

**Discussion Memorandum and Issues: Group Audits****I. Objectives of Agenda Item 5**

To discuss a draft of proposed AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* based on the draft of proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* that was discussed at the September 2021 International Auditing and Assurance Standards Board's (IAASB) meeting.

**II. Members of the Group Audits Task Force**

Dora Burzenski, Chair; assisted by Lauren Kolarik  
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**III Background**

In April 2020, the IAASB issued an exposure draft of proposed ISA 600 (Revised) to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction of ISA 600 with the other ISAs, including ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*, ISA 315, *Identifying and Assessing the Risks of Material Misstatement*, and ISA 330, *The Auditor's Responses to Assessed Risks*.

Extant AU-C 600 provides the group auditor with the option of making reference to the component auditor in the auditor's report on the group financial statements (i.e., "making reference") or assuming responsibility for the work of a component auditor (i.e., "assuming responsibility"). At its June 2021 meeting, the ASB agreed to retain this option in proposed AU-C 600. Proposed ISA 600 (Revised), like extant ISA 600, does not include an option for the group engagement partner to make reference to the work of a component auditor because this is not allowed under the ISAs. In addition to adding the paragraphs on making reference from extant AU-C 600 and clarifying when a requirement is applicable only to assuming responsibility or only to making reference, the other changes that have been made to the September 2021 draft of proposed ISA 600 (Revised) are the following:

- Certain changes agreed upon by the IAASB during its September 2021 meeting
- Changes to reflect differences that currently exist between extant AU-C 600 and extant ISA 600, unrelated to making reference
- If needed, changes to the requirements to reflect the uniqueness of the US environment
- If needed, the addition or deletion of application material to reflect the uniqueness of the US environment
- Changes to reflect ASB drafting conventions (e.g., replacing shall with should)
- Limited, minor editorial changes.

Additionally, references back to extant AU-C 600 requirements have also been included, in order to facilitate the understanding of those paragraphs from extant AU-C 600 that have been carried over to proposed AU-C 600.

In September 2020, the ASB provided the IAASB with a comment letter on the ED, and in March, June, and September 2021, the ASB and the International Auditing Standards Task Force (IASTF) provided input to the AICPA's IAASB representative on the March, June, and September 2021 drafts, respectively.

The objective of the Task Force is to develop an exposure draft of proposed AU-C 600 that the ASB will be able to vote on at its March 2022 meeting, and then issue for exposure.

With that in mind, Dora Burzenski, Chair of the Task Force and a correspondent member of the IAASB's ISA 600 Task Force, will lead the ASB in a paragraph-by-paragraph review of the requirements of proposed AU-C 600 (Agenda Item 5A), with discussion on the application material as needed. (Note that Appendix 2 of proposed AU-C 600, which contains illustrative reports, will not be discussed during the ASB meeting.)

#### **IV Agenda Materials**

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| Agenda Item 5  | Discussion Memorandum and Issues: Group Audits (Please note that given the inter-connectedness of Agenda Item 5 and 5A, it is highly recommended that you have read Agenda Item 5A in preparation for reading Agenda Item 5.) |
| Agenda Item 5A | Proposed AU-C 600 marked from the IAASB's September 2021 draft of proposed ISA 600 (Revised), as originally posted for the IAASB meeting.   |
| Agenda Item 5B | Clean draft of proposed AU-C 600  |

**Issues Related to Introducing the Option in ISA 600 for the Group Auditor to Make Reference to the Work of a Component Auditor**

As indicated in the discussion memo, extant as well as proposed AU-C 600 provide the group auditor with the option of (1) making reference to the audit of the component auditor in the auditor’s report on the group financial statements (i.e., “making reference”) or (2) assuming responsibility for the work of component auditors (i.e., “assuming responsibility”). Proposed ISA 600 (Revised) and extant ISA 600 do not allow the auditor to make reference (unless required by law or regulation). To respond to the ASB’s July 2021 decision to retain the option of making reference in proposed AU-C 600, the Task Force made the following changes to the September 2021 IAASB draft of proposed ISA 600 (Revised) (as posted for the IAASB meeting):

- Added the paragraphs from extant AU-C 600 that are specific to making reference to the draft.
- Determined whether the paragraphs in the September 2021 draft of proposed ISA 600 (Revised) are applicable (1) when assuming responsibility *and* when making reference (2) *only* when assuming responsibility, or (3) *only* when making reference.
- Revised the language in those paragraphs or added text to reflect the determination that was made in item “b”.
- Updated for discussions/decisions that occurred during the September IAASB meeting related to paragraph A8AA and paragraphs A27-A31.

