

**Basis for Conclusions**  
**Prepared by the Staff of the IAASB**  
*April 2022*

*International Standard on Auditing (ISA) 600 (Revised)*

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**Special Considerations—Audits of  
Group Financial Statements  
(Including the Work of Component  
Auditors)**

**Including Conforming and  
Consequential Amendments to Other  
International Standards**

## **About the IAASB**

The Staff of the International Auditing and Assurance Standards Board (IAASB) prepared this document, and it does not constitute an authoritative pronouncement of the IAASB. The document does not amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

## **BASIS FOR CONCLUSIONS: ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)**

The Staff of the IAASB has prepared this Basis for Conclusions. It relates to, but does not form part of, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, or the conforming and consequential amendments to other ISAs.

ISA 600 (Revised) and the conforming and consequential amendments to other International Standards were approved with affirmative votes of 18 out of 18 IAASB members.

### **Section A – Introduction**

#### *Background*

1. The project to address group audits originated from the [ISA Implementation Monitoring Project](#). The findings from this project formed the basis for the [IAASB's Strategy for 2015–2019](#) and the [IAASB Work Plan for 2015–2016](#). The IAASB agreed to focus on those areas from the ISA post-implementation review where findings had indicated a need for priority consideration of changes to some aspects of the relevant ISAs. Accordingly, the IAASB included a project to revise ISA 600<sup>1</sup> in its 2015–2016 Work Plan.
2. As work commenced, the Group Audit Working Group reflected on the issues identified through the post-implementation review of the clarified ISAs, inspection findings and ongoing outreach. In December 2015, the IAASB released the [Invitation to Comment](#) (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, to obtain stakeholder views on key issues regarding quality control, group audits and professional skepticism. The input from the ITC informed the development of the project proposal.
3. In December 2016, the IAASB approved the [Project Proposal](#) to revise ISA 600 and the quality control standards. The project proposal set out, as objectives for revising ISA 600, to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs.
4. The project objectives were to:
  - (a) Propose revisions to:
    - (i) ISQC 1<sup>2</sup> to strengthen and improve a firm's management of quality for all engagements performed under the IAASB's International Standards by more explicitly incorporating a quality management approach, fostering the ability of the standard to be applied to a wide range of circumstances, and enhancing the requirements and application material.
    - (ii) ISA 220<sup>3</sup> to strengthen aspects of quality management for individual engagements by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.

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<sup>1</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>2</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>3</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

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- (iii) ISA 600 to strengthen the auditor's approach to planning and performing a group audit and clarify the interaction of ISA 600 to the other ISAs.

As the projects proceeded, consideration was given as to how best to structure the resulting revised standards, including possibly introducing new standards to deal with certain aspects if appropriate.

- (b) Propose consequential amendments to other standards that may be necessary as a result of revisions to ISQC 1, ISA 220 and ISA 600.
  - (c) Determine whether non-authoritative guidance and support tools should be developed by the IAASB or others to supplement the revisions or new standard(s). Non-authoritative guidance and support tools may include International Auditing Practice Notes, Staff publications, project updates, or illustrations / examples to provide assistance on how ISQC 1, ISA 220, ISA 600 and any new standards could be applied, in particular to address concerns regarding the ability of the standards to be applied to a wide range of circumstances.
5. The project proposal recognized the strong linkage between the IAASB's work to clarify and strengthen ISA 600 and the projects to revise other standards, in particular ISQC 1 and ISA 220. As some foundational issues had to be first considered and addressed in these other projects, the IAASB prioritized the progression of these other projects to appropriately build on the revised requirements and application material in making necessary revisions to ISA 600.
6. In September 2017, the ISA 600 Task Force prepared a [Project Update](#) describing the issues under consideration in the revision of ISA 600, and the relationship of those issues to other projects that address other international standards, in particular, ISA 220 and ISQC 1.

