

Agenda Item 2-A

Overview of Issues

This paper includes an overview of the issues identified by the Group Audit Task Force (the Task Force), in addition to the issues set out in section II and III of **Agenda Item 2**. Section IV of **Agenda Item 2** provides background information and includes questions for the Board with respect to the table included below.

Issue	Foundational Standard	Possible Action to Address the Issue
Responsibilities of the Group Engagement Partner (see the Invitation to Comment (ITC), <i>Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits (Supplement A to Agenda Item 2)</i> paragraph 69-86)		
<i>Nature, Timing and Extent of Direction, Supervision and Review</i>		
<p>Concerns have been raised about the nature, timing and extent of direction, supervision and review to drive the necessary involvement of the 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).</p> <p>For ISA 600,¹ the following types or characteristics of engagements were identified where the engagement partner may not have appropriate involvement and taking overall responsibility for the performance of the engagement and for appropriate reviews:</p> <ul style="list-style-type: none"> • A group audit in which the engagement partner is not located where the majority of the audit 	<p>The exposure draft of ISA 220 (Revised)² (ED-220) has strengthened requirements and application material in relation to the responsibilities of the engagement partner, in particular in respect of:</p> <p>a) <i>Fulfilling leadership responsibilities</i> – including taking actions to create an environment for the engagement that emphasizes the firm's culture and the expected behavior of engagement team members and assigning procedures, tasks or actions to other members of the engagement team; (see paragraph 11–13 of ED-220);</p> <p>b) <i>Supporting engagement performance</i> – including taking responsibility for the nature, timing and extent of direction, supervision and</p>	<p>Strengthen links from ISA 600 to the requirements in proposed ISA 220 (Revised) that address the responsibilities of the engagement partner.</p> <p>Develop application material, based on the requirements in proposed ISA 220 (Revised), for matters that may influence the nature and extent of the engagement partner's actions. For example, the size, structure, geographical dispersion and complexity of the group, and the nature and circumstances of the group audit engagement.</p>

¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² Proposed ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*

Issue	Foundational Standard	Possible Action to Address the Issue
<p>work is performed.</p> <ul style="list-style-type: none"> • Other auditors are involved (e.g., component auditors that are not part of the group engagement partner's firm). • Where group structures include non-controlled entities, or where there are issues in obtaining the necessary access to components (either management of the component or the financial information of the components). 	<p>review of the work performed (see paragraphs 27–31 of ED-220); and</p> <p>c) <i>Standing back</i> – to determine whether the engagement partner has taken overall responsibility for managing and achieving quality, including determining that the engagement partner's involvement has been sufficient and appropriate throughout the engagement and that the nature and circumstances of the engagement have been taken into account (Paragraph 37 of ED-220).</p> <p>ED-220 also includes new guidance on matters that may constitute a significant judgment, and which matters therefore need to be reviewed by the engagement partner (Paragraph A79 of ED-220).</p> <p>In addition, ED-220 clarifies the role and responsibilities of the engagement partner in situations when the engagement partner assigns procedures, tasks or actions to other members of the engagement team. The engagement partner is required to inform assignees about their responsibilities, to monitor the performance of the assignees' work, and to review selected related documentation (see paragraph 13 of ED-220).</p> <p>For a group audit in which the engagement partner is not located where the majority of the audit work is performed, the IAASB issued, in August 2015, a Staff Audit Practice Alert, <i>Responsibilities of the</i></p>	