**Key Issues**

The Task Force considered how or whether certain terms, phrases, and concepts included in proposed ISA 600 (Revised) could be adapted to situations in which the group auditor is making reference. The following are the more significant issues the Task Force encountered when introducing the option of making reference in the September 2021 IAASB draft of proposed ISA 600 (Revised):

**1. Applicability of the Concept of “Involvement by the Group Auditor in the Work of Component Auditors” When the Group Auditor is Making Reference**

Proposed ISA 600 (Revised) requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors. The Task Force considered the applicability of the concept of “involvement” by the group auditor in the work of component auditors when the group auditor is making reference.

The following are some of the key introduction and requirement paragraphs in proposed ISA 600 (Revised) that refer to involvement of component auditors or to phrases with derivations of the word *involvement* (involve, involved, involving) (note that these are not all the paragraphs in proposed AU-C 600) that refer to involvement.

3B. ISA 220 (Revised) requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner.<sup>1</sup> In a group audit, such resources may include component auditors. Therefore, this ISA requires the group auditor to determine the nature, timing, and extent of involvement of component auditors.

4. Audit risk is a function of the risks of material misstatement and detection risk. Detection risk in a group audit includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this ISA requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, this ISA explains the matters that the group auditor takes into account when determining the nature,

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<sup>1</sup> Paragraph 25 of proposed QM SAS ,

timing and extent of the direction and supervision of component auditors and the review of their work.

8. The objectives of the auditor are to:

- (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and

12. In applying ISA 220 (Revised), the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner shall:

- (b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.

17A. In applying ISA 300, the group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan that includes a determination of:

- (b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are involved.

18. In establishing the overall group audit strategy and group audit plan, the group engagement partner shall evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor.

37. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.

#### Key Judgment

The Task Force concluded the following:

- Involvement by the group auditor in the work of component auditors is relevant and required when assuming responsibility and also when making reference because paragraph 13 of the proposed QM SAS, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (which revises AU-C 220), requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement. In order to fulfil that responsibility, the group auditor would need to be involved in the work of component auditors, whether assuming responsibility or making reference. The group auditor therefore determines the involvement of the component auditor (in this case, they determine whether to involve the component auditor by making reference to the report of the component auditor).
- The nature, timing, and extent of the group auditor's involvement in the work of the component auditors will be different depending on whether the group auditor is making reference or assuming responsibility.

One possible way forward is to add an additional paragraph (likely in the introductory section) that would describe the differences in "involvement" in the two scenarios. An example might be:

*The group auditor's involvement in the work of the component auditor will differ when the group auditor is assuming responsibility for the work of a component auditor as compared to when the*

*group auditor is making reference to the work of a component auditor; therefore, what constitutes sufficient and appropriate involvement in the work of the component auditor will also differ accordingly. For example, when the group auditor is assuming responsibility for the work of a component auditor, sufficient and appropriate involvement includes directing and supervising the work of the component auditor and reviewing their work. This proposed SAS differentiates the group auditor's involvement in the work of the component auditor when the group auditor is assuming responsibility for the work of a component auditor from the group auditor's involvement when the group auditor is making reference to the work of a component auditor.*

**Questions for the ASB** 1. Does the ASB agree with the conclusion that involvement by the group auditor in the work of component auditors is relevant and required when the group auditor is assuming responsibility and also when making reference?

2. Is the ASB in favor of drafting language that further describes the differences in involvement by the group auditor in the work of the component auditor, consistent with the example provided above?

## 2. Component Auditor Involvement in All or Only Certain Phases of the Group Audit

In proposed ISA 600 (Revised), the group auditor may involve component auditors in all phases of the group audit or in only certain phases. The Task Force considered whether the concept of involving component auditors in all phases of the group audit or in only certain phases of the group audit is relevant when the group auditor is making reference.

The following are paragraphs from proposed ISA 600 (Revised) that contain such references:

3C. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this ISA. Component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit.

A33H. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase.

A72C. The initial expectations about the potential risks of material misstatement take into account the auditor's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures as they have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

When a group auditor makes reference to the audit of a component auditor in the auditor's report, the component auditor has already issued an auditor's report on the financial statements of the component. As part of the audit of the component's financial statements, the component auditor has performed all aspects of an audit for that component, including the planning, risk assessment, control testing, substantive procedures, concluding, and reporting, in order to issue an audit report. However, the distinction in this scenario is that the group auditor would not direct and supervise the component auditors, and review their work, in the same manner as the group auditor would if the group auditor were assuming responsibility. Rather, the component auditor is involved in the group audit through the required communications that relate to their activities (e.g., paragraph 44 of proposed AU-C 600).

