



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**        **2.2**

**Meeting Date:**            12 June 2019

**Subject:**                    ISA 600 – Group Audits

**Date Prepared:**            5 June 2019

**Action Required**

**For Information Purposes Only**

IAASB Project Objective	AUASB SMEs
<ol style="list-style-type: none"><li>Propose revisions to ISA 600 to strengthen the auditor’s approach to planning and performance of a group audit and clarify the interaction of ISA 600 to the other ISAs.</li><li>Propose consequential amendments to other standards that may be necessary as a result of revisions to ISA 600.</li><li>Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions.</li></ol>	Rene
<b>AUASB Key Points</b>	
<p><b>A.     <u>Background and what is required from the AUASB</u></b></p> <p><b>1.     <i>What is the ATG seeking from the AUASB at the June 2019 AUASB meeting?</i></b></p> <p>The purpose of this summary paper is to:</p> <ol style="list-style-type: none"><li>Update the AUASB as to the status of the ISA 600 project with reference to the AUASB Submission on the IAASB’s <i>Invitation to Comment Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits</i> (Invitation to Comment); and</li><li>Seek AUASB input on the questions in the body of this Board Meeting Summary Paper at sections B2(c), B3(c) and B4(c).</li></ol> <p><b>2.     <i>Background:</i></b></p> <ol style="list-style-type: none"><li>In December 2016 and following on from the IAASB’s Invitation to Comment, the IAASB approved a project proposal to revise ISA 600. The project scoping included:<ul style="list-style-type: none"><li>scoping of group audits</li><li>stronger links to other ISAs particularly ISA 315 and ISA 220</li><li>communications between the global engagement team (GET) and component auditors</li><li>component auditors (CAs)</li></ul></li></ol>	

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- work effort on components identified in scope and non-significant components
- GETs work effort in relation to the consolidation process
- GETs evaluation of sufficiency and appropriateness of audit evidence
- component materiality and aggregation risk

- b) This project has been delayed/held back in order to progress the foundational standards which underpin ISA 600 (ISQM 1, ISA 220, ISA 315).
- c) This project is now back on the IAASB agenda to progress.
- d) The IAASB June 2019 meeting papers in relation to Group Audits, can be found [\[here\]](#).

**B. Key Points raised by the AUASB in the Invitation to Comment – mapped to IAASB plans to address**

*1 Broadening of ISA 600:*

- a) AUASB comments to the IAASB’s Invitation to Comment:
- (i) With the ever changing and more complex business landscapes and the way organisations are structured and operated, the AUASB considered that ISA 600 requires broadening so as to include all scenarios where one auditor uses the work of another auditor and not only in a group audit scenario. ISA 600 needs to cover not only group audits, but all environments where financial information is fed into a group financial report for example shared-service centres and joint ventures.
- (ii) One consideration when broadening the ISA could be a change in the name of ISA 600 to something more expansive, for example *Special Considerations – Using the Work of Other Auditors*. A name change could facilitate ISA 600 being applied to any scenario where one auditor involves the work of another auditor in the audit of financial reports with one such example being for group audit engagements. The definitions of “component” and “group” in ISA 600 may require revision or additional application material and examples to assist with the practical challenges of the aforementioned scenarios.
- b) IAASB Update:
- (i) The Task Force concluded that ISA 600 applies when the auditor is engaged to perform an **audit of group financial statements, including where component auditors are involved**, accordingly the Task Force is contemplating the following changes:
- Definition changes to component, group financial statements, consolidation process; group engagement team;
  - Term ‘component auditors’ replaced by ‘other auditors’;
  - Non-Controlled Entities: description of consolidation process would remove reference to cost method of accounting thereby excluding investments accounted for under the cost method from ISA 600. Investments accounted for by the equity method would still be captured by ISA 600, with the Task Force acknowledging practical challenges with reference to access.
- (ii) The Task Force intends to clarify scenarios such as shared service centres, and explain that if a risk of material misstatement is identified and assessed in a significant account or class of transactions that is processed by a shared service centre (e.g., revenue) or initiated by the shared service centre, the group engagement team needs to determine the appropriate response to the assessed risk and determine who will perform the work.
- c) Feedback Request from AUASB: None at this stage