Issue	Foundational Standard	Possible Action to Address the Issue
	<p><i>Engagement Partner in Circumstances When the Engagement Partner Is Not Located Where the Majority of the Audit Work is Performed</i>, that addresses the challenges that arise in circumstances where the engagement partner is not located where the majority of the audit work is performed, and other auditors are involved in the audit.</p>	
Acceptance and Continuance (see the ITC (Supplement A to Agenda Item 2) paragraph 204-217)		
<i>Access to Information</i>		
<p>The ability to access the information that may be required for the group audit, including access to component auditors and people or information at the components (e.g., access to financial information of the component or to component management). Issues sometimes arise in situations where:</p> <ul style="list-style-type: none"> • Law or regulation, such as those around privacy and confidentiality, may prohibit access by the group engagement team to component management or to component auditors. This may affect the ability to be involved in the work of the component auditors to the extent necessary to obtain sufficient 	<p>For acceptance and continuance decisions, the exposure draft of ISQM 1³ (ED-ISQM 1) requires the firm to make appropriate judgments about whether it will have access to information to perform the engagement, or to the persons who provide such information.</p> <p>ISA 210,⁴ paragraph 6, sets out the preconditions for an audit, which includes a requirement to obtain agreement from management that it understands its responsibility to provide the auditor with access to the information that is relevant to the preparation of the financial statements, additional information that is relevant to the audit, and unrestricted access to persons within the entity from whom the</p>	<p>Strengthening the requirements and application material in ISA 600:</p> <ul style="list-style-type: none"> • To drive earlier identification by auditors of those situations where there is no reasonable way of obtaining sufficient appropriate audit evidence or likely to be significant complexity or difficulty in obtaining sufficient appropriate audit evidence, for example, because of the inability to access information, the inability to be involved in the work of component auditors or because of different law or regulations. • To clarify that an appropriate understanding of the group, its components and their

³ Proposed International Standard on Quality Management (ISQM) (previously International Standards on Quality Control (ISQC)) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁴ ISA 210, *Agreeing the Terms of Audit Engagements*

Issue	Foundational Standard	Possible Action to Address the Issue
<p>appropriate audit evidence. Including the ability to effectively conduct two-way communication with the component auditors, and to be sufficiently involved in the work of the component auditors to be able to take overall responsibility for the engagement.</p> <ul style="list-style-type: none"> When information requested by the group engagement team from a component auditor is not readily available or not typically or legally shared outside the component auditor's firm (such as information about the results of internal or external quality reviews that the group engagement team may inquire about as part of a consideration of the competence and capabilities of the component auditors). Environmental matters – The impact on the group audit arising from “environmental” issues relating to the component or component auditors (e.g., different cultures, languages or customs where components of the group or component auditors are located). Group management may not have the ability to direct management of the component to cooperate with the group engagement team (e.g., when investments are accounted for in accordance with the equity method or when there are other non-controlled entities that are consolidated or included in the group financial statements). 	<p>auditor determines it necessary to obtain audit evidence.</p> <p>ED-220 includes requirements for the engagement partner to be satisfied that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and to determine that conclusions reached in this regard are appropriate (see paragraphs 32–33 of ED-220).</p> <p>ED-220 also includes new guidance on matters related to access, in particular:</p> <ul style="list-style-type: none"> Paragraph A44 notes that the engagement partner may use the information considered by the firm in respect of access in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate; and Paragraph A29 notes that the engagement partner may need to communicate with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought. <p>See also “Responsibilities of the Group Engagement Partner” above.</p>	<p>environments is required before deciding to accept or continue a group audit engagement.</p> <ul style="list-style-type: none"> Clarifying or providing additional material in respect of matters that may need to be considered by the engagement partner when the engagement partner is making a determination that the firm's acceptance and continuance decision was appropriate. <p>Strengthening the link in ISA 600 to the requirements in proposed ISQM 1, ISA 210 and proposed ISA 220 (Revised) that address the firm's acceptance and continuance policies and procedures, and the requirements in proposed ISA 220 (Revised) that address the engagement partner's related responsibilities for quality at the engagement level.</p>

