting, the Task Force will further address the definition of group engagement team and plans to actively engage with the International Ethics Standards Board for Accountants (IESBA) staff and liaise with the ISA 220 Task Force on this topic. In its discussions to date, the Task Force has considered the definition of “engagement team” in ED-220, and for purposes of Task Force discussions and indicative drafting, considers the “engagement team” for a group audit to be the “group engagement team” and any “component auditors.” The Task Force further recognizes that this may need to be revisited subject to discussion with IESBA and based on comments received on the definition of “engagement team” in ED-220 and, at a minimum, would likely require additional application material in the standard.

49. The Task Force also plans to further discuss whether the term component auditor should be retained. Under the risk-based approach to planning and performing the group audit, the group engagement team is responsible for identifying, assessing and responding to the risks of material misstatement of the group financial statements, with the assistance of component auditors as needed. Depending on the nature, size and structure of the group, including the degree to which the information system is centralized, the group engagement team may be able to obtain sufficient appropriate audit evidence without involving component auditors. However, for a group entity with business units in multiple geographic locations, it is likely that the group engagement team would need to involve component auditors to inform the risk assessment and to respond to identified risks of material misstatement. The term used to describe “other” auditors is not as important as the requirements in the risk-based approach for determining the resources that are most appropriate for obtaining evidence in response to the assessed risks of material misstatement of the group financial statements. However, regardless of which term is used, the Task Force will need to consider the definition of the term used for the purposes of this standard.
Matters for IAASB Consideration

4. The IAASB is asked for its view on the proposed changes to the definitions of:
   a) Component;
   b) Group financial statements; and
   c) Consolidation process.

Engagement Acceptance and Continuance and Planning Considerations

50. Paragraphs 12-13 of extant ISA 600 provide requirements for the group engagement partner regarding determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. Paragraph 14 requires the group engagement partner to agree on the terms of the group audit engagement in accordance with ISA 210.\(^{11}\)

51. The Task Force’s view is that the requirements in paragraphs 12-13 of extant ISA 600 are still relevant, but should be encompassed in a broader requirement(s) relating to the responsibility of the group engagement partner to manage quality at the engagement level in accordance with ISA 220 (Revised). This broader requirement also would include a consideration about whether the group engagement team will have access to the information necessary to perform the engagement, or to the individuals who provide such information, and whether appropriate resources will be available to perform the engagement. Accordingly, the Task Force discussed a different structure that would place all relevant requirements relating to engagement acceptance and continuance under an umbrella requirement that links to key requirements in ISA 220 (Revised).

52. With respect to paragraph 14 of extant ISA 600, the Task Force’s view is that the special consideration for group audits mainly relates to access to information and that this could be referenced to the requirements in ISA 220 (Revised) related to acceptance and continuance of client relationships and audit engagements.

53. The Task Force has provided in Agenda Item 6-B indicative drafting illustrating how the special considerations to audits of group financial statements related to engagement acceptance and continuance and planning considerations might be presented in ISA 600 (Revised).

Matters for IAASB Consideration

5. The IAASB is asked for its views on:
   a) The proposed changes to the engagement acceptance and continuance and planning considerations; and
   b) The indicative drafting as presented in Agenda Item 6-B.

---

\(^{11}\) ISA 210, Agreeing the Terms of Audit Engagements
Identifying and Responding to Risks of Material Misstatement of the Group Financial Statements

54. In addition to the risk-based approach as described in Section II, the Task Force also discussed the following special considerations related to the performance of a group audit:

- Group-wide controls;
- Use of audit evidence from audits required by statute, regulation or for another reason; and
- Shared service centers.

Group-wide Controls

55. The Task Force noted that the current definition of group-wide controls is quite broad and not well understood. The Task Force also discussed the role that group-wide controls play in responding to the assessed inherent risk of material misstatement and noted that auditors sometimes place undue reliance on these controls, for example:

- Relying on group-wide controls without testing them.
- Relying on group-wide controls when the extent of the testing has not resulted in sufficient appropriate audit evidence (e.g., to reduce the extent of substantive procedures). For example, the engagement team may have tested group-wide controls without obtaining a sufficient understanding about how the group-wide controls are designed and implemented throughout the group.
- Relying on group-wide controls that are not sufficiently precise (i.e., not designed or implemented in a way that is responsive to an assessed risk of material misstatement).

