Proposed ISA 600 (Revised) – Group Audits

Len Jui, Task Force Chair
IAASB December 2020 Meeting
Agenda Item 4
Task Force Members and Staff

• Task Force members
  – Wolf Böhm
  – Dora Burzenski (Correspondent member)
  – Bob Dohrer
  – Josephine Jackson
  – Len Jui, Task Force Chair (supported by Susan Jones)
  – Rich Sharko (supported by Jamie Shannon)
  – Eric Turner

• Staff
  – Jasper van den Hout
  – Dan Montgomery
Objectives

• Obtain the Board’s input on the initial views and recommendations of the ISA 600 Task Force related to the key themes identified in the comment letters on ED-600

• Provide a high-level overview of respondents’ comments to other questions in the Explanatory Memorandum to ED-600
Overview of Responses to ED-600

Respondents by Region
- Global: 21
- Europe: 20
- Asia Pacific: 14
- North America: 21
- South America: 2
- Middle East and Africa: 5

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: 28
- Academics: 4
- Individuals and Others: 2
Q1 – Linkages and special considerations
Q2 – Sub-sections for involvement of CA
Q3 – Professional skepticism
Q4 – Scope and applicability
Q5 – Scalability
Q6 – Revised definition of component
Q7 – Acceptance and continuance
Q8 – Risk-based approach (RBA)
Q9 – Common controls and centralized activities
Q10 – Component performance materiality
Q11 – Documentation
Q12 – Other matters

Green: Broadly agree with proposals
Yellow: Agree with proposals with some concerns
Red: More significant concerns identified

Discussed in this Board meeting
Heat Map – Key Themes to be Discussed in December 2020

- **Q1 – Linkage with ISA 220 (Revised)** – revised definition of engagement team
- **Q4 – Scope and applicability**
  - 'Aggregation' vs. 'consolidation'
  - Financial information of branches or divisions
  - Paragraph 2 of extant ISA 600
- **Q6 – Revised definition of component**
  - Need to understand group structure (operating and financial reporting)
  - Wording of definition
- **Q8 – Risk-based approach (RBA)**
  - Importance of involving component auditors
  - 'Significant component'
  - CA responsibilities, GET DSR
  - Communication and deliverables

Yellow: Agree with proposals with some concerns

Red: More significant concerns identified
Section I – Scope and Applicability

Paragraph references for IAASB discussion
What we heard 11–14
Task Force discussion and recommendations 15–31

Matters for IAASB Consideration
1. What are the IAASB’s views on the initial thoughts and recommendations of the Task Force on the following
   a) The definition of group financial statements, including retaining the reference to ‘consolidation process’ and creating a stronger link to the description of consolidation process in paragraph 11 of ED-600 (see paragraphs 16–19 in Agenda Item 4)?
   b) The applicability of proposed ISA 600 (Revised) to entities with branches or divisions, including the proposal that all instances of entities with branches or divisions fall within the scope of the proposed revised standard, while also recognizing that the audit effort may be simplified for less complex entities (see paragraphs 20–25 in Agenda Item 4)?
   c) Repeating or providing a reference to paragraph A1 of ISA 220 (Revised), in lieu of reinstating paragraph 2 of extant ISA 600 or a similar paragraph (see paragraphs 26–28 in Agenda Item 4)?
Section II – Definition of Component

Paragraph references for IAASB discussion

What we heard 36–39
Task Force discussion and recommendations 40–47

Matters for IAASB Consideration

2. What are the IAASB’s views on the initial thoughts and recommendations of the Task Force on the following
   a) Providing additional clarity regarding the group engagement team’s determination of components for purposes of planning and performing the group audit (see paragraphs 41-45 in Agenda Item 4)?
   b) In this regard, does the IAASB support relocating paragraph A54 of ED-600, which reflects wording from paragraph A2 of extant ISA 600, to help explain that management may organize its financial reporting in a manner that is different from the legal structure of the group’s entities or business units?
3. What are IAASB’s views on the Task Force’s initial thoughts and recommendations as set out in Agenda Item 4. Specifically, does the Board agree with
   a) The Task Force’s proposals for not retaining the concept of significant components in proposed ISA 600 (Revised) and the alternatives presented (see paragraphs 81–83 in Agenda Item 4).
   b) The Task Force’s proposals with respect to the involvement of component auditors (see paragraphs 84–96 in Agenda Item 4)?
Matters for IAASB Consideration

4. Does the IAASB have any further suggestions regarding the nature, timing and extent of communication between the group engagement team and component auditors, including to address respondent perceptions that ED-600 may be overemphasizing the ‘top-down’ nature of communication from the group engagement team?

5. Does the IAASB support requiring component auditors to communicate identified misstatements in component financial information that have been corrected, in addition to uncorrected misstatements?
Section IV – Linkage with ISA 220 (Revised), Definition of Engagement Team

Paragraph references for IAASB discussion
What we heard 105–114
Task Force discussion and recommendations 115–118

Matter for IAASB Consideration
6. What are the IAASB’s views on the Task Force’s initial recommendations with respect to the definition of engagement team?
Heat Map – Remaining Questions in ED-600

Q2 – Sub-sections for involvement of CA
Q3 – Professional skepticism
Q5 – Scalability
Q7 – Acceptance and continuance
Q9 – Common controls and centralized activities

Q10 – Component performance materiality
Q11 – Documentation
Q12 – Other matters

Green: Broadly agree with proposals
Yellow: Agree with proposals with some concerns
High-level Overview of Respondents’ Comments to Other Questions in ED-600

• Overall agreement that linkages to other standards are appropriate
  – Some concerns on how to apply ISA 220 (Revised), ISQM 1, and ISA 315 (Revised 2019) to a group audit

• Strong support for the overall structure of the standard, and particularly for the separate sections with requirements for CAs

• Overall support for the focus on professional skepticism

• Overall view that ED-600 is scalable

• Support for revisions in Acceptance and Continuance section, including the additional focus on restrictions on access to people and information
  – Several suggestions received to further enhance the section, for example, restrictions related to equity-method investees
High-level Overview of Respondents’ Comments to Other Questions in ED-600

• Several practical challenges identified related to the risk-based approach
  – Whether SAAE has been obtained to respond to the assessed RoMM
  – Use of statutory audit work and interaction with work done for the group audit
  – Which of the three testing approaches (paragraph A97) should be applied
• Strong support for the focus on common controls and centralized activities
• Broad support for definition of, and guidance on, aggregation risk and component performance materiality.
  – Requests for guidance and examples on how to calculate CPM
• Overall support for documentation requirements, with suggestions for other matters to be added
  – Need for clarity on CA documentation to include in the GET audit file