

Agenda Item

4-A

Explanation of Significant Changes to Requirements and Application Material

This paper explains the significant changes and the rationale for the changes that have been made by the ISA 600 Task Force (the Task Force) since the March 2021 meeting, as reflected in the marked draft in **Agenda Item 4-C**. This paper also refers to significant changes that are discussed in more detail in the relevant sections of **Agenda Item 4** (Issues Paper).

Reference	Significant Changes and the Rationale for Those Changes
Introduction	
Paragraph 1	<ul style="list-style-type: none"> A reference to ISA 230¹ was added based on comments from respondents to the Exposure Draft of Proposed ISA 600 (Revised)² (ED-600) that ISA 230 is an important baseline standard for proposed ISA 600 (Revised). The Task Force agreed to add the reference in view of concerns raised about the importance of documentation in a group audit, and to highlight that the documentation requirements in the proposed revised standard build upon the principles in ISA 230. A reference to ISA 300³ was also added given the addition of the Overall Group Audit Strategy and Group Audit Plan section in proposed ISA 600 (Revised) to address respondent comments on ED-600 regarding the need for a framework to apply the risk-based approach. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A1: The Task Force revised the wording to make it consistent with paragraph 6.
Paragraph 1A	<ul style="list-style-type: none"> The Task Force deleted ‘when permitted’ in response to Board comments. The Task Force noted that paragraph A16 states that, in some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements.

¹ ISA 230, *Audit Documentation*

² Proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

³ ISA 300, *Planning an Audit of Financial Statements*

Reference	Significant Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraphs A2AA–A2B: The Task Force incorporated the wording from paragraph 21 of the March 2021 issues paper based on the Board’s support for the ‘two paragraph option’ to contrast the situations in which proposed ISA 600 (Revised) would apply to a single legal entity. This option was discussed with the Board in March 2021 in response to a Board member’s concern related to the concept of divisions in a single legal entity.
Paragraph 1B	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A2C: In the March 2021 IAASB meeting, the Board commented that the scalability considerations in paragraph A2C would be more helpful as a separate paragraph in the Introduction section. The Task Force agreed and moved paragraph A2C to paragraph 5A in Agenda Item 4-C.
Paragraph 3	<ul style="list-style-type: none"> The Task Force added a reference to functions based on Board comments and to be consistent with the definition of a component in paragraph 9(b).
Paragraph 3A	<ul style="list-style-type: none"> The Task Force revised the second sentence to address Board member concerns about the reference to flexibility. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A4: The Task Force intended for this paragraph to be deleted in Agenda Item 5-A for the March 2021 IAASB meeting as these two sentences previously were moved to paragraph 3A. Paragraph A5: The Task Force made revisions to improve the clarity of the paragraph. The Task Force is of the view that ‘considered together’ better reflects the judgment of the group auditor in determining components for purposes of planning and performing audit procedures. In addition, the Task Force deleted the reference to disaggregation since the term is used in a different context elsewhere in Agenda Item 4-C. The Task Force noted that the group auditor would still be permitted to use professional judgment to determine that a function or activity that operates across business units of the group (i.e., disaggregated from the legal entity structure) is a component. Paragraph A6: This paragraph was revised based on Board member comments that the group auditor would first need to determine whether the shared service center is a component before determining whether to perform

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	audit procedures at that location. The Task Force agreed and concluded that the reference to performing audit procedures at the location should be deleted because the point of the paragraph is whether the shared service center is or is not a component for purposes of the group audit.
Paragraph 3B	<ul style="list-style-type: none"> The Task Force clarified the wording of this paragraph in response to Board comments and to better link the reference to resources in the first sentence to the requirement for the group auditor to determine the nature, timing and extent of involvement of component auditors.
Paragraph 4	<ul style="list-style-type: none"> The Task Force considered whether more guidance could be added on aggregation risk in a group audit to supplement the definition in paragraph 9(a) and related application material in paragraph A11 in Agenda Item 4-C. As discussed with the Board in March 2021, the Task Force's view is that any additional guidance about aggregation risk is best provided outside of proposed ISA 600 (Revised) because the concept of aggregation risk is not well understood and information about the concept is not widely available (see paragraph 81 of Agenda Item 5 for the March IAASB meeting). However, based on further discussion, the Task Force concluded that additional guidance contrasting detection risk and aggregation risk would be helpful in the standard. Therefore, wording from paragraph 6 of extant ISA 600⁴ has been added to paragraph 4. The Task Force is of the view that this wording also is helpful in highlighting the importance of the group auditor's involvement in the work of component auditors. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraphs A8A–A8B: These paragraphs were added to provide guidance on detection risk and aggregation risk as described above.
Paragraph 5	<ul style="list-style-type: none"> See Section II of Agenda Item 4-B regarding the analysis of comments from respondents to ED-600 relating to professional skepticism and Section II-B of Agenda Item 4 for the Task Force's views and recommendations.
Paragraph 5A	<ul style="list-style-type: none"> See the explanation above regarding paragraph A2C. The Task Force deleted the reference to an audit of a less complex group in response to Board comments that the example applies to a group audit of any size or complexity.