#### *Exposure Draft*

7. At its March 2020 meeting, the IAASB approved the [Exposure Draft](#) of Proposed ISA 600 (Revised) (ED-600), including related conforming and consequential amendments to other International Standards. ED-600 was issued on April 27, 2020, and closed for comment on October 2, 2020. During the exposure period, the IAASB undertook various outreach activities, including webinars, to help stakeholders understand the proposals.
8. In total, 83 comment letters were received on ED-600, including from regulators and oversight authorities, national auditing standard setters, accounting firms, public sector organizations, member bodies and other professional organizations, academics and individuals. Responses were received from four Monitoring Group members.<sup>4</sup>

#### *Public Interest Issues*

9. The table below sets out the key public interest issues identified by the IAASB and describes how they have been addressed in ISA 600 (Revised). Paragraph references in the table are to ISA 600 (Revised).

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<sup>4</sup> The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank. BCBS, IAIS, IFIAR, and IOSCO submitted responses to ED-600.

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Key Public Interest Issue	Description of Changes Made to Address Identified Key Public Interest Issues
<b>Keeping the IAASB’s standard on group audits fit for purpose</b>	<p><i>Scope of the Standard</i></p> <p>Clarified the scope of the standard, through the introductory paragraphs and definitions and related application material, including whether, and how, ISA 600 (Revised) applies to:</p> <ul style="list-style-type: none"> <li>• Shared service centers;</li> <li>• Entities with branches and divisions; and</li> <li>• Non-controlled entities, including equity-accounted investees and investments carried at cost.</li> </ul> <p><b>Paragraphs 1, 2, 3, 14(f) and 14(k).</b></p>
	<p><i>Linkages with Other Standards</i></p> <p>Clarified and reinforced in ISA 600 (Revised) that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to ISA 220 (Revised),<sup>5</sup> ISA 230,<sup>6</sup> ISA 300,<sup>7</sup> ISA 315 (Revised 2019)<sup>8</sup> and ISA 330.<sup>9</sup></p> <p><b>Paragraphs 1, 3, 6, 9, 16, 19, 22, 25, 26, 28, 30, 31, 33, 34, 35, 37, 42, 49, 51, 57, 58 and 59.</b></p>
	<p><i>Adaptability and Scalability</i></p> <p>Introduced 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 on identifying, assessing and responding to the risks of material misstatement; and</li> <li>• Including separate sections throughout ISA 600 (Revised) to highlight the requirements and application material for circumstances when component auditors are involved.</li> </ul> <p><b>Paragraphs 10, 30, 33 and 37.</b> Separate sections for considerations when component auditors are involved.</p>

<sup>5</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>6</sup> ISA 230, *Audit Documentation*

<sup>7</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>9</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

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<b>Key Public Interest Issue</b>	<b>Description of Changes Made to Address Identified Key Public Interest Issues</b>
	<p><i>Documentation</i></p> <p>Enhanced the documentation requirements and included application material to emphasize the linkage to the requirements in ISA 230 and the documentation requirements in other relevant ISAs, and to clarify what the group auditor<sup>10</sup> may need to document in different situations, including when there are restrictions on access to component auditor audit documentation.</p> <p><b>Paragraph 59.</b></p>
<b>Encouraging proactive management of quality</b>	<p><i>Managing and Achieving Quality in a Group Audit</i></p> <p>Clarified how the requirements in ISA 220 (Revised) apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work.</p> <p><b>Paragraphs 6, 11, 16, 23, 24, 25, 26, 27 and 28.</b></p>
	<p><i>Planning and Performing a Group Audit Engagement</i></p> <p>Established a framework for planning and performing a group audit engagement. The framework emphasizes special considerations for establishing the overall group audit strategy and group audit plan and requires the group auditor to determine the nature, timing and extent of involvement of component auditors. It also highlights that component auditors can be, and often are, involved in all phases of the group audit.</p> <p>Focused the group auditor’s attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements, and emphasized the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.</p> <p><b>Paragraphs 5, 6, 7, 22, 30, 33, 34, 37, 38, 39, 40, 51, and 52.</b></p>
	<p><i>Restrictions on Access to Information or People</i></p> <p>Clarified the various types of restriction issues and clarified ways in which the group auditor may be able to overcome restrictions on access to people and information, and audit documentation, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.<sup>11</sup></p>

<sup>10</sup> The IAASB agreed to change the term “group engagement team” to “group auditor.” See paragraph 112.