56. Given the matters noted above, the Task Force will further consider the topic of group-wide controls, including whether additional application material is needed to address issues regarding undue reliance on group-wide controls. The Task Force will also consider whether the term “group-wide controls” is needed in view of the proposed changes to ISA 315 (Revised) (i.e., whether ISA 600 need only refer to “controls”).

Use of Audit Evidence from Audits Required by Statute, Regulation or for Another Reason

57. The Task Force discussed the group engagement team’s use of audit evidence from audits of components required by statute, regulation or for another reason. The Task Force noted that paragraph A1 of extant ISA 600 describes factors that may affect the group engagement team’s decision whether to use an audit required by statute, regulation or for another reason to provide audit evidence for the group audit, but that limited guidance was provided on the work that needs to be performed with respect to the audited financial statements of the component.

58. The Task Force is of the view that, in these situations, the involvement of the group engagement team should be similar to any other situation in which work is performed on a component by a component auditor, and such work is used by the group engagement team to support the audit of the group financial statements. For example, the group engagement team needs to understand the risks of material misstatement and how they have been addressed and cannot simply rely on the audited financial statements of the component as being sufficient. The Task Force plans to include guidance in that regard in the revised standard.
Shared Service Centers

59. The ITC noted that it is not clear how ISA 600 applies (or if it applies) to situations where the transactions for the group are processed centrally through a shared service center. In some circumstances, the shared service center may be treated not only as a source of audit evidence in respect of the group financial statements, but also as a separately identifiable component because the shared service center has financial information that is aggregated into the group financial statements.

60. The Task Force intends to clarify these scenarios, and explain that if a risk of material misstatement is identified and assessed in a significant account or class of transactions that is processed by a shared service center (e.g., revenue) or initiated by the shared service center, the group engagement team needs to determine the appropriate response to the assessed risk and determine who will perform the work.

**Matter for IAASB Consideration**

6. The IAASB is asked for its views on the other special considerations related to the performance of a group audit engagement.

Involvement of, and Communications with, Component Auditors

61. As noted in Agenda Item 2-A for the March 2019 IAASB meeting, concerns have been raised about the nature, timing and extent of direction, supervision and review to drive the necessary involvement of the group engagement partner in the audit, i.e., to address responsibility for managing quality at the engagement level (including as it relates to being involved in work performed by component auditors). For example, it has been noted in some audit inspection reports that the nature and extent to which the group engagement team specifies or communicates risks of material misstatement, or expected responses, to component auditors varies, resulting in different levels of understanding and potentially different responses. Additionally, extant ISA 600 does not include guidance about how to deal with situations in which the group engagement team is also performing work at the component level.

62. The Task Force discussed how ISA 600 (Revised) could leverage the strengthened requirements in ISA 220 (Revised) relating to the responsibility of the group engagement partner to manage quality at the engagement level. This would include the direction, supervision and review of the work of, and communications with, component auditors. Also see the section above on engagement acceptance and continuance and planning considerations and the related indicative drafting in Agenda Item 6-B.

63. The Task Force will continue to discuss how the group engagement partner can practically manage quality at the engagement level.

Evaluating the Work of Component Auditors and Sufficiency and Appropriateness of Audit Evidence Obtained

64. Paragraph 41 of extant ISA 600 requires the group engagement team to request the component auditor to communicate matters relevant to the group engagement team’s conclusion with regard to the group audit. Paragraphs 42 and 43 of extant ISA 600 include requirements relating to the group engagement team’s evaluation of the component auditor’s communication.

65. Paragraph 44 of extant ISA 600 requires the group engagement team to evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion. Paragraph 45 of extant ISA 600 requires the group engagement partner to evaluate the effect on the group audit opinion of any
uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence.