Issue	Foundational Standard	Possible Action to Address the Issue
<i>Differing Law, Regulations or Ethical Requirements</i>		
<p>The impact on the group audit of differing law or regulation relating to the:</p> <ul style="list-style-type: none"> • Group auditor and component auditors (e.g., differing relevant ethical requirements (including independence requirements)); and • Entity and its components (e.g., where components prepare financial information using financial reporting standards that are different from the group financial reporting standards). 	<p>In ED-ISQM 1, the firm, its personnel and others subject to relevant ethical requirements are required to understand the relevant ethical requirements, including those related to independence, fulfill their responsibilities in relation to the relevant ethical requirements and identify and appropriately respond to breaches of the relevant ethical requirements (see paragraphs 32–33 of ED-ISQM 1).</p> <p>ED-220 has strengthened requirements (see paragraphs 14–19 of ED-220) relating to relevant ethical requirements and the engagement partner's role in relation to relevant ethical requirements. For example:</p> <ul style="list-style-type: none"> • Determining whether other members of the engagement team are aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement; • Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements; and • Determining whether relevant ethical requirements, including those related to independence, have been fulfilled. <p>ED-220 also includes new application material that links with the firm level requirements in ED-ISQM</p>	<p>Strengthening the link in ISA 600 to the requirements in proposed ISQM 1 and proposed ISA 220 (Revised) that address relevant ethical requirements.</p> <p>Clarifying or providing additional material in respect of the requirement in ISA 600 paragraph 19(a) (and paragraph A37) in respect of the component auditor's understanding of, and compliance with, the relevant ethical requirements (including those related to independence) that are relevant to the group audit.</p>

Issue	Foundational Standard	Possible Action to Address the Issue
	<p>1 and describes possible appropriate actions if non-compliance is indicated.</p> <p>ISA 700 (Revised)⁵ includes guidance on how to report on multiple sources of relevant ethical requirements.</p>	
Understanding the Group, Its Components and Their Environments (see the ITC (Supplement A to Agenda Item 2) paragraph 243-253)		
<i>Evolving Group Structures</i>		
<p>Evolving group structures may make the identification of components, and how to audit the related financial information, more difficult.</p> <p>For example, many entities are increasingly operating in integrated structures, such as situations where the transactions for the group are processed centrally (e.g., through a shared service center). It has been noted that it is not clear how ISA 600 applies (or if it applies) to these situations. In some circumstances, the shared service center may be treated as a separately identifiable component. In other circumstances, a shared service center may not be considered a separate component based on applying the definition of a component as stated in ISA 600. In some cases, the group engagement team might perform the work at a shared service centers but, in other</p>	<p>The exposure draft of ISA 315 (Revised)⁶ (ED-315) contains enhanced requirements and application material on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance (see paragraphs 23–24 of ED-315).</p> <p>The ISA 315 (Revised) Task Force proposed to make conforming amendments to paragraph A23 of ISA 600. This paragraph describes matters the group engagement team may consider obtaining an understanding of with respect to the entity and its environment.</p>	<p>Strengthening the links in ISA 600 to the requirements in proposed ISA 315 (Revised) that address the group engagement team's understanding (see the top-down approach as set out in Section II of Agenda Item 2) and provide additional material in ISA 600 in respect of the application of that understanding in a group audit situation.</p> <p>Reconsidering the definitions, as discussed in section III of Agenda Item 2.</p>

⁵ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Issue	Foundational Standard	Possible Action to Address the Issue
cases, another auditor may be involved. We note that some confusion exists as to whether or not the involvement of such an auditor is to be considered and treated similar to that of a component auditor.		
<i>Internal Controls</i>		
The importance of considering internal controls relevant to the audit and the entity's financial reporting process used to prepare the consolidated financial statements is not included in ISA 600.	ED-315 includes enhanced requirements and application material related to understanding the entity's system of internal control (see paragraphs 25–44 of ED-315).	<p>Strengthening the links in ISA 600 to the requirements in proposed ISA 315 (Revised) that address the group engagement team's understanding of internal controls and provide additional material in ISA 600 in respect of the application of that understanding in a group audit situation. For example:</p> <ul style="list-style-type: none"> • Why the understanding is required to be obtained, how the information will be obtained, and how the information obtained was to be used; and • What additional procedures may be required in order to 'obtain the necessary understanding' for internal control' in a group audit.