<sup>11</sup> The IAASB recognizes that ISA 600 (Revised) cannot enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted.

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<b>Key Public Interest Issue</b>	<b>Description of Changes Made to Address Identified Key Public Interest Issues</b>
	<p><b>Paragraphs 20, 21, 57 and 59.</b></p> <p><i>Component Materiality</i></p> <p>Clarified how the concepts of materiality and aggregation risk apply in a group audit.</p> <p><b>Paragraphs 14(a), 14(e) and 35, and consequential amendments to ISA 320.</b><sup>12</sup></p>
<p><b>Fostering an appropriately independent and challenging skeptical mindset of the auditor</b></p>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasized the importance of professional skepticism, including as part of the group auditor's:</p> <ul style="list-style-type: none"> <li>• Direction, supervision and review of the work of engagement team members, including component auditors, which may inform the group auditor about whether the engagement team has appropriately exercised professional skepticism; and</li> <li>• Evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for forming an opinion on the group financial statements.</li> </ul> <p><b>Paragraphs 9, 16, 28, 29, 47, 51 and 52.</b></p>
<p><b>Reinforcing the need for robust communication and interactions during the audit</b></p>	<p><i>Robust Communications and Interactions Between the Group Auditor / Group Engagement Partner and Component Auditors</i></p> <p>Strengthened and clarified:</p> <ul style="list-style-type: none"> <li>• The importance of two-way communications between the group auditor and component auditors, including the group auditor's expectation that communications will take place at appropriate times throughout the group audit.</li> <li>• Various aspects of the group auditor's interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group auditor in the work of the component auditor.</li> </ul> <p><b>Paragraphs 23, 24, 25, 26, 27, 28, 29, 31, 32, 34, 36, 41, 42, 43, 44, 45, 46, 47, 48 and 50.</b></p>

<sup>12</sup> ISA 320, *Materiality in Planning and Performing an Audit*

## Section B – Scope and Applicability

### *Background*

10. Paragraph 2 in ED-600 highlighted that the proposed standard applies when the auditor has been engaged to audit group financial statements, as defined in paragraph 9(k) of ED-600. As defined, group financial statements include the financial information of more than one entity or business unit, similar to the notion in extant ISA 600 that a group always has more than one component.
11. The IAASB also enhanced the description of consolidation process in paragraph 11 of ED-600 to include a reference to:
  - A consolidation process being “in accordance with the requirements of the applicable financial reporting framework” with respect to the recognition, measurement, presentation and disclosure, of financial information of entities or business units in the group financial statements. The IAASB determined that this reference was needed because it is the requirements of the applicable financial reporting framework that management follows in preparing the group financial statements; and
  - The aggregation of the financial information of branches or divisions. Paragraph A17 of ED-600 provided additional guidance with respect to entities with branches or divisions.
12. The IAASB discussed the need for clarity about how the group auditor may consider the structure of the group when planning and performing the group audit. In this regard, the IAASB acknowledged that a group auditor may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how management views the entities or business units comprising the group. Accordingly, the IAASB included a revised definition of a component in paragraph 9(b) of ED-600 that reflected the “auditor’s view” for purposes of planning and performing the group audit.