⁴ Extant ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Reference	Significant Changes and the Rationale for Those Changes
Objectives	
Paragraph 8	<ul style="list-style-type: none"> No changes were made to the objectives. Some respondents to ED-600 questioned whether the objectives should refer to 'group auditor' instead of 'auditor.' The Task Force noted that the objectives in the ISAs use the 'auditor' construct in line with the overall objectives of the auditor in ISA 200.⁵ The Task Force also discussed that the use of 'auditor' in the objective of ISA 220 (Revised)⁶ is as it is defined in the Glossary of Terms, i.e., to refer to the engagement partner, other members of the engagement team or, as applicable, the firm. Some may be of the view that a natural extension of that concept would be to use the term 'group auditor' for the objective in proposed ISA 600 (Revised), recognizing that the standard relates to group audits. The Task Force noted, however, that 'group auditor' is defined in paragraph 9(h) of Agenda Item 4-C to specifically mean the group engagement partner and members of the engagement team other than component auditors who are responsible for specific activities. That definition does not include the 'firm' and therefore the Task Force is of the view that referencing 'group auditor' in the objectives of proposed ISA 600 (Revised) would be inconsistent with the intent of ISA 220 (Revised).
Definitions	
Paragraph 9(b)	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A12: In response to Board comments, the wording of this paragraph was streamlined and aligned with paragraph A5.
Paragraph 9(h)	<p><i>Definition</i></p> <ul style="list-style-type: none"> In the March 2021 IAASB meeting, Board members commented that it was not clear from the wording of the definition whether component auditors, who are part of the engagement team for a group audit, can be responsible for these tasks. The Task Force clarified the wording to indicate that the group engagement partner and members of the engagement team other than component auditors are responsible for these tasks.

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁶ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Reference	Significant Changes and the Rationale for Those Changes
Paragraph 9(j)	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Respondents to ED-600 (see paragraphs 141–146 of Agenda Item 4-B) suggested adding a reference to joint audits similar to the reference in paragraph 9(h) of extant ISA 600. The Task Force noted the Board's previous decision in discussing ED-600 to include such wording through a proposed conforming amendment to ISA 220 (Revised). However, the Task Force concluded that also including similar wording in proposed ISA 600 (Revised) would be responsive to comments received, and therefore added paragraph A15A.
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	
Paragraph 12	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Respondents to ED-600 suggested enhancing paragraph 12 by linking it closer to paragraph 13 of ISA 220 (Revised). In the March 2021 Board meeting and by respondents to ED-600 (see paragraph 21(c) of Agenda Item 4-B) the importance of behavioral factors was also noted. Paragraph 12 of ED-600 was based on paragraph 13 of ISA 220 (Revised) but did not highlight the importance of creating an environment for the engagement that emphasizes the expected behavior of engagement team members. In response, the Task Force aligned paragraph 12 of proposed ISA 600 (Revised) more closely to the paragraph 13 of ISA 220 (Revised). Also see Agenda Item 4, Section II-B. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A19A: In addition to enhancing paragraph 12, paragraph A19A was added to explain how the group engagement partner may take responsibility for creating an environment for the engagement that emphasizes the expected behavior of engagement team members. Also see Agenda Item 4, Section II-B.
Acceptance and Continuance	
Paragraphs 13	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A21: Given that the reference to the determination whether sufficient and appropriate resources are assigned or will be made available has been moved from paragraph 13 to paragraph 17A (Section on the overall