Understanding the Component Auditor (see the ITC (**Supplement 2 to Agenda Item A**) paragraph 226-234)*Understanding of the Component Auditor's Competence and Capabilities*

There are concerns about whether, and how, a group engagement team demonstrates the necessary understanding of the component auditor's competence and capabilities and the consequential impact on the group engagement team's determination of the nature, timing and extent of its involvement in the work of the component auditors.

These concerns apply to situations where the group engagement team and component auditor are subject to common policies and procedures (i.e. part of a network) as well as to situations when they are not.

When the firm operates as part of a network, ED-ISQM 1 has requirements and application material that address the firm's responsibility to evaluate the effect of the network requirements or network services on the firm's system of quality management, including determining whether they need to be adapted or supplemented by the firm to be appropriate for use in its system of quality management (see paragraphs 58–63 of ED-ISQM 1).

ED-220 requires the engagement partner to determine that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement (see paragraph 24 of ED-220).

ED-220 also requires information learned in the acceptance and continuance process to be taken into account in planning and performing the audit engagement (see paragraph 21 of ED-220). Paragraph A47 of ED-220 specifically notes that information learned in the acceptance and continuance process may assist in understanding the group, its components, and their environments, in the case of an audit of group financial statements in accordance with ISA 600, and directing, supervising and reviewing the work

Strengthening the links in ISA 600 to the requirements in proposed ISQM 1 and proposed ISA 220 that addresses competencies and capabilities of the engagement team and provide additional material in ISA 600 in respect of the application of those requirements in a group audit situation. For example:

- Linking ISA 600 to the requirement in paragraph 24 of proposed ISA 220 (Revised) and explicitly emphasizing the need to make such a determination in respect of component auditors.
- Enhancing the application material by including more specific examples that address some of the practical challenges that have been identified related to understanding the component auditors' competence and capabilities.
- Developing application material to emphasize the need for the group engagement team to understand:
 - Results of quality control monitoring, including those required under proposed ISQM 1; and
 - External quality control reviews for component auditors,

	<p>of component auditors.</p> <p>Also see the above section on the responsibilities of the Group Engagement Partner.</p>	<p>irrespective of whether the group engagement team and the component auditors are subject to common quality control monitoring mechanisms.</p>
Identifying and Assessing the Risks of Material Misstatement (see the ITC (Supplement A to Agenda Item 2) paragraph 243-246)		
<i>Consideration of Risks Identified by Component Auditors</i>		
<p>Risks identified at the component level by the component auditors are sometimes not appropriately considered at the group level (i.e., inappropriate consideration is given as to whether such risks are group-wide risks or whether such risks also exist at some of the other components).</p>	<p>ED-315 requires the identification and assessment of the risks of material misstatement at financial statement level and the assertion level for classes of transactions, account balances and disclosures (see paragraph 45–53 of ED-315).</p>	<p>ISA 600 could clarify the requirement and related application material in extant ISA 600 (paragraph 31) to emphasize that significant risks identified by component auditors for a specific component should also be considered at the group level by the group engagement team for implications at the group level as well as for other components where the risks might not have been initially identified.</p> <p>The top-down approach, as set out in section II of Agenda Item 2, will address this issue as well.</p>
<i>Group-Wide Significant Risks</i>		
<p>In situations where group-wide significant risks have been identified, including non-significant components where no procedures are planned to be performed, it may be confusing as to where, or to which component, the work related to the significant risk is to be directed in order to appropriately respond to the risk.</p>	<p>ED-315 requires the identification and assessment of the risks of material misstatement at financial statement level and the assertion level for classes of transactions, account balances and disclosures (see paragraph 45–53 of ED-315).</p>	<p>The top-down approach, as set out in section II of Agenda Item 2, will address this issue.</p>

Responding to Assessed Risks (see the ITC (**Supplement A to Agenda Item 2**) paragraph 262-279)*Involvement of the Group Engagement Team in the Work of the Component Auditors*

The involvement of the group engagement team in the work of the component auditors is not always adequate. 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, 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.