*2 Top/Down approach:*

- a) AUASB comments to the IAASB’s Invitation to Comment

- (i) The AUASB considered that scoping of a component needs to use a combination of a top-down and bottom-up approach. A bottom-up approach to scoping may not appropriately focus the work of a component auditor on those aspects that are likely to be most significant in relation to the group financial statements. A top-down approach may result in the possibility that a misstatement at the component level is not detected which may lead to the group financial statements being materially misstated. Accordingly, the AUASB considered a combination of the two approaches to be preferable, that is, range/continuum, where some clients may be on one end, some on the other end and some in the middle where both are needed.
- (ii) The AUASB considered that it would be helpful to emphasise that significant risks identified by component auditors should also be considered by the GET to determine whether these risks may apply more broadly as the group auditor is not necessarily the best placed to determine and understand the significant risks at a component level. Furthermore, further clarification would be helpful about how significant risks identified at a group level might impact on a component and how this is communicated to the component auditor.

b) *IAASB Update:*

- (i) The Task Force acknowledges that a top-down approach may imply that the identification, assessment and response to the risks of material misstatement of the group financial statements is done by the GET without input, when and to the extent necessary, from component auditors with respect to certain components.
- (ii) A risk-based approach to planning and performing a group audit is more appropriate as it better focusses the GET on identifying the significant accounts, classes of transactions or disclosures in the group financial statements, and the related risks of material misstatement and links in with ISA 315.
- (iii) Under the risk-based approach, the GET is responsible for the identification, assessment and responses to the risks of material misstatement with involvement from component auditors to assist with the risk assessment. The GET then considers the most effective and efficient response to assessed risks (nature, timing, extent).
- (iv) The Risk based approach is *similar to extant* ISA 600 in the following:
  - objective of a group audit remains the same
  - understanding the entity and its environment remains fundamental
  - Two-way communication between component auditor and GET remains critical
- (v) The Risk based approach is *different to extant* ISA 600 in the following:
  - Closer alignment to ISA 315 –scope of work responsive to risk (extant – scope of work driven by identification of components)
  - Given the focus on risk there may be no need to retain identification of significant components; however components that are financially significant may still need to be considered.

c) Feedback Request from AUASB: Views on risk-based approach and significant components

3 *Access Matters*

- a) AUASB comments to the IAASB’s Invitation to Comment
  - (i) Associates, non-controlled entities and joint ventures which may be significant components but are not controlled by group management, continue to cause access issues in the Australian environment. The situation is compounded in jurisdictions that do not have

similar legal and regulatory requirements to those in the jurisdiction where the group engagement team is located.

- b) IAASB Update:
  - (i) The Task Force will link ISA 600 more heavily into the new requirements under the revised ISA 220 which would include a consideration about whether the GET will have access to the information necessary to perform the engagement, or to the individuals who provide such information. The Task Force discussed a different structure that would place all relevant requirements relating to engagement acceptance and continuance under an umbrella requirement that links to key requirements in ISA 220. The special consideration for group audits mainly relates to access to information and that this could be referenced to the requirements in ISA 220 (Revised) related to acceptance and continuance of client relationships and audit engagements. The Task Force has only commenced preliminary considerations in this area, refer [here](#) for IAASB indicative drafting in relation to ISA 220 considerations.
- c) Feedback request from AUASB: Does the AUASB consider that the revised ISA 220 and appropriate linkage from ISA 600 to ISA 220 will assist with access issues? How else could the IAASB address these issues?