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	<p>group audit strategy and group audit plan), application material was added to emphasize the need to determine whether sufficient and appropriate resources are assigned or will be made available in determining whether sufficient appropriate audit evidence can be expected to be obtained.</p> <ul style="list-style-type: none"> Paragraph A21A: Moved paragraph A24 up to become A21A based on a suggestion of a Board member during the March 2021 Board meeting.
Paragraph 14	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A25: Changed the structure of the paragraph as it was not clear where 'In these circumstances' in the second sentence referred to.
Paragraph 16	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A29: Several changes were made to this paragraph based on comments from respondents to ED-600 (see paragraphs 54(a) and 57 of Agenda Item 4-B): <ul style="list-style-type: none"> The Task Force added 'through the use of technology (e.g., video conferencing, remote access to the audit file)' in the first bullet, second sub bullet, given that several respondents commented that technology can play an important role in overcoming restrictions to access people and information. The wording in ED-600 tried to signal this but the reference to 'remotely' may not have been sufficiently clear. The Task Force clarified the third and the fourth sub-bullet of the first bullet. The Task Force decided to move a part of the second bullet to paragraph A29A (see explanation related to paragraph A29A) and because of the move included a reference to paragraph A29A in the second bullet.. The Task Force aligned the third bullet with the first bullet. Respondents noted that some of the options to overcome restrictions to access people and information may not be appropriate as they may not provide sufficient appropriate audit evidence (e.g., requesting the component auditor to prepare a memorandum and discussing the procedures performed). In response, the Task Force added a hanging paragraph explaining that which of the options to overcome restrictions on access to people and information to enable the group auditor to obtain sufficient appropriate audit

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	<p>evidence is a matter of professional judgment.</p> <ul style="list-style-type: none"> Paragraph A29A: Respondents to ED-600 (see paragraph 54(a) of Agenda Item 4-B) were of the view that it was not clear whether publicly available information (such as audited financial statements) in itself is sufficient when access to an equity accounted investee is restricted. Based on the suggestions received, the Task Force decided to move the part of paragraph A29 which relates to restrictions to access people and information at a non-controlled entity to a separate paragraph. This enabled the Task Force to better address the comments and enabled the Task Force to articulate its intentions. The Task Force clarified it is a matter of professional judgement in view of the assessed risk of material misstatement whether one or more of the procedures listed are sufficient. Paragraph A30: The Task Force made several changes to this paragraph based on suggestions from respondents to ED-600 (see paragraph 55 of Agenda Item 4-B). The Task Force: <ul style="list-style-type: none"> Clarified that the restrictions should be discussed with the component auditor's firm first; and Clarified that the objective of the communications of the group auditor's firm with regulators, listing authorities or others is how to overcome the restrictions.
Overall Group Audit Strategy and Group Audit Plan	
Paragraph 17A	See Agenda Item 4 , Section I-A.
Paragraphs 18 and 19	<p><i>Requirements</i></p> <ul style="list-style-type: none"> Paragraph 18: Respondents to ED-600 noted that paragraph 18 of ED-600 references to proposed ISA 220 (Revised), which is related to the execution of the audit. Also, the footnote reference to proposed ISA 220 (Revised) relates to a requirement that addresses "Leadership Responsibilities for Managing and Achieving Quality on Audits." It was suggested that paragraph 18 of ED-600 should refer and build on the requirement in paragraph 13. Based on these comments the Task Force changed paragraph 18. Paragraph 19: Respondents to ED-600 (see paragraph 58 of Agenda Item 4-B) suggested to elevate A35 to a requirement. The Task Force agreed with this suggestion and therefore deleted paragraph A35.