ED-220 recognizes that the engagement partner may assign procedures, tasks or actions to other members of the engagement team to assist the engagement partner in complying with the requirements, but that the engagement partner is still required to take overall responsibility for the quality of the engagement. ED-220 requires the engagement partner to:

- *Support engagement performance*, including taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed; and
- *Stand back* - to determine whether the engagement partner has taken overall responsibility for managing and achieving quality, including determining that the engagement partner's involvement has been sufficient and appropriate throughout the engagement and that the nature and circumstances of the engagement have been taken into account.

Strengthening ISA 600 to provide more clarity as to how the group engagement team can be involved in the work of component auditors, including more explicit focus on demonstrating why the involvement of the group engagement team is appropriate in light of all relevant considerations and the application of appropriate professional skepticism.

Strengthening ISA 600, either through clarification or additions to the requirements or application material, as follows:

- Emphasizing the need for greater focus and professional skepticism by the group engagement team on the significant judgments that need to be made about the nature, timing and extent of the involvement of the group engagement team in work performed by the component auditors, and the need for appropriate documentation thereof.
- Clarifying the interrelationships between paragraphs 24, 30, A33, A47 and A54 of ISA 600, to assist auditors in better applying professional judgment in determining the nature, timing and extent of their involvement in the work of the component auditors.
- More explicitly explaining the interactions between the group engagement team and the

		<p>component auditors in varying circumstances (e.g., in different group structures or in jurisdictions where restrictions on access exist).</p> <ul style="list-style-type: none"> • Providing further examples in the application material to illustrate the wide variety of circumstances that may affect the determination of the necessary nature, timing and extent of the group engagement team's involvement in the work of the component auditor.
<i>Nature, Timing and Extent of Procedures Being Performed on the Component's Financial Information</i>		
<p>It has been observed that scoping of the audit based on the identification of components may not always result appropriate responses to those risks of material misstatement that have been identified and assessed using a top-down approach. Also see section II of Agenda Item 2 about scoping a group audit engagement.</p>	<p>ISA 330⁷ requires the auditor to:</p> <ul style="list-style-type: none"> • Design and implement overall responses to address the assessed risks of material misstatement at the financial statement level (paragraph 4). • Design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level (paragraph 6). 	<p>The top-down approach, as set out in section II of Agenda Item 2, will address this issue.</p>

⁷ ISA 330, *The Auditor's Responses to Assessed Risks*

The Meaning of “an Audit of Financial Information of the Component Using Component Materiality” and Performing Analytical Procedures at the Group Level in Respect of Components that Are Not Significant Components

The Meaning of “an Audit of Financial Information of the Component Using Component Materiality – Questions have been raised as to whether this means (and therefore requires) applying all relevant ISAs, or whether it means only applying those ISAs or those requirements in specific ISAs as instructed by the group engagement team, or that the component auditor has determined are appropriate given the work which they have been asked by the group engagement team to perform.

Analytical procedures – The requirement to perform analytical procedures at the group level in respect of components that are not significant components.

In many cases, the financial information of non-significant components may be aggregated by management with the information relating to significant components. While ISA 600 does not require that these analytical procedures are substantive analytical procedures, questions arise as to how to plan and perform them and how to use the results in supporting the conclusion that sufficient appropriate audit evidence has been obtained.

The classification of the work to be performed on the financial information of components that are significant components and not significant components, is ISA 600 specific.

ISA 330 requires the auditor to:

- Design and implement overall responses to address the assessed risks of material misstatement at the financial statement level (paragraph 4).
- Design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level (paragraph 6).
- ISA 330 al requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained (paragraph 26).