#### 4 *Ability to Direct and Supervise*

- a) AUASB comments to the IAASB's Invitation to Comment
  - (i) The ability for a group auditor to direct and supervise the work of a component auditor in some situations continues to cause practical challenges in the Australian environment. An example of this scenario is where the component entity is listed in its own right and the component entity's financial report may not be prepared for the primary purpose of inclusion within the group financial report.
- b) IAASB Update:
  - (i) The Task Force intend to demonstrate how the requirements in the revised ISA 220 would be applied to manage and achieve audit quality in a group audit and consider the revisions needed to sufficiently direct, supervise and review the work of the engagement team.
  - (ii) The Task Force discussed the GET's use of audit evidence from audits of components required by statute, regulation or for another reason. The Task Force considers that, in these situations, the involvement of the GET should be similar to any other situation in which work is performed on a component by a component auditor, and such work is used by the GET to support the audit of the group financial statements and plans to include guidance in that regard in the revised standard.
- c) Feedback request from AUASB: Does the AUASB consider that the revised ISA 220 and appropriate linkage from ISA 600 to ISA 220 will assist with this matter? How else could the IAASB address these issues?

#### 5 *Component Auditors*

- a) AUASB comments to the IAASB's Invitation to Comment
  - (i) The AUASB supports ISA 600 clarifying the role of component auditors by expanding requirements and application material within ISA 600 directed at component auditors.

- (ii) There is a need for greater clarity and guidance in scenarios whereby the component entity is a listed entity where there are continuous disclosure requirements.
  - (iii) Greater clarity could be provided to the GET in determining the nature, timing and extent of their involvement in the work of the component auditors including explaining interactions and providing examples to illustrate the wide variety of circumstances impacting the determination of the nature, timing and extent of the GET's involvement in the work of the component auditor.
- b) IAASB Update:
- (i) ISA 600 revision will be linked into the strengthened requirements in ISA 220 (Revised) relating to the responsibility of the group engagement partner to manage quality at the engagement level. This would include the direction, supervision and review of the work of, and communications with, component auditors
  - (ii) The Task Force will enhance stand back requirements with reference to sufficient appropriate audit evidence, sufficiency of involvement of group engagement partner.
  - (iii) Task Force is still to consider communication and involvement of GET with/in the work of component auditors.
- c) Feedback request from AUASB: No specific input at this stage.

6 *Materiality*

- (a) AUASB comments to the IAASB's Invitation to Comment
- (i) Additional guidance is required for matters that are specifically relevant to component materiality, component performance materiality and component trivial thresholds, particularly in relation to the concept of aggregation risk.
  - (ii) Where there are a large number of non-significant components, application material to address the group engagement team's considerations about the work to be performed on the non-significant components as well as guidance on how the GET should determine which non-significant components require procedures as well as how to determine when a sufficient number of components have been selected for testing.
  - (iii) Clarifying the expected work effort related to analytical procedures at the group level for non-significant components and application material clarifying what may influence or constitute sufficient "coverage".
- (b) IAASB Update:
- (i) Materiality including performance materiality at the component level will be revisited in light of the new risk-approach and potentially no longer having the concepts significant components, but perhaps a financially significant component.
- (c) Feedback request from AUASB: No specific input at this stage.

7 *Documentation*

- (a) AUASB comments to the IAASB's Invitation to Comment
- (i) Application material could be strengthened in relation to documentation requirements regarding the group engagement team's evaluation of the component auditor's communication, including the nature of any review of documentation.
- (b) IAASB Update:

(i) To be considered in due course by the IAASB.
(c) Feedback request from AUASB: No specific input at this stage.
<b>IAASB Timeline</b>
<ol style="list-style-type: none"> <li>1. Full draft standard for IAASB review – December 2019 IAASB meeting.</li> <li>2. Approval of ED – March 2020 IAASB meeting.</li> </ol>
<b>AUASB influencing activities</b>
ATG to prepare briefing notes for distribution to Australasian IAASB members including the AUASB Chair.
<b>Next steps / milestones for this project</b>
Refer timeline above.