Reference	Significant Changes and the Rationale for Those Changes
	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A35: Respondents to ED-600 (see paragraph 58 of Agenda Item 4-B) suggested to elevate A35 to a requirement (also see explanation related to paragraph 19). The Task Force agreed with this suggestion and therefore deleted paragraph A35. Paragraph A35A: Respondents to ED-600 (see paragraph 58 of Agenda Item 4-B) suggested to add guidance for instances in which the component auditor is unable or unwilling to cooperate with the group engagement team as requested. The Task Force made several changes to this paragraph to address respondents' comments.
Paragraph 20	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 20: Respondents to ED-600 (see paragraph 59 of Agenda Item 4-B): <ul style="list-style-type: none"> Suggested to move paragraph 20(c) to paragraph 44 as it is a communication requirement from the component auditor to the group auditor. The Task Force therefore moved paragraph 20(c) to paragraph 44 (ab). Had wording suggestions for paragraph 20(a) and (b) which the Task Force included in the current draft of proposed ISA 600 (Revised). <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A39: To address comments made in the March 2021 Board meeting and in addition to the changes to paragraph 12, the Task Force enhanced paragraph A39 by highlighting that constraints on the determination of the components at which audit work will be performed, as well as the resources needed cannot override the group engagement partner's responsibility for achieving quality at the engagement level or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion. Paragraph A39A: Respondents to ED-600 (see paragraph 59 of Agenda Item 4-B) suggested updating the last sentence of paragraph A39 of ED-600 because it implies that the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) primarily addresses fees and other remunerations. It was also noted that low audit fees are more a risk to audit quality than to independence. The Task Force split up paragraph A39

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	and aligned the wording with ISA 220 (Revised), paragraph A44.
Paragraph 21	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 21: Respondents to ED-600 (see paragraph 60 of Agenda Item 4-B) asked the Board to clarify what is required of the auditor in relation to the requirement outlined in paragraph 21(b) of ED-600. Specifically, it was noted that the phrase “When information has been provided” could create confusion as to the expected work effort needed in searching for the information. In response, the Task Force clarified its intentions and added that the information would be provided by the firm or otherwise be made available to the group auditor. The reference to ‘has otherwise been made available’ is intended to address circumstances when information comes to the attention to the group engagement partner, other than through the firm. The Task Force also linked paragraph 21(b) to paragraph 21(a) to clarify that the group engagement partner uses the results of the monitoring and remediation process or external inspections for determining whether component auditors have the appropriate competence and capabilities. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A40A: The Task Force moved this part of paragraph A40A into a separate paragraph as it relates to resources more broadly. See also the change to paragraph A40B. Paragraph A40B: The Task Force added this paragraph to expand the guidance relating to the competence and capabilities of the engagement team, including component auditors. Paragraph A40C: Added this paragraph to link paragraph 19 to 21. Paragraph A43: Respondents to ED-600 questioned whether the fifth bullet to this paragraph meant to be at the firm level or individual level. To clarify that it is at the firm level, the Task Force placed the bullet, as a sub bullet, under the first bullet to this paragraph. Paragraph A46: The Task Force deleted this paragraph as it is of the view that paragraphs A41 and A42 addresses this point sufficiently.
Paragraph 22	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 22: As noted in Agenda Item 4 (Introduction section), the Chair and Staff met with the IESBA

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	<p>Engagement Team – Group Audits Independence Task Force (IESBA Task Force). In that meeting the IESBA Task Force noted a perceived inconsistency between the paragraph 22 and paragraph A47, and the IESBA Code. This perceived inconsistency was also highlighted by respondents to ED-600 (see paragraph 60 of Agenda Item 4-B). The IESBA Task Force noted that the Code requires to first determine what the breach is and then determine what the appropriate action is to be undertaken. A breach may be insignificant and can be addressed via safeguards or actions so it does not automatically disqualify the use of the component auditor's work. Based on the discussions with the IESBA Task Force, the Task Force addressed the perceived inconsistency by:</p> <ul style="list-style-type: none"> ○ Splitting the reference to 'independence' from 'serious concerns about the matters in paragraphs 18–21' in the requirement. Therefore, the construct of paragraph 22 has been changed and sub bullets were introduced for independence and other serious concerns. ○ Adding application material (paragraph A46A) that explains the possible actions that the component and group auditor may perform when an independence breach is identified. The new paragraph better sets up paragraph A47 which addresses the situation when the breach cannot be mitigated and which, on its own, was creating some of the perceived inconsistency <p><i>Application Material</i></p> <ul style="list-style-type: none"> • Paragraph A46A: See explanation for paragraph 22. • Paragraph A47: Respondents to ED-600 (see paragraph 60 of Agenda Item 4-B) noted that the wording “does not meet the independence requirements” is not in line with paragraph 20 (b), which refers to whether the component auditors “are independent.” Hence, the Task Force changed the wording. • Paragraph A48: Respondents to ED-600 (see paragraph 60 of Agenda Item 4-B) noted that the term ‘serious concern’ is not clear. The Task Force noted that this wording is used in extant ISA 600 and clarified what is mean with ‘serious concern’ in this paragraph.
Paragraph 23	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • The Task Force aligned the wording of paragraph 23(a) with the wording in ISA 701,⁷ paragraph 9 (a) and