Strengthen links from ISA 600 to the requirements in ISA 330 (see the top-down approach as set out in Section II of **Agenda Item 2**) that address the auditor’s response to assessed risks.

Develop application material that:

- Explains that the group auditor responds to the assessed risk of material misstatement of the group financial statements by determining the scope of work on the components’ financial information and on the consolidation, and in accordance with the principles of proposed ISA 220 (Revised), if it is to be performed directly, or by component auditors or other auditors.
- Explains how to use analytical procedures at the group level in respect of components that are not significant components.

<i>Centrally Audited Balances (Including the Use of Shared Service Centers)</i>		
<p>The work performed on group-level balances or at a shared service center may be important to a component auditor's conclusions when an auditor's report on the separate financial statements of the component is issued (e.g., for statutory or other purposes). In such instances, there is a need for relevant information to be communicated to the component auditor by the group engagement team (or by the component auditor or other auditor who has performed the work).</p>	<p>ISA 330 requires the auditor to:</p> <ul style="list-style-type: none"> • Design and implement overall responses to address the assessed risks of material misstatement at the financial statement level (paragraph 4). • Design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level (paragraph 6). <p>The component auditor would apply ISAs in addressing the situation (as with any single entity audit where evidence is being obtained by other auditors).</p>	<p>The Task Force will further discuss how to address issues related to centrally audited balances. The Task Force may develop guidance in ISA 600 or develop frequently asked questions to draw attention to the matter and to highlight procedures that may be performed at the components (including in situations when the work is supporting standalone component auditor's reports in addition to the report on the group financial statements). For example, for situations where audit work on revenue has been performed centrally, considerations for component auditors relating to financial information that is relevant to the component and the necessary procedures (if any) at the component level could be included.</p> <p>Application material to emphasize the need for clear two-way communication, to ensure there is a clear understanding between the component auditor and group engagement team about what is expected of the group auditor.</p>
<i>Large Number of Non-Significant Components and Consideration of "Residual Balances"</i>		
<p>ISA 600 does not specifically require that, in making the determination as to what work is necessary for the group as a whole, the group engagement team should consider whether risks of material misstatement remain that are not addressed by work performed on significant components, selected non-significant</p>	<p>ISA 330 requires the auditor to:</p> <ul style="list-style-type: none"> • Design and implement overall responses to address the assessed risks of material misstatement at the financial statement level (paragraph 4); • Design and perform further audit procedures 	<p>The top-down approach, as set out in section II of Agenda Item 2, will address this issue.</p>