66. The Task Force noted that “stand-back” requirements would continue to be appropriate in the revisions to ISA 600, particularly with respect to:

- Whether sufficient appropriate audit evidence has been obtained to provide a basis for the group engagement team’s opinion on the group financial statements (consistent with paragraph 44 of extant ISA 600); and
- Whether the group engagement partner has been sufficiently involved in the group audit, including in the work done by component auditors, to take responsibility for signing the opinion on the group financial statements (consistent with paragraph 37 of ED-220).

67. The Task Force is also of the view that paragraphs 42 and 43 of extant ISA 600, related to the component auditor’s communication and adequacy of the component auditor’s work, would continue to be appropriate in the revisions to ISA 600. The Task Force will discuss whether any changes need to be made to further enhance these requirements and to align them with other proposed revisions to the standard.

Communication with Group Management and Those Charged with Governance

68. Paragraphs 46-48 of extant ISA 600 include requirements relating to communication with group management, including with respect to identified deficiencies in internal control in accordance with ISA 265 and matters relating to fraud in accordance with ISA 240. Paragraph 48 of extant ISA 600 deals with communications between group management and component management or component auditors when a component auditor is required by statute, regulation or another reason to express an audit opinion on the financial statements of a component (e.g., a statutory audit).

69. Paragraph 49 of extant ISA 600 requires communications with those charged with governance of the group in addition to those required by ISA 260 (Revised) and other ISAs.

70. The Task Force has not yet discussed these requirements in detail, but in doing so will consider any identified practice issues or comments received from respondents to the ITC.

Documentation

71. The Task Force has not discussed the documentation requirements in paragraph 50 of extant ISA 600, but is aware of the issues identified in the ITC and highlighted by respondents to the ITC with respect to documentation, including:

- Matters that may be relevant to the decision about whether to accept or continue a group audit engagement;
- The judgments around the nature, timing and extent of the group engagement team’s involvement in the work performed by component auditors, and the reasons therefor;
- The review of the component auditors’ documentation by the group engagement team; and

---

12 ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
13 ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements
14 ISA 260 (Revised), Communication with Those Charged with Governance
• The group engagement team’s judgments, as appropriate, in relation to the evaluation of the findings of the component auditors.

72. The Task Force will consider in due course whether any changes are needed to the requirements in extant ISA 600, or whether any additional documentation requirements specific to group audits are needed beyond the requirements in ISA 230.\(^{15}\)

**Matters for IAASB Consideration**

7. The IAASB is asked for its views on the matters in the sections on:
   a) Involvement of, and communications with, component auditors;
   b) Evaluating the work of component auditors and sufficiency and appropriateness of audit evidence obtained;
   c) Communication with group management and those charged with governance; and
   d) Documentation.

**Section IV: Way Forward**

73. The Task Force is working towards the approval of an exposure draft of proposed ISA 600 (Revised) at the March 2020 IAASB meeting and aims to have a full draft of the standard available at the December 2019 meeting.

74. For the September 2019 IAASB meeting, the Task Force will continue to discuss the special considerations related to group audits identified in this paper, taking into account the comments that will be received during the June 2019 IAASB meeting.

75. The Task Force will also address other matters that have not been discussed with the Board to date, for example:
   • Other definitions, including the definition of the group engagement team (including liaison with IESBA);
   • Materiality considerations, including performance materiality at the component level;
   • Response to assessed risks of material misstatement: consolidation and subsequent events;
   • Communication with component auditors and the involvement in the work of component auditors;
   • Access to people and information at the component level; and
   • “Stand-back” requirements (e.g., evaluating whether sufficient and appropriate audit evidence has been obtained to provide a basis for the opinion on the group financial statements).

76. As the Task Force continues its discussions, it will consider whether to involve or seek input from others with specific expertise in certain areas (e.g., IT systems and controls in a complex group environment).