⁷ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Reference	Significant Changes and the Rationale for Those Changes
	<p>paragraph 38 of proposed ISA 600 (Revised)</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A48A: To strengthen the link to ISA 220 (Revised), the Task Force added this paragraph to provide guidance relating to the group engagement partner's responsibility for the nature, timing and extent of the direction and supervision of the engagement team and the review of their work. Paragraph A51: The changes are based on suggestion from respondents to ED-600. The second bullet was expanded as these matters were also deemed appropriate in case the group auditor has no previous experience working with a component auditor.
Paragraph 23A	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Task Force added the word 'respective' to highlight the two-way nature of the communications about the responsibilities of the group auditor and component auditors. The word 'expectations' was deleted in response to Board comments that it was redundant. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A52B: The Task Force made editorial changes to the third bullet to address Board member comments. The last part of the fourth bullet was deleted as Board members found it confusing. The Task Force agreed and noted that the mutual understanding of the person(s) with responsibility for managing communications would indicate the person(s) to whom questions would be directed. Paragraph A52C: The Task Force revised the wording to align with paragraph A42 regarding common systems of quality management. Paragraph A52F: The Task Force added the last sentence in response to Board comments that communication with component auditors also may involve in-person meetings in connection with the direction and supervision of component auditors, and the review of their work. Paragraph A52G: The Task Force revised this paragraph in response to Board comments that the reference to

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	<p>'report' was unclear and may be confused with an auditor's report issued in accordance with ISA 700 (Revised).⁸ The revised wording now aligns with paragraph A112A, which refers more broadly to the form and content of the component auditor's deliverables. Also see the discussion below relating to paragraph 44(h) and related application material.</p>
<p align="center">Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control</p>	
<p>Paragraph 24</p>	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Based on respondents' comments highlighting the importance of laws and regulations in a group audit, the Task Force added paragraph 24(a)(ii). Respondents noted that entities or business units in a group might operate in different jurisdictions and industries which give rise to different local laws and regulations that could materially affect the group as a whole. The sub-bullets to paragraph 24(a) now align with the bullets under ISA 315 (Revised 2019),⁹ paragraph 19. <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A55: Based on suggestions from respondents the Task Force aligned this paragraph with ISA 315 (Revised 2019), paragraph 14(a). Paragraph A55A: This paragraph was first located in the section on the identification and assessment of risks of material misstatement. Given the restructuring (see Agenda Item 4, section I-A), this paragraph was moved to this section. Changes made to fit this paragraph in this section. Paragraph A56: Based on comments from respondents to ED-600, the Task Force changed the third bullet to include a focus on the integrity of processing. Paragraph A60: Based on comments from respondents to ED-600 (see paragraph 106 of Agenda Item 4-B), the Task Force added a sentence explaining the reason for identifying common controls. Paragraph A62: Based on comments from respondents to ED-600, the Task Force made changes to the