When a group auditor is assuming responsibility, the extent of the component auditor's involvement depends on the extent to which the group auditor "requests" or "instructs" the component auditor to be involved. The group auditor is responsible for determining the nature, timing, and extent of the work that the component auditor will perform on the component financial information. On one end of the spectrum (when the group auditor is assuming responsibility), the component auditor may perform

much of the audit of the financial information of a component (in which case the component auditor would be involved in “all phases of the audit”) and on the other end of the spectrum, the component auditor may only perform certain limited procedures at the component, as instructed by the group auditor, in which case the component auditor would only be involved in “certain phases of the audit”.

Key Judgment

The Task Force made a key judgment that the concept of involving component auditors in all phases of the group audit or in only certain phases of the group audit is relevant *both* when the group auditor is assuming responsibility and also when making reference, and allows for the use of the phrase “involve component auditors in the group audit” (or some derivative of the phrase) both when the group auditor is assuming responsibility and when making reference.

The Task Force also made revisions to proposed AU-C 600 to clarify that when the group auditor involves component auditors in specific phases of the audit (for example, when the group auditor asks the component auditor to perform risk assessment or to test the operating effectiveness of controls), the group auditor would likely be assuming responsibility for that work and the component auditor would be reporting back to the group auditor on that work.

**Question for the ASB**

3. Do you agree with the Task Force’s views on the interpretation of involvement?

**3. Group Auditor’s Direction and Supervision of Component Auditors and Review of Their Work**

The definition of group auditor in paragraph 9(h) of proposed ISA 600 (Revised) is as follows:

Group auditor – The group engagement partner and members of the engagement team other than component auditors who are responsible for:

- i. Establishing the overall group audit strategy and group audit plan;
- ii. Directing and supervising component auditors and reviewing their work;
- iii. Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

Also, paragraph 23 of proposed ISA 600 (Revised) states, “In applying ISA 220 (Revised), the group engagement partner should take responsibility for the nature timing and extent of direction and supervision of component auditors and the review of their work...”

The Task Force considered the applicability of the concept of “the group auditor’s direction and supervision of component auditors and review of their work” when the group auditor is making reference.

Key Judgment

The Task Force made a key judgment that the responsibility for the group auditor to direct and supervise component auditors and review their work is only relevant and required when the group auditor is assuming responsibility. In Issue 1 of this paper, which discusses involvement by the group auditor in the work of component auditors, the Task Force concluded that when component auditors are involved in the group audit, the group auditor will always be involved in the work of component auditors; however, the group auditor’s involvement will vary depending on whether the group auditor is assuming responsibility or making reference. Paragraphs 29-34 of ISA 220 (Revised) address the engagement partner’s responsibility for the direction and supervision of the members of the engagement team and the review of their work. The Task Force concluded that the actions required by paragraphs 29-34 of ISA 220 (Revised) related to direction, supervision and review generally are not performed when making reference under extant AU-C 600.

As a result, the Task Force added language throughout proposed AU-C 600 to explicitly clarify that the group auditor's direction and supervision of component auditors and review of their work is only relevant when the group auditor is assuming responsibility for the work of component auditors. An example of this is the following revision to the first sentence of paragraph 23.

**When the group auditor is assuming responsibility for the work of a component auditor, in applying proposed** ISA 220 (Revised) the group engagement partner shall...

**Question for the ASB**

4. Do you agree with the Task Force's views that requirements specifically related to direction, supervision, and review in proposed AU-C 600 are only applicable when assuming responsibility?

**4. Definition of the Terms *Engagement Team* and *Group Auditor***

Definition of Engagement Team

The definition of *engagement team* in ISA 220 (Revised) as well as in International Standard on Quality Management (ISQM) 1 is the following:

All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external specialist<sup>5</sup> and internal auditors who provide direct assistance on an engagement."

The majority of the Task Force took the preliminary view that component auditors that the group auditor makes reference to are still "performing audit procedures" for purposes of the group audit because their audit procedures result in an audit report that is used by the group auditor. For this reason, the Task Force preliminarily concluded that component auditors are part of the engagement team, and therefore, the Task Force has not adjusted the wording of the definition of engagement team.

