



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.3**
Meeting Date: 11 September 2019
Subject: ISA 600
Date Prepared: 26 August 2019

Action Required

For Information Purposes Only

A. Background

- 1 In December 2016 and following on from the IAASB's Invitation to Comment, the IAASB approved a project proposal to revise ISA 600.
- 2 The key points raised by the AUASB in the invitation to comment included the following:
 - (a) Broadening to ISA to include all types of structures including for example branches, divisions, joint ventures;
 - (b) At the time of the ITC, the AUASB supported a combination of a top down/bottom up approach to scoping of group audits. Since the progression of ISA 315, the AUASB supports a top down risk-based approach – with audit effort responsive to the risk of material misstatement;
 - (c) Guidance on practical access issues;
 - (d) The ability of the group engagement team (GET) to direct and supervise the component teams work
 - (e) Greater clarity around the extent of involvement of the GET on component auditors;
 - (f) Guidance required in relation to component materiality;
 - (g) Guidance as to extent of documentation of the GET's involvement in the work of component auditors.
- 3 At the June IAASB meeting, the IAASB agreed the following principles:
 - (a) a risk-based approach to ISA 600 – to this end, the current drafting of ISA 600 has removed the definition and concepts of significant components, however the IAASB has requested the task force to clarify instances where it may be useful to identify components that are significant;

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- (b) making the drafting specific to special considerations for a group audit and not repeating the requirements of the foundational standards, that is draft requirements to address the special considerations (incremental to requirements of other ISAs).

B. What the Audit Technical Group (ATG) is seeking from the AUASB at the September 2019 AUASB meeting

4 The purpose of this Agenda Item is to update the AUASB as to progress made by the ISA 600 taskforce particularly in the areas of:

- (a) special considerations in a group audit (addressing AUASB comments in 2(a) and 2(b) above;
- (b) access (addressing AUASB comments in 2(c) above;
- (c) materiality ((addressing AUASB comments in 2(f) above; and
- (d) stand-back requirements.

5 In section C and D the ATG has highlighted the ISA 600 taskforces thinking in several areas and has highlighted the questions that the IAASB will be considering at the September 2019 IAASB meeting. In line with the AUASB international influencing strategy, AUASB members are encouraged to comment on any of these questions to inform the AUASB Chair of their views. The AUASB is specifically directed to the questions under paragraphs 8, 13, 17 and 19.

6 If the AUASB finds it useful, a link to marked-up ISA 600 can be found [[here](#)].

C. Proposed Revisions by the IAASB task force

C.1 Scope and Structure

7 The standard applies where the auditor is engaged to perform an audit of group financial statements. The task force has identified the following fundamental factors that are unique to group financial statements:

- (a) An entity with more than one component
 - (i) Group financial statements – Financial statements that include the financial information of more than one component.
 - (ii) Component – An entity or business unit for which financial information should be included in the group financial statements through a consolidation process
 - (iii) Consolidation process – for purposes of ISA 600 this includes the aggregation of branches, division, other operating units
 - (iv) Task force intends to issue implementation guidance to cover examples of when ISA 600 would apply.
- (b) The involvement of component auditors
 - (i) Under the risk-based approach, GET assesses ROMM and determines best strategy to obtain sufficient appropriate audit evidence (SAAE) which may

involve using the work of component auditors. Special considerations in using such work:

- Communication
- Involvement of GET
- Applying requirements of ISA 220 with respect to relevant ethical requirements and competence and capabilities of the engagement team.

8 The task force proposes to change the structure of the standard to place all requirements related to using the work of component auditors in one section – considered to enhance scalability.

Q1: The AUASB is asked for its views on:

(a) The special considerations in an audit of group financial statements, including in relation to the scope of the standard, and

(b) The proposed structure of the standard.

C.2 *Access*

9 The task force and IAASB have recognised that the standard can't enforce access to people and information but can develop guidance for situations where access is restricted.

10 There is new application material that explains the reasons for various access issues and explains how the group may overcome such issues.

11 The ATGs read of the application material indicates that where a component is material / financially significant and the GET is unable to obtain SAAE, this will need to be considered in terms of ISA 705

C.3 *Group Wide Controls*

12 The task force is proposing removing the definition of group wide controls and discuss testing controls more broadly in connection with the response to ROMM. The taskforce considers that the group wide controls definition was not well understood and that in practice there was overreliance on these controls.

C.4 *Group Engagement Partner review of the overall group audit strategy and plan*

13 The taskforce notes that the extant ISA 600 requires the GEP to review the overall group audit strategy and plan. The task force has 2 proposals:

(a) Delete this requirement as ISA 300 does not have the same requirement for the engagement partner

(b) Retain this requirement but modify the requirement to being involved rather than simply review; and support a consequential amendment to ISA 300 to extend this requirement to engagement partners.

Q2: The AUASB is asked for its views on the requirement for the group engagement partner to review the overall audit strategy and group audit plan, including the alternative of amending ISA 300 to extend the requirement for engagement partner review of the audit strategy and plan to all audits of financial statements.

D. Other aspects of the standard

D.1 Materiality

- 14 Feedback from the ITC indicated that there is confusion and variation in practice relating to the auditor's understanding of the concepts of component materiality, performance materiality and clearly trivial thresholds and that aggregation risk is not well understood.
- 15 The taskforce has agreed that guidance would be helpful regarding the factors that the auditor may consider in establishing materiality at the component level as well as thresholds to be used for identifying and communicating misstatements to the GET.
- 16 The taskforce also recognises that aggregation risk is particularly important to address in a group engagement as aggregation risk increases as the number of locations increases.
- 17 The taskforce will consider strengthening the requirement in ISA 600 to indicate that the clearly trivial threshold at the component level cannot exceed the threshold at the group level.

Q3: The AUASB is asked for its views on the following:

- a) How the concept of aggregation risk could most appropriately be addressed in the revised standard;
- b) Whether additional guidance should be included in the revised standard regarding the determination of component materiality, component performance materiality and the clearly trivial threshold, or whether such guidance can be provided outside of the standard;
- c) If there is a view that additional guidance should be included in the revised standard, the nature of such guidance.

D.2 Stand back

- 18 Extant ISA 600, paragraph 44, already contains stand back provisions. The taskforce is proposing the following amendments:

~~In applying the requirements of ISA 330, the auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion.~~

- 19 Additionally, the task force is considering application material supporting the stand back including guidance for the auditor to consider whether, in responding to assessed risks of material misstatement of the group financial statements, sufficient work has been done, including at components that are individually financially significant.

Q4: The AUASB is asked for its views on the Task Force's preliminary suggestion for the stand-back requirement and related application material. Does the AUASB have further suggestions for the related application material, particularly with respect to the sufficiency of work done at financially significant components?

E. The way forward:

- 20 The ISA 600 taskforce is working toward an approval of the exposure draft of ISA 600 at the March 2020 meeting with a full draft of the standard available at the December 2019 meeting.