⁸ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Reference	Significant Changes and the Rationale for Those Changes
	<p>terminology as it relates to IT applications.</p> <ul style="list-style-type: none"> Paragraph A63: Respondents to ED-600 noted that the reference to “all transactions” in this paragraph is not correct because only certain kinds of transaction might be processed at a shared service center. Hence, the Task Force made some changes. Paragraph A65A: Respondents to ED-600 (see paragraph 109 of Agenda Item 4-B) suggested clarifying the work effort related to common controls and centralized activities and address practical challenges. For example, clarifying who tests the common controls and centralized activities. The Task Force added this paragraph to address the concern.
Paragraph 25	<p><i>Requirement</i></p> <ul style="list-style-type: none"> See Agenda Item 4, section I-A. <p><i>Application Material</i></p> <ul style="list-style-type: none"> A71A. The Task Force deleted this paragraph as this matter is addressed by the introduction of paragraph 26C (see Agenda Item 4, Section I-A). A71C. The Task Force deleted this paragraph as it is covered by the section on the overall group audit strategy and group audit plan (see paragraph 17A and related application material).
Paragraphs 26 and 26A	<p><i>Requirements</i></p> <ul style="list-style-type: none"> Paragraph 26 previously addressed communications from the group auditor to the component auditor and vice versa. Respondents to ED-600 indicated that this structure was not clear (both on paragraph 26 and 41). Therefore, the Task Force focused paragraph 26 on the communications from the group auditor to the component auditor and included paragraph 41 (which is about communications from the component auditor to the group auditor) directly after paragraph 26 (therefore becoming 26A). <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A72A: Based on comments from respondents to ED-600, the Task Force clarified that the group auditor may communicate the matters in paragraph 26A to other components auditors, if these matters are

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	relevant to the work of the component auditor.
Identifying and Assessing the Risks of Material Misstatement	
Paragraph 26C	<ul style="list-style-type: none"> See Agenda Item 4, Section I-A.
Materiality	
Paragraph 29	<p><i>Requirement</i></p> <ul style="list-style-type: none"> No change was made to paragraph 29. In the March 2021 IAASB meeting, Board members suggested that the requirement in paragraph 29(a) be changed from 'shall be lower than' to 'shall not be greater than' group performance materiality as there may be situations in which a component represents 100% of the group. The Task Force noted that in developing ED-600 the 'lower than' wording was used specifically to address concerns from regulators and others on the Invitation to Comment about component performance materiality being set at too high a level. Therefore, requiring component performance materiality to be lower than group performance materiality was seen as sending a stronger signal than 'shall not be greater than.' The Task Force further noted that paragraph A75A indicates that, in some circumstances, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the account balance or class of transactions for one component represents a substantial portion of the respective significant class of transactions or significant account balance in the group financial statements.
Responding to the Assessed Risks of Material Misstatement	
Paragraph 33	<p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A89: The Task Force revised the wording of this paragraph in response to Board comments and added a reference to the use of automated tools and techniques as suggested by the Board and respondents to ED-600. Paragraph A89A: The Task Force added this paragraph to address comments from respondents to ED-600 (see paragraphs 86–88 of Agenda Item 4-B) to provide additional guidance for circumstances when there are a large number of components that are individually financially insignificant and the group auditor is unable to obtain

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	<p>sufficient appropriate audit evidence by performing audit procedures centrally. The Task Force discussed that audit procedures may need to be performed at selected components in these circumstances. However, the determination of the components at which audit procedures would be performed, and the nature, timing and extent of those procedures, are matters of professional judgment. The Task Force also included a reference to unpredictability in selecting components for testing in relation to the risks of material misstatement due to fraud.</p> <ul style="list-style-type: none"> • Paragraph A90A: see Agenda Item 4, Section I-A. • Paragraph A90B: see Agenda Item 4, Section I-A. • Paragraph A90 C, D and E, first sentence, aligned the first sentence of these paragraphs. Also see Agenda Item 4, Section I-A, for deleting the reference to component auditors. • Paragraph A90D: see Agenda Item 4, Section I-A. • Paragraph A93A: Respondents to ED-600 (see paragraph 111 of Agenda Item 4-B) noted that: <ul style="list-style-type: none"> ○ The work performed in a shared service center may not only support the audit of the group financial statements but also audit engagements that are required for entities within a group for statutory, regulatory or other reason. ○ ED-600 does not include a clear expectation for the group auditor to communicate the results of internal control procedures that could impact the component auditors' design and extent of audit procedures for purposes of the group audit. <p>The Task Force added this paragraph to address the concerns.</p>
Paragraph 34	<p><i>Requirement</i></p> <ul style="list-style-type: none"> • Respondents to ED-600 (see paragraph 126 of Agenda Item 4-B) noted that frauds can be perpetrated via consolidation and other adjustments. Therefore, it was recommended including additional references to the risks of material misstatement due to fraud, including increased susceptibility to fraud in relation to the consolidation process. In response the Task Force added 34(c) which is based on paragraph 34 of extant ISA 600: <p><i>34. The group engagement team ... shall evaluate whether any fraud risk factors or indicators of possible management bias exist.</i></p>

