



## Agenda Item 5

### Discussion Memorandum: Group Audits

#### Objective of Agenda Item 5

To discuss issues included in the Auditing Standards Board's (ASB) comment letter on the International Auditing and Assurance Standards Board's (IAASB) April 2020 exposure draft, Proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED). The comment letter was developed by the ASB's Group Audits Task Force. The comment letter and ED are included in the agenda materials as Agenda Items 5A and 5B, respectively.

#### Members of the Group Audits Task Force

Dora Burzenski, Chair; assisted by Sally Ann Bailey

Mike Bingham

Monique Booker

Harry Cohen

Robert Harris

Clay Huffman

Chris Rodgers

Staffed by Judith Sherinsky

#### Meeting Schedule

The task force met on July 9, 15, and 27, 2020 to discuss the questions included in the explanatory memorandum of the ED (page 30), as well as other areas of the ED.

#### Topics for Discussion

The first column of the following matrix identifies substantive changes to extant ISA 600 introduced in the ED. The second column briefly summarizes related comments in the comment letter submitted by the ASB and the question number in the explanatory memorandum of the ED under which the comment is presented. During the ASB's discussion of the comment letter, Dora Burzenski, Chair of the Task Force, will focus on these comments.

<b>Proposed Change to ISA 600 Introduced in the ED</b>	<b>Summary of Comment in the Comment Letter</b>
Clarifies that all ISAs need to be applied in a group audit and establishes stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019), and ISA 330. The requirements and application material in the ED build on, and are consistent with, the principles and requirements in those ISAs	<p><b>Question 1</b>  The ED needs to be closely aligned with ISA 220. ISA 220 (Revised) will become effective prior to the effective date of the ED. The comment expresses concern about performing group audits under extant ISA 600 and final ISA 220 (Revised) during the period before the ED becomes effective.</p>
Includes a subsection in each section of the ED that addresses considerations when component auditors are involved. This provides scalability for circumstances in which the group engagement team does not involve component auditors and makes it easier to identify which requirements apply and which do not.	<p><b>Question 2</b>  The comment indicates that not all activities (e.g., such as two-way communication between the group engagement team and the component auditor) have been included in the subsection, and likely should be included.</p> <p>The comment disagrees with the implication in paragraph A44 that there would be a difference in the overall nature and extent of the work required if the group engagement partner's firm and the component auditor's firm are members of the same network firm. However, the comment also suggests that guidance should be added indicating that some of the work required of the engagement team may already have been addressed at the network level.</p> <p>The comment recommends that the application material in paragraph A34 be expanded to indicate that involvement in the work of component auditors also extends to the ability to appropriately direct and supervise component auditors.</p> <p>As it relates to paragraph 21a, we noted that there is uncertainty about how the group engagement partner would determine whether component auditors have sufficient time to perform the procedures assigned to them without the group engagement partner performing procedures that address adherence by the component auditor's firm to its quality management policies and procedures. The comments recommend that the proposed standard should clarify how the</p>

<b>Proposed Change to ISA 600 Introduced in the ED</b>	<b>Summary of Comment in the Comment Letter</b>
	<p>group engagement partner determines whether component auditors have sufficient time to perform procedures.</p> <p>The requirement for the group engagement team to communicate with those charged with governance of the group instances in which the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work should be deleted or moved to application guidance. This is because the requirement doesn't reflect what would actually happen in these circumstances, i.e., if the group engagement team had concerns but the necessary and appropriate action to address the facts and circumstances giving rise to the initial concerns were taken, communication would not be necessary. (paragraph 56b)</p>
<p>Revises the scope and applicability of the ISA (the entry point into the ISA) by</p> <ul style="list-style-type: none"> <li>• revising the definition of group financial statements as financial statements that include the financial information of more than one entity or business unit through a consolidation process.</li> <li>• Clarifying that the consolidation process includes consolidation, proportionate consolidation, and the equity methods of accounting; the aggregation of the financial information of branches or divisions; and the presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.</li> </ul>	<p><b>Question 4.</b></p> <p>The comment letter expresses support for the revised definition of group financial statements, including the linkage to a consolidation process. (paragraph 9k)</p>

<b>Proposed Change to ISA 600 Introduced in the ED</b>	<b>Summary of Comment in the Comment Letter</b>
<p>Introduces a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:</p> <ul style="list-style-type: none"> <li>• Focusing the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement rather than the current approach whereby the scope of the work is driven primarily by the identification of components and determination of their significance.</li> <li>• Including separate sections throughout ED-600 to highlight the requirements and application material for circumstances when component auditors are involved instead of identifying significant components</li> </ul>	<p><b>Question 5.</b></p> <p>The comment letter agrees that the proposed standard is scalable because it</p> <ul style="list-style-type: none"> <li>• provides for group audits in which component auditors are extensively involved or not involved at all.</li> <li>• uses a risk-based approach</li> <li>• includes subheadings that highlight requirements applicable when component auditors are involved</li> <li>• defines the term <i>component</i> using an 'auditor view' that enables the group engagement team to plan and perform the audit using an approach that can be tailored to the group.</li> </ul>
<p>Reflects the auditor's view of a component for purposes of planning and performing the group audit (for example, location, function, or activity), which may not be the same as management's view of a component (the entities or business units comprising the group)</p>	<p><b>Question 6</b></p> <p>The comment letter supports the revised definition of "component" to focus on the auditor view (paragraph 9b).</p>
<p>Revises and enhances the acceptance and continuance section of the ED to align with proposed ISA 220 (Revised)</p>	<p><b>Question 7</b></p> <p>Paragraph 13, under the heading "Acceptance and Continuance" requires the group engagement team to obtain an understanding of the group that is sufficient to identify components and make a preliminary determination about whether to involve component auditors. The comment indicates that this paragraph should be revised to indicate that at this early point in the audit, the group engagement team may not be able to identify all components; therefore, the word "preliminary" would be better placed as "...a preliminary understanding of the group...."</p>
<p>Adds application material that addresses the commonality of controls and centralized activities</p>	<p><b>Question 9</b></p> <p>The comment requests clarification of the meaning of paragraph A17 which implies that the mere establishment of a centralized process for branch or divisional accounting such that there is no separately</p>

<b>Proposed Change to ISA 600 Introduced in the ED</b>	<b>Summary of Comment in the Comment Letter</b>
	prepared financial information requiring aggregation, may cause the aggregated information to be excluded from the definition of <i>consolidation process</i> and the financial information not to be subject to the ED.
Enhances the requirements and application material on documentation, including the linkage to the requirements of ISA 230	<b>Question 11</b> Paragraph 57d, which relates to documentation, implies that review of the work of component auditors is always required. This paragraph needs to be clarified because it conflicts with the requirement in paragraph 45b.
Other	<b>Question12</b>  The second sentence in paragraph 53 of the ED should be revised to align with the requirements in ISA 265 <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i> , Paragraph 53 implies that there is some optionality about which deficiencies in internal control are to be communicated. However, ISA 265 specifies which deficiencies are to be communicated and to whom they should be communicated.