As component auditors are members of the engagement team under proposed ISA 600, this means that the requirements of ISA 220 (Revised) that relate to the engagement team are applicable to component auditors. Although the Task Force was able to adjust the wording in Issue 3 above as it relates direction, supervision, and review of component auditors when the group auditor is making reference, there are concerns about how the entirety of proposed QM SAS, *Quality Management for an Engagement Performed in Accordance with Generally Accepted Auditing Standards* (which is the AU-C version of ISA 220 (Revised)) will be applied in scenarios in which the group auditor is making reference. For example, ISA 220 (Revised), paragraph 14, contains the following requirement:

14. In creating the environment described in paragraph 13, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behavior of engagement team members, including emphasizing:
- (a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
  - (b) The importance of professional ethics, values and attitudes to the members of the engagement team;
  - (c) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
  - (d) The importance of each engagement team member exercising professional skepticism throughout the audit engagement.

Consider the following scenario:

- The group auditor is making reference to the audit of a component auditor in the auditor's report

- The group auditor is performing only the procedures as required by proposed AU-C 600
- The audit by the component auditor that the group auditor will make reference to is completed prior to the commencement of the audit of the group.

In such a scenario, it may not be possible for the group auditor to appropriately comply with ISA 220 (Revised) paragraph 14, especially as the audit of the component has been completed before the group audit has begun. As ISA 220 (Revised) was not developed with an acknowledgement of the option for the group auditor to make reference, it may not be clear how to apply other requirements that relate to the engagement team in such circumstances.

#### **Question for the ASB**

5. In previous ASB discussions, the ASB indicated that it had no desire to fundamentally change the current practice of how the group auditor makes reference to a component auditor. In light of the requirements in the proposed QM SAS, the Task Force is seeking the ASBs views on the following options:

- Explore the idea of modifying the definition of engagement team, so that when the group auditor is making reference to the audit of a component auditor in the group auditor's report, such auditors would not be considered part of the engagement team.
- Do not modify the definition of engagement team, in which case all the requirements of the proposed QM SAS would be applicable to the component auditors that the group auditor is making reference to. (Note that if this path is taken, the scope of the project would need to be expanded to consider and address the application of the requirements in the proposed QM SAS when making reference.)

#### **5. Requests by Group Auditor for Component Auditor to Perform Work**

Proposed ISA 600 (Revised) uses terminology such as "at the request of the group auditor," "the group auditor shall request the component auditor to," or "work requested by the group auditor." In certain scenarios, the work performed may not have been performed specifically for the purpose of the group audit or specifically at the request of the group auditor (e.g., when a group has an investment accounted for using the equity method, and a component auditor has performed an audit of the investees financial statements). Therefore, The Task Force considered whether terminology related to the group auditor "requesting" the component auditor to perform work is applicable when the group auditor is making reference.

In a scenario in which the group auditor is using audit evidence from an audit performed for another purpose as audit evidence for the group audit, the group auditor may not necessarily have "requested" the component auditor to perform such work; however, once the group auditor has decided to use that work as audit evidence for the group audit, the group auditor will then need to "request" that the component auditor perform certain incremental work or activities for purposes of the group audit. For example, although the group auditor is making reference to a component auditor, the group auditor is required to request that the component auditor communicate certain matters to the group auditor. The group auditor would have to "request" or instruct the component auditor to communicate those matters. The component auditor would only perform those activities (communicate) because the group auditor requested that they do so for the purpose of the group audit.

#### Key Judgment

The Task Force made a key judgment that use of this terminology is generally appropriate when assuming responsibility and also when making reference. The work that the group auditor might request the component auditor to perform and the method of "requesting" such work may vary depending on whether the group auditor is making reference or assuming responsibility;

nevertheless, it is generally appropriate to use the requesting terminology when assuming responsibility and also when making reference.

As a result, however, the Task Force has made the following edits throughout proposed AU-C 600:

- Added language to explicitly clarify when the group auditor's request for the component auditor to perform certain work would only be relevant when assuming responsibility.
- Replaced language such as "work requested to be performed" with "work performed" when such work is from an audit for which the group auditor will make reference to.

In addition, the Task Force concluded that eliminating this wording does not lessen or somehow imply that the group auditor is not leading and taking responsibility for the audit.

**Question for the ASB**

6. Do you agree with the Task Force's conclusions on this matter?

**6. Determining Whether to Act as the Group Auditor**

In extant AU-C 600 (and in extant ISA 600), the objective of the section includes the following:

10. The objectives of the auditor are to determine whether to act as the auditor of the group financial statements and....