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Paragraph 38	<p><i>Requirement</i></p> <ul style="list-style-type: none"> The Task Force aligned the wording with the wording used in ISA 701 and paragraph 23 and added ‘the design and performance of’ to clarify that the evaluation is over the design of the further audit procedures or both the design and performance of those further audit procedures.
Paragraph 42	<ul style="list-style-type: none"> See Agenda Item 4, Section II-A
Communication about Matters Relevant to the Group Auditor’s Conclusion	
Paragraph 44	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Paragraph 44(aa): As explained above regarding the revision to paragraph 19, respondents to ED-600 (see paragraph 58 of Agenda Item 4-B) suggested that the application material in paragraph A35 be elevated to a requirement to complement the requirement for the group auditor to request that the component auditor will cooperate with the group auditor. Respondents to ED-600 also suggested adding a corresponding requirement to paragraph 44 to close the loop on the requirement in paragraph 19. The Task Force agreed and added paragraph 44(aa), which is similar to paragraph 41(b) in extant ISA 600. Paragraph 44(ab): Respondents to ED-600 (see paragraph 59 of Agenda Item 4-B) also suggested relocating paragraph 20(c) of ED-600 to paragraph 44. This requirement is similar to paragraph 41(a) of extant ISA 600. The Task Force agreed and relocated paragraph 20(c) and added an additional bullet in paragraph A111A (see further discussion below). Paragraph 44(c): The Task Force revised the wording in response to Board comments to clarify that the corrected misstatements to be communicated are those identified by the component auditor in the course of performing the audit procedures for the group audit, and not misstatements identified and corrected by component management. Paragraphs 44(f) and 44(fa): The Task Force split previous paragraph 44(f) into these two paragraphs to place additional emphasis on the communication of fraud or suspected fraud at the component level. Paragraph 44(h): Respondents to ED-600 expressed concerns about the reference to an ‘opinion’ from the component auditor and questioned whether that meant an opinion in accordance with ISA 700 (Revised), as

Reference	Significant Changes and the Rationale for Those Changes
	<p>would be issued for an audit of the financial statements of a component for statutory, regulatory or other reasons. In addition, as explained in paragraph 76(d) of Agenda Item 4 of the December 2020 meeting, a Monitoring Group member expressed concern that undue reliance could be placed on the 'opinion' without sufficient involvement by the group auditor, including an appropriate review of the component auditor's work. Accordingly, the Task Force deleted the reference to an opinion in paragraph 44(h) to focus on the overall findings or conclusions in the deliverables from the component auditor. The application material in paragraph A112A was revised accordingly (see further discussion below).</p> <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A111A: In adding paragraph 44(ab), the Task Force noted that communication of instances of non-compliance with ethical requirements relevant to the group audit are among the matters that may need to be communicated timely throughout the course of the group audit. The Task Force added a bullet to paragraph A111A in this regard. A reference to identified breaches of independence provisions also was added based on discussion with the IESBA Group Audits Task Force and to correlate with the application material in paragraph A46A. Paragraph A112A: The Task Force revised the wording of the first sentence to align with the wording in paragraph A52G. The Task Force revised the second sentence to indicate that the component auditor's overall findings or conclusions may take the form of a conclusion or opinion on the audit work performed by the component auditor for purposes of the group audit. This was done in response to respondent comments on ED-600 that firm audit methodologies may use different terminology to describe the overall findings or conclusions of the component auditor.
Paragraphs 45–45A	See Agenda Item 4, Section I-B .
Subsequent Events	
Paragraph 47	<p><i>Requirement</i></p> <ul style="list-style-type: none"> Respondents to ED-600 suggested deleting the last part of the paragraph relating to the time period for subsequent events procedures performed by the component auditor. Respondents commented that it is the group auditor's decision as to whether to request component auditors to perform such procedures, and the