<p>components, and through work performed at the group level (including auditing of accounts at the group level, procedures to evaluate and test group-wide controls, and the consolidation process).</p> <p>Determining an appropriate approach to scoping a group audit to obtain sufficient appropriate audit evidence is particularly challenging when there are a large number of components, none of which are significant individually, but that in the aggregate represent one or more risks of material misstatement to the group financial statements.</p> <p>Residual balances – Regulators and audit oversight bodies have expressed concerns that in some cases it is not clear that auditors have performed a robust assessment as to whether the risks of material misstatement to the group financial statements related to “residual balances” (i.e., those pertaining to non-significant components that are not otherwise selected for testing) are adequately addressed by the rest of the work performed on the group audit, and therefore have challenged whether the work done on such residual balances is adequate.</p>	<p>whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level (paragraph 6);</p> <ul style="list-style-type: none"> • To evaluate, before the conclusion of the audit, whether the assessments of the risks of material misstatement at the assertion level remain appropriate (paragraph 25); and • To conclude whether sufficient appropriate audit evidence has been obtained (paragraph 26). <p>The classification of the work to be performed on the financial information of components that are significant components and not significant components, is ISA 600 specific.</p>	
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Consolidation Process (see the ITC (Supplement A to Agenda Item 2) paragraph 280-288)		
<i>The Group Engagement's Team Involvement in the Sub-consolidation</i>		
<p>ISA 600 does not deal with the expected involvement by the group engagement team in any sub-consolidation processes. It has been noted that various issues could arise when sub-consolidations are audited by component auditors, and the group engagement team is not appropriately involved, including because the component auditors may not have the full context of the group-wide risks to effectively audit the sub-consolidations.</p> <p>Other issues relating to sub-consolidations include:</p> <ul style="list-style-type: none"> • Insufficient information for the group engagement team to understand the consolidation entries processed in the sub-consolidation, some of which may be material to the group. • Failure by the component auditor to appropriately consider the accounting for or processing of group-wide journal entries necessary for the sub-consolidation process (e.g., as a result of differing accounting policies used by the components and at the consolidated level). • Ineffective controls over the consolidation process that are not properly considered by the group engagement team or the component 	<p>ED-315 includes enhanced requirements and application material about obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control (see paragraphs 17–44 of ED-315).</p> <p>ED-220 has strengthened requirements and application material in relation to the responsibilities of the engagement partner, including relating to supporting engagement performance, including taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed.</p>	<p>Strengthening links from ISA 600 to the specific aspects of proposed ISA 315 (Revised) that are relevant to the group auditor's understanding of the consolidation process and providing additional material in ISA 600 in respect of the application of that understanding in a group audit situation. For example, consideration could be given to elevating some aspects of the examples in Appendix 2 of ISA 600 into the application material such as understanding matters related to the financial reporting framework, the consolidation process and consolidation adjustments.</p> <p>In addition, ISA 600 could recognize that:</p> <ul style="list-style-type: none"> • In certain cases, component auditors may not have the “full picture” of the group and therefore may not be in a position to properly evaluate the completeness and accuracy of all consolidation adjustments at the sub-consolidation level for the group audit, without appropriate direction, supervision and review of the group engagement team in accordance with proposed ISA 220 (Revised). • Determining the appropriateness of the group engagement team's involvement in accordance with proposed ISA 220 (Revised) would be dependent on the circumstances and structure of the group, and involve appropriate

auditors.		application of professional skepticism.
Communication with the Component Auditor (see the ITC (Supplement A to Agenda Item 2) paragraph 218-225)		
<i>Issues Related To the Communication with the Component Auditor</i>		
<p>Specific issues noted related to the communication with the component auditor include:</p> <ul style="list-style-type: none"> • Inadequate communication between the group engagement team and the component auditor during the audit, in particular as it relates to the communications related to the findings of a component auditor. • The necessary communications are not taking place on a timely basis. • Group instructions provided by the group engagement team to component auditors may not be clear or appropriate. For example, the group engagement team may send standardized audit instructions to all component auditors and not tailor the instructions for each component auditor based on the applicable facts and circumstances and the work that each component auditor is being asked to perform. • The communications back from the component auditor to the group engagement team may not be in the appropriate form for 	<p>ED-220 encourages proactive management of quality at the engagement level, and reinforces the need for robust communications. In particular, the engagement partner is responsible for encouraging open and robust communication within the engagement team. In addition, the application material related to paragraph 11 of ED-220 includes guidance on the role of communications during the audit and between which parties there may be communications. It emphasizes that communications contribute to the achievement of quality on the audit engagement.</p> <p>ISA 230⁸ includes requirements about the form, content and extent of the audit documentation. Paragraph 8 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit to understand:</p> <ul style="list-style-type: none"> • The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; • The results of the audit procedures performed, 	<p>Strengthening the relevant links from ISA 600 to proposed ISA 220 (Revised), ISA 230 and ISA 260 (Revised), and providing additional material in ISA 600 in respect of the application of the relevant requirements. For example:</p> <ul style="list-style-type: none"> • Emphasizing the importance of two way communications with component auditors throughout the audit instead of focusing on the communications at a later stage of the audit. • Strengthening the requirements and enhancing the related application material regarding communications between group engagement teams and component auditors. This may include, for example, placing more emphasis on the need for sufficient and timely two-way communication during the audit, and highlighting the importance of dialogue, whether in-person, telephonic, or through a virtual form, as appropriate, to supplement more formal written instructions and other communications. • Enhancing the supporting application material by explaining in more detail what the requirements are intended to achieve. For