In addition, the following requirement and related application material is in extant AU-C 600:

15. The group engagement partner should evaluate whether the group engagement team will be able to obtain sufficient appropriate audit evidence through the group engagement team's work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component auditor in the auditor's report), to act as the auditor of the group financial statements and report as such on the group financial statements.

A18. Relevant factors in determining whether to act as the auditor of the group financial statements include, among other things, the following:

- The individual financial significance of the components, as determined in accordance with the guidance in paragraph .A6, for which the auditor of the group financial statements will be assuming responsibility
- The extent to which significant risks of material misstatement of the group financial statements are included in the components for which the auditor of the group financial statements will be assuming responsibility
- The extent of the group engagement team's knowledge of the overall financial statements

Proposed ISA 600 and proposed AU-C 600 do not include this objective and the related requirement (i.e., the group auditor is not required to determine whether they can act as the auditor of the group financial statements). The reasoning for the change in objective is partly because the overall structure of the standard is different, and is designed (if applied appropriately) to allow the group auditor to be sufficiently and appropriately involved in the work of the component auditor; and if this is the case, then there is no need for a discrete decision as to whether the auditor can act as the group auditor.

**Question for the ASB**

7. Given that proposed AU-C 600 includes the concept of making reference, the Task Force would like input from the ASB as to whether any additional consideration needs to be given to re-instating this requirement.

**7. Group Auditor Instructions to Component Auditors**

The application paragraphs in proposed ISA 600 (Revised) contain the concept of “group auditor instructions to component auditors.” The Task Force considered the applicability of the concept of group auditor instructions to component auditors when the group auditor is making reference. The following is an example of a paragraph from proposed ISA 600 (Revised) that addresses group auditor instructions to a component auditor that is relevant when the group auditor is assuming responsibility:

A50. If component auditors are from a firm other than the group auditor’s firm, the firm’s policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network. For example, in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors. ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.<sup>2</sup>

Key Judgment

The Task Force made a key judgment that the concept of group auditor instructions to a component auditor is relevant when the group auditor is assuming responsibility and also when making reference. Similar to the conclusion reached in Issue 6, when the group auditor plans on using work performed by component auditors as audit evidence for the purposes of a group audit, the group auditor may provide instructions to a component auditor even when making reference, for example, to instruct the component auditor to communicate certain matters to the group auditor.

The Task Force noted that in extant AU-C 600, the term *instructions* is only used in the context of the group auditor assuming responsibility, and in proposed ISA 600 (Revised), the term is often used when the group auditor would likely be assuming responsibility. As a result, the Task Force has added language throughout proposed AU-C 600 to explicitly clarify certain scenarios in which the group auditor’s instructions to component auditors would only be relevant when the group auditor is assuming responsibility.

**Question for the ASB**

8. Do you agree with the Task Force’s conclusions on this matter?

**8. Component Auditor Audit Documentation**

The following is the definition of *audit documentation* in ISA 230 and in AU-C section 230, *Audit Documentation*:

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as working papers or workpapers are also sometimes used).

As proposed ISA 600 (Revised) uses the term audit documentation, the Task Force considered the applicability of that term when the group auditor is making reference to the audit of a component auditor in the auditor’s report.

When the group auditor is making reference, there are certain communication requirements that are relevant, including for example the following:

44. The group auditor should request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit.

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<sup>2</sup> Paragraph A24 of proposed QM SAS ,

- (a) Regardless of whether reference will be made in the auditor’s report on the group financial statements to the audit of a component auditor, such communication should include:
  - (i) Identification of the financial information on which the component auditor is reporting

Therefore, even when making reference, there is audit documentation from the component auditor related to the results and conclusions of the component auditor’s work, that is relevant to the group auditor.

**Key Judgment**

Based on the definition of audit documentation (above) in proposed ISA 600 (Revised) and AU-C 600, the Task Force made a key judgment that the use of the term audit documentation is generally appropriate when the group auditor is assuming responsibility and also when making reference. However, the Task Force has added language throughout proposed AU-C 600 to explicitly clarify certain scenarios in which the component auditor’s audit documentation would only be relevant when the group auditor is assuming responsibility.

**Question for the ASB**

9. Do you agree with the Task Force’s conclusions on this matter?

**9. Governmental**

There are certain paragraphs within proposed AU-C 600 related to considerations specific to governmental entities, as follows:

- 1A.2
- A10.2
- Paragraph after A12
- Paragraph after A16B
- Paragraph after A33F
- A80

**Question for the ASB**

10. Does the ASB agree with the inclusion of these paragraphs, which were from extant AU-C 600, and are there any further changes to the proposed SAS that are necessary to reflect governmental considerations?