77. For the September 2019 meeting, the Task Force also plans to further develop the drafting, including application material, related to the:
   • Introduction, including the scope of the standard;

\(^{15}\) ISA 230, *Audit Documentation*
• Engagement acceptance and continuance and other planning related matters (including related to access issues); and

• Risk-based approach to planning and performing a group audit engagement, including understanding the entity and its environment, the applicable reporting framework and the entity’s system of internal control.

78. All remaining sections of the standard (which include special considerations for group audits related to disclosures, communication with group management and those charged with governance, and documentation) will be discussed with the Board in December 2019 as part of the full draft of the standard.

Coordination with IESBA and Other IAASB Task Forces

79. The Task Force will liaise with the ISA 220, ISQM 1\(^{16}\) and ISA 315 Task Forces to make sure ISA 600 (Revised) is aligned with the changes made to these standards. As mentioned in paragraph 48, the Task Force will specifically liaise with the ISA 220 Task Force on the definition of the engagement team.

80. The Task Force will also liaise with IESBA on the definition of the group engagement team and any other matters as appropriate. With respect to the definition of the group engagement team, the Task Force recognizes that concerns have been raised that if the definition of the engagement team includes component auditors, this will have knock-on effects on the independence requirements in the International Code of Ethics for Professional Accountants.

Consultative Advisory Group (CAG)

81. The Task Force will discuss the issues with, and provide updates on the project to, the IAASB CAG in September 2019.

Outreach Activities

82. The Task Force’s outreach activities are summarized in Appendix 2. In the third quarter of 2019, the Task Force intends to liaise with a number of key stakeholders, including:

• Regulators, for example the International Organization of Securities Commissions’ Committee 1, International Forum of Independent Audit Regulators’ Standards Coordination Working Group and the Committee of European Auditing Oversight Bodies;

• Practitioners, through the Forum of Firms, Global Public Policy Committee and the International Federation of Accountants’ Small and Medium Practices Committee; and

• Representatives from the public sector, for example, the International Organisation of Supreme Audit Institutions.

\(^{16}\) International Standard on Quality Management (ISQM) 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
Appendix 1

Structure of the Requirements

This appendix shows the Task Force's preliminary view on the sections that could be included in the requirements section of ISA 600 (Revised). References in brackets are to the foundational standard on which the proposed section is built.

17 ISA 300, Planning an Audit of Financial Statements

---

Continues on next page
18 ISA 560, Subsequent Events
Appendix 2

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 March 2019 IAASB Discussion

3. The Task Force had a three-day Task Force meeting and had three teleconferences.

Outreach Activities

4. The Task Force Chair attended the following outreach events or meetings in which ISA 600 was prominently discussed:
   - Forum of Firms;
   - International Organization of Securities Commissions (meeting with the Chair of Committee 1);
   - China Securities and Regulatory Commission;
   - China Institute of Certified Public Accountants (CPA);
   - Hong Kong Financial Reporting Council;
   - Hong Kong Institute of CPA; and
   - CPA Australia Center of Excellence.

5. During its Task Force meeting, the Task Force also met with a representative of the United States Public Company Accounting Oversight Board (PCAOB) to discuss the PCAOB’s proposals relating to the supervision of audits involving other auditors.19

19 https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx
2. Group Audits – ISA 600

Mr. Jui updated the Board on the work performed by the ISA 600 Task Force since the start of the project and provided an overview of some of the issues the ISA 600 Task Force identified for discussion with the Board, as presented in Agenda Item 2 and Agenda Item 2-A. The following sets out the more substantive comments from the Board.

**SCOPING A GROUP AUDIT**

The Board continued to support the development of a risk-based approach for scoping a group audit but noted that the revised approach to scoping a group audit should not lead to a wholesale revision of ISA 600. It was also suggested that the Board should agree on the underlying concepts of the new approach before the ISA 600 Task Force commences drafting its proposals. With respect to this new approach for scoping a group audit, the Board asked the ISA 600 Task Force to further consider:

- Using another way to describe the approach rather than the ‘top-down approach,’ as this may be confusing.
- Maintaining a principles-based approach but with a focus on professional judgment and flexibility in how to scope a group audit engagement.
- Clarifying the important role that component auditors play in the risk assessment. Component auditors may be better aware of risks of material misstatement at the component level than the group engagement team. The importance of two-way communication between the group engagement team and the component auditor was highlighted in this regard.