⁸ ISA 230, *Audit Documentation*

<p>the group engagement team to be able to properly understand and evaluate the information therein.</p>	<p>and the audit evidence obtained; and</p> <ul style="list-style-type: none"> Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. <p>ISA 260 (Revised)⁹ includes guidance that addresses the timing of communications with those charged with governance and that could be used as a basis to provide further explanation about timely communications in the context of ISA 600.</p>	<p>example, the guidance in ISA 260 (Revised) could be used as a basis to provide further explanation about timely communications in the context of ISA 600. Enhanced application material could also include examples of different kinds of communications that may be appropriate in different circumstances.</p> <ul style="list-style-type: none"> Adding application material to emphasize the importance of applying the requirements of ISA 230 in documenting significant communications between the group engagement team and component auditors (including two-way dialogue), and not just focusing on the inclusion of written communications in the audit documentation. <p>In addition, consideration of whether the requirements of paragraph 48 of ISA 600, or the related application material, need to be revised to better address the ability of the group engagement team to communicate directly with a component auditor or component management when the group engagement team is aware of non-compliance or suspected non-compliance with laws and regulations that may be relevant to the work being done by the component auditor.</p>
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⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained (see the ITC (**Supplement A to Agenda Item 2**) paragraph 293-303)

Concerns have been raised by regulators and audit oversight bodies that the flexibility in ISA 600 regarding the nature, timing and extent of necessary involvement in the work of the component auditors, including the review of component auditors' audit documentation, has led to situations where group engagement teams are not able to demonstrate that an appropriate evaluation of the component auditors' findings has been undertaken. In this regard:

- It has been noted that the requirement in paragraph 42(b) of ISA 600 relating to the review of the relevant parts of a component auditor's audit documentation, and the related application material in paragraph A61, are not sufficiently detailed to provide appropriate direction to group engagement teams.
- These issues may sometimes arise because the review of the component auditors' documentation (including working papers and conclusions) by the group engagement team is not sufficiently documented in the group audit documentation. As a result, issues arise related to the group engagement team being able to adequately support the significant judgments made in relation to this review.

In some cases, the audit documentation may not explicitly demonstrate the group engagement team's judgments, as appropriate, in relation to the

ISA 230 includes requirements about the form, content and extent of the audit documentation.

ISA 330 requires the auditor to evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate (paragraph 25) and to conclude whether sufficient appropriate audit evidence has been obtained (paragraph 26).

ISA 330 paragraph 28 also requires the auditor to document:

- The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing and extent of the further audit procedures performed;
- The linkage of those procedures with the assessed risks at the assertion level; and

The results of the audit procedures, including the conclusions where these are not otherwise clear.

Strengthening the relevant links from ISA 600 to proposed ISA 220 (Revised), ISA 230, and proposed ISA 315 (Revised) and providing additional material in ISA 600 in respect of the application of that the relevant requirements. For example:

- In the context of proposed ISA 220 (Revised), strengthening the requirement in paragraph 42(b) of ISA 600, and the related application material, to clarify the necessary work effort of the group engagement team in relation to reviewing the component auditor's working papers. In addition, further consideration will be given in the quality control project to the involvement and review by the EQC reviewer.
- In the context of ISA 230, strengthening the documentation requirements regarding the group engagement team's evaluation of the component auditors' communication, including the nature of any review of documentation that was performed by the group engagement team.

evaluation of the findings of the component auditors. For example, some regulators and audit oversight bodies have noted instances where there is insufficient consideration of the effect on the group audit of the component auditor's findings, including the evaluation of whether sufficient appropriate audit evidence has been obtained.		
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