Reference	Significant Changes and the Rationale for Those Changes
	period to be covered. The Task Force agreed and deleted the last part of paragraph 47, noting that paragraph A114 provides guidance on the period that may be covered.
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	
Paragraph 49	<i>Application Material</i> <ul style="list-style-type: none"> Paragraphs A115A–A115B: See Agenda Item 4, Section I-B.
Paragraph 50	<i>Application Material</i> <ul style="list-style-type: none"> Paragraph A116: The Task Force added a reference to ‘corrected or uncorrected’ misstatements to this paragraph to be consistent with the change previously made to add corrected misstatements to paragraph 44(c).
Auditor’s Report	
Paragraph 52	<i>Application Material</i> <ul style="list-style-type: none"> Paragraph A118: The Task Force revised this paragraph to address comments from respondents to ED-600 (see paragraph 135 of Agenda Item 4-B). Respondents noted that the blanket prohibition in paragraph 52 against referring to a component auditor in the auditor’s report on the group financial statements was inconsistent with paragraph A118, which indicates that such reference may be necessary to describe the reasons for a modification to the group audit opinion. The Task Force agreed and revised the wording to clarify that, in some circumstances, a reference to a component auditor may be necessary in the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor’s report to adequately describe the reasons for the modified opinion. The Task Force noted the wording in the illustrative auditor’s report in Appendix 1 to extant ISA 600, which describes that the reason for the qualified opinion was the inability to obtain access to the financial information, management and auditors of a foreign associate accounted for by the equity method.
Communication with Group Management and Those Charged with Governance of the Group	
Paragraphs 53–56A	<i>Requirements</i> <ul style="list-style-type: none"> Paragraph 53: The Task Force moved this paragraph (now paragraph 56A) based on the suggestion from

Reference	Significant Changes and the Rationale for Those Changes
	<p>respondents to ED-600 that the requirement relating to the communication of identified deficiencies in internal control is better placed at the end of the section.</p> <ul style="list-style-type: none"> Paragraph 53A: Respondents to ED-600 recommended a requirement for the group auditor to communicate with management about the group audit plan, given that the planned scope and timing of the group audit may be complex, and that the group auditor may consider certain entities or business units together as a component for purposes of planning and performing the group audit. The Task Force agreed and added paragraph 53A and related application material in paragraph A119A. Paragraph 56: Respondents to ED-600 (see paragraph 132 of Agenda Item 4-B) suggested that the group auditor should communicate with those charged with governance about how the group auditor determined components for purposes of planning and performing the group audit. The Task Force is of the view that revising the wording of paragraph 56(a) to refer to components addresses this point, noting that paragraph A123 also refers to the determination of components. Paragraph 56A: This previously was paragraph 53 as noted above. Respondents to ED-600 (see paragraph 131 of Agenda Item 4-B) noted that, as written, the paragraph implied a level of optionality in the deficiencies to be communicated, while ISA 265¹⁰ specifies the types of deficiencies to be communicated and to whom. Accordingly, the Task Force revised the wording to clarify that group auditor is required to determine whether any identified deficiencies in the group's system of internal control are required to be communicated to those charged with governance of the group and group management, and that in making this determination the group auditor shall consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 44(e). <p><i>Application Material</i></p> <ul style="list-style-type: none"> Paragraph A119: Respondents to ED-600 expressed confusion about the intent of this paragraph, noting that it referenced paragraph 53, which addresses communication of deficiencies in internal control, whereas the guidance discussed communications between the component auditor and component management. The Task Force agreed and concluded that the paragraph should be deleted. The Task Force also noted that the point about the component auditors' responsibilities for communications about matters relevant to the group audit,

¹⁰ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Reference	Significant Changes and the Rationale for Those Changes
	<p>and the importance of two-way communication, is included in paragraphs 23A and A52A–A52B.</p> <ul style="list-style-type: none"> • Paragraph A119A: See the explanation relating to paragraph 53A above. • Paragraph A123: The Task Force revised the wording of this paragraph to be consistent with the wording in paragraphs 17A and A5. • Paragraph A123A: The Task Force added this paragraph based on comments from respondents to ED-600 that paragraph 53 was not clear whether the group auditor or component auditor or component auditor is responsible for determining whether deficiencies in internal control identified at the component level are significant deficiencies. These respondents noted that guidance in this regard would be helpful.
Documentation	
Paragraph 57	See Agenda Item 4 , Section I-B.