**DEFINITIONS**

The Board agreed with the proposed way forward on the definitions as set out by the ISA 600 Task Force in Agenda Item 2. With respect to the definitions, the Board asked the ISA 600 Task Force to consider:

- Revising the definitions after the ISA 600 Task Force has fully developed the new approach to scoping a group audit as the definitions depend on, and support, the approach chosen. It was also suggested to wait before revising the definition of the group engagement team as proposed ISA 220 (Revised), which includes the definition of engagement team, is out for exposure.
- Whether the definition of a ‘component’ should be based on whether other auditors are used for the engagement, and not based on the structure of the entity itself.
- Working together with the International Ethics Standards Board for Accountants (IESBA) on matters that may be relevant and may need to be coordinated.

---

20 These draft minutes are still subject to IAASB review and may therefore change
21 Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*
OTHER ISSUES

The Board supported clarifying and reinforcing the linkages with other ISAs. With respect to the issues and the proposed way forward to those issues as presented in Agenda Item 2-A, the Board asked the ISA 600 Task Force to consider:

- Clarifying how proposed ISA 220 (Revised) works in a group audit, particularly the nature, timing and extent of direction, supervision and review by the engagement partner.
- Clarifying whether the IAASB’s Staff Audit Practice Alert, *Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed* would be retained.
- Highlighting the importance of the group engagement team being involved in the component auditors’ work given that the component auditors are often located in a different location than the group engagement team.
- Including guidance that explains what auditors can do in situations where access to information for the purpose of the group audit is an issue. It was suggested that outreach could further inform the ISA 600 Task Force about how firms deal with this in practice.
- With respect to access to information, enhancing the linkage between ISA 600 and ISA 21022 by highlighting that management is responsible for providing the auditor with access to all information of which management is aware that is relevant to the preparation of the financial statements.
- Strengthening paragraph 12 of ISA 600 by including a more specific conclusion on the acceptance or continuance of the group audit engagement.
- Emphasizing the importance of two-way communication between the group engagement team and the component auditor when planning the audit. The importance of understanding internal control when assessing the risks of material misstatement was also highlighted.
- Including or enhancing material on:
  - The identification of related parties in a group audit;
  - Fraud considerations; and
  - Automated tools and techniques.
- Enhancing the standard by addressing issues related to sub-consolidations, for example, by explaining who should do the work, as well as the group engagement team’s involvement in the sub-consolidations.

The Board also suggested that the Task Force consider the United States Public Company Accounting Oversight Board’s (PCAOB) proposals relating to the supervision of audits involving other auditors23 as the PCAOB have undertaken significant research on these matters.

IAASB CAG CHAIR REMARKS

Mr. Dalkin highlighted that the CAG was supportive of the project and the ISA 600 Task Force’s direction for scoping a group audit. He noted that auditors focus too much on the identification of significant

---

22 ISA 210, *Agreeing the Terms of Audit Engagements*

23 https://pcaobus.org/Standards/research-standard-setting-projects/Pages/other-auditors.aspx
components and should focus instead on addressing the identified risks of material misstatement. He also noted that the communication between the group engagement team and the component auditor is too formalized and is more focused on the mechanics, rather than the risks of material misstatement. Mr. Dalkin noted that access to information may also be an issue from a public sector perspective.

PIOB OBSERVER REMARKS

Ms. Stothers highlighted that, from a public interest perspective, the project to revise ISA 600 is important as almost all significant entities globally are group audits. She was very supportive of further progressing this project and suggested that the public interest issues be clearly identified. She also added that as the proposal is developed it needed to be clear what issues are being addressed.

WAY FORWARD

The ISA 600 Task Force will continue to progress its work on scoping of a group audit, the definitions and other issues identified, with matters for discussion being presented at the June 2019 IAASB meeting. The ISA 600 Task Force will also continue working on developing an initial outline of the revised standard.