



Agenda Item 4

Discussion Memorandum: Group Audits

Objectives of Agenda Item 4

To determine the following:

- Whether the ASB wishes to retain the option in extant AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, for the group engagement partner to make reference to the audit of a component auditor in the auditor's report on group financial statements (making reference).
- Whether the ASB agrees with the conclusion by the Group Audits Task Force (Task Force) that the main paragraphs in extant AU-C 600 (paragraphs 24-31 and related application material) that address making reference do not need revision, and that other paragraphs in extant AU-C 600 that mention making reference do not need revision (other than conforming changes). (See Agenda Item 4A, which is extant AU-C 600 with the paragraphs that mention making reference shown in highlighting. These are the paragraphs to consider in determining whether revisions to extant AU-C 600 (other than conforming amendments) are necessary.
- Whether the ASB agrees with the Task Force's plan for converging AU-C 600 with proposed International Standard on Auditing (ISA) 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

In addition, Dora Burzenski, Chair of the Task Force and a member of the International Auditing and Assurance Standards Board (IAASB)'s ISA 600 Task Force, will provide an update on the results of the IAASB's discussion of the draft of ISA 600 (Revised) presented at the June 2021 IAASB meeting (Agenda Item 4B).

Background

The IAASB is revising ISA 600 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*.

In April 2020, the IAASB issued an 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 ED, like extant ISA 600, does not include an option for the group engagement partner to make reference (as this is not allowed under the ISAs). In September 2020, the Task Force provided the IAASB with a comment letter on the ED, and in March and June 2021, provided input to the AICPA's IAASB representative on the March and June 2021 drafts, respectively.

Workplan and Approach for the Issuance of an ASB Exposure Draft

In accordance with the ASB's policy to converge its standards with those of the IAASB, at future ASB meetings, Ms. Burzenski will be leading the ASB in discussions of the IAASB's evolving drafts of the ED (i.e., the ED that is currently undergoing modifications based on the IAASB's deliberations) marked to show the following changes:

- Insertion of the paragraphs from extant AU-C 600 on making reference, if the ASB agrees with that option
- Conforming changes to the inserted paragraphs
- Additional changes for other differences that currently exist between extant AU-C 600 and extant ISA 600
- If needed, changes to the requirements in the draft ISA 600 (Revised) to reflect the uniqueness of the US environment
- If needed, application material in the draft ISA 600 (Revised) that needs to be added or deleted, as a result of the uniqueness of the US environment.

The objective of the Task Force is to develop an exposure draft of proposed AU-C 600 that will be issued in approximately the first quarter of 2022.

At the October 2021 ASB meeting, the Task Force plans to present a draft of proposed AU-C 600 that is marked from the draft of ISA 600 (Revised) presented at the September 2021 IAASB meeting.

IAASB's Workplan

The IAASB's workplan indicates that the IAASB will discuss a draft of ISA 600 (Revised) at its September 2021 meeting. Because the next draft of ISA 600 (Revised) will not be available until September, the ASB will be discussing the topic of making reference at its July 2021 meeting because that topic is not dependent on the IAASB's draft, as explained in the next section.

Making Reference

Paragraph .08 of extant AU-C 600 states the following:

.08 The group engagement partner is responsible for deciding, individually for each component, to either assume responsibility for, and thus be required to be involved in, the work of a component auditor, insofar as that work relates to the expression of an opinion on the group financial statements, or not assume responsibility for, and accordingly make reference to, the audit of a component auditor in the auditor's report on the group financial statements. The requirements in paragraphs .51-.65 are applicable only when the auditor of the group financial statements is assuming responsibility for the work of component auditors. All other requirements in this section apply to all audits of group financial statements.

Extant ISA 600 as well as the ED [and the draft of ISA 600 (Revised)] do not include an option for the group engagement partner to make reference to the audit of a component auditor in the auditor's report on group financial statements, as this is not allowed by the ISAs.

On July 12, 2021 the Task Force discussed the paragraphs in extant AU-C 600 on making reference to determine if they should be revised in response to practice issues or the need for clarification. The Task Force concluded that changes are not needed to those paragraphs, which are shown in yellow highlighting in Agenda Item 4A.

Members of the Group Audits Task Force

Dora Burzenski, Chair; assisted by Lauren Kolarik

Mike Bingham

Monique Booker

Harry Cohen

Heather Funsch

Clay Huffman

Maria Manasses

Staffed by Judith Sherinsky

Agenda Materials

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Agenda Item 4A AU-C section 600 with paragraphs on making reference highlighted

Agenda Item 4B Draft of ISA 600 (Revised) presented at the June 2021 IAASB meeting