**10. Appendices and Exhibits**

Extant AU-C 600 has three appendices and three exhibits. The right side of the following table explains how the appendices and exhibits have been addressed in proposed AU-C 600.

Extant AU-C 600	Proposed AU-C 600
Appendix A — Understanding the Group, Its Components, and Their Environments — Examples of Matters About Which the Group Engagement Team Obtains an Understanding	<p>This appendix is not needed, as the content has been incorporated into the application material in Proposed AU-C 600.</p> <p>In proposed AU-C 600, a new appendix has been created to provide examples of matters related to internal control that may be helpful in</p>

	obtaining an understanding of the system of internal control in the context of a group environment; it is <i>Appendix 3, Understanding the Group's System of Internal Control</i> .
Appendix B — Examples of Conditions or Events That May Indicate Risks of Material Misstatement of the Group Financial Statements	This appendix is now <i>Appendix 4, Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements</i> The content is generally consistent with extant AU-C 600.
Appendix C — Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction	This appendix had not been included in proposed AU-C 600 (and also is not included in proposed ISA 600(Revised)) as it is more consistent with "implementation guidance". Therefore, the suggestion is to exclude it from the proposed SAS and consider including it in implementation guidance.
Exhibit A — Illustrations of Auditor's Reports on Group Financial Statements	This exhibit has been included as Appendix 2 in proposed AU-C 600. Depending on AU-C conventions, this may be changed to an exhibit in future drafting (versus being an appendix).
Exhibit B — Illustrative Component Auditor's Confirmation Letter	This exhibit had not been included in proposed AU-C 600 (and also is not included in proposed ISA 600 (Revised)) as it is more consistent with "implementation guidance". Therefore, the suggestion is to exclude it from the proposed SAS and consider including it in implementation guidance.
Exhibit C — Sources of Information	This exhibit had not been included in proposed AU-C 600 (and also is not included in proposed ISA 600 (Revised)) as it is more consistent with "implementation guidance". Therefore, the suggestion is to exclude it from the proposed SAS and consider including it in implementation guidance.

For purposes of the October ASB discussion, we will not be discussing Appendix 2, which are the illustrative reports.

**Question for the ASB**

11. Does the ASB agree with how the Task Force has proposed to address appendices and exhibits?

**11. Making Reference Paragraphs**

The making reference section of proposed AU-C 600, has currently been placed after paragraph 26C

of the proposed SAS, under the heading “Considerations When Component Auditors Are Involved.”

**Question for the ASB**

12. Is the ASB comfortable with this placement?

**12. Structure of the Standard**

Extant AU-C 600 is structured such that the paragraphs 1-50 are applicable both when making reference and assuming responsibility, and paragraphs 51-65 are only applicable when assuming responsibility. The Task Force explored whether proposed AU-C 600 could be structured in a similar manner. However, given how proposed ISA 600 is structured, the Task Force decision was that it would be disruptive to the flow of the standard to attempt to “extract” out paragraphs only applicable when assuming responsibility, and place them in a separate section.

**Question for the ASB**

13. Is the ASB comfortable with this decision?

**13. Investments Accounted for using the Equity Method**

Consistent with extant AU-C 600, investments accounted for using the equity method (i.e., EMIs) are considered components, and therefore subject to the scope of proposed AU-C 600. Currently, proposed AU-C 600 includes application material related to EMIs in paragraphs A27-A31. Additionally, A8AA provides guidance on how the group auditor may use the work of an audit that has already been completed, which sometimes occurs with EMIs. The IAASB is still discussing the application material related to EMIs, and so it’s unclear at this point in time if additional application material will be included in proposed ISA 600.

Of note, is that the PCAOB standards provide a more explicit acknowledgement of the ability to use the financial statements of the EMI that have been audited by an auditor (“investee’s auditor”) whose report is satisfactory, as sufficient appropriate evidence; in this scenario, there are some other required procedures related to confirming independence and competence of the investee’s auditor). Proposed AU-C 600 takes the approach of acknowledging in paragraph A8AA that there may have been work done on a component for purposes of another audit (which could include a completed audit of an EMI), but that the requirements of the proposed SAS still apply.

**Question for the ASB**

14. Is the ASB comfortable with the current direction of how EMIs are treated in proposed AU-C 600? Is there additional requirements or application material that is needed in proposed AU-C 600?