### *Summary of Comments Received on Exposure*

13. Respondents generally supported the proposals in ED-600 but sought greater clarity on the definition of group financial statements (i.e., the “entry point” into the revised standard) and a stronger link to the description of consolidation process in paragraph 11 of ED-600. In particular, respondents suggested clarifying that the term “consolidation process” as used in ED-600 is not intended to be the same as consolidation as defined in applicable financial reporting frameworks.
14. Respondents also requested further clarity about the circumstances in which the aggregation of the financial information of branches or divisions is considered to be a consolidation process versus when it is not. More broadly, some respondents expressed concerns about the applicability of ED-600 to less complex groups, including single legal entities with branches or divisions.
15. Respondents suggested reinstating paragraph 2 of extant ISA 600, which explained that auditors may find the principles and guidance in extant ISA 600, adapted as necessary in the circumstances, useful when other auditors are involved in an audit of financial statements that is not a group audit.
16. Although respondents generally supported revising the definition of a component, there were mixed views about the reference in ED-600 to the “auditor’s view” for purposes of planning and performing the group audit. Respondents indicated that providing flexibility to the group auditor is necessary given that the changing structure of groups may result in the auditor planning and performing the audit taking into consideration more factors than simply the entities or business units that make up a



group. However, certain practical challenges were noted if the “auditor’s view” differed from “management’s view.” Other comments indicated that the revised definition of a component appeared to underemphasize that group management may organize its financial reporting in a manner that is different from the group’s organizational structure.

#### *IAASB Decisions*

17. The IAASB acknowledged the support for the proposals in ED-600 but agreed to provide greater clarity regarding the scope and applicability of ISA 600 (Revised). Areas for enhanced clarity included the linkage between the definition of group financial statements and the description of the consolidation process, and the definition of a component. The IAASB also concluded that revisions were needed to address the comments about the applicability to entities with branches or divisions.

#### Definition of Group Financial Statements

18. In response to comments about the need for clarity in the definition of group financial statements, the IAASB integrated the description of the consolidation process in paragraph 11 of ED-600 into the definition of group financial statements in paragraph 14(k) of ISA 600 (Revised). The IAASB concluded that this provides a more complete definition because a consolidation process is an integral part of the preparation of group financial statements. To provide further clarity, the IAASB added paragraph A27 of ISA 600 (Revised) to emphasize that the term “consolidation process” is not intended to have the same meaning as “consolidation” or “consolidated financial statements” as defined or described in financial reporting frameworks.
19. The IAASB discussed whether the reference to “consolidation process” in the definition of group financial statements could be replaced with “aggregation process.” However, the IAASB concluded that consolidation process was a better term because it was more understandable in the context of financial reporting frameworks. The IAASB further noted that the terminology is less important than clarity about the fundamental principle. Although the process may differ somewhat depending on the nature and structure of the group, the process involves bringing together in a set of financial statements the financial information of more than one entity or business unit, with the elimination of intra-entity or business unit transactions or balances as needed.

#### Entities with Branches or Divisions

20. After considering various options to address the comments received, the IAASB decided to keep entities with branches or divisions whose financial information is aggregated into the financial statements of such entities by means of a consolidation process within the scope of ISA 600 (Revised). The IAASB determined that this would help to eliminate any confusion about the applicability of the revised standard and provide greater consistency in application.
21. In reaching this conclusion, the IAASB discussed concerns related to the concept of divisions for a single legal entity. Recognizing that the term “division” may be subject to different interpretations, the IAASB added application material (paragraphs A4–A5 of ISA 600 (Revised)) to further clarify the concept. This application material explains that divisions of a group often have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger). However, capturing separate information (e.g., in a sub-ledger) for legal or regulatory purposes or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of ISA 600 (Revised).

22. The IAASB also considered the concerns raised about whether the approach described above could be overly burdensome for less complex groups (e.g., a single legal entity with only two or three branches). The IAASB noted that, in these circumstances, the group auditor may be able to perform audit procedures at the components without involving component auditors or may be able to perform audit procedures on certain classes of transactions or account balances centrally. As a result, certain requirements in ISA 600 (Revised) would not be relevant (e.g., requirements relating to the involvement of component auditors). See paragraph 27 below regarding scalability considerations in applying ISA 600 (Revised).

#### Definition of a Component, and the Group Auditor's Determination of Components

23. Although there was much support for the revised definition of a component, the IAASB noted that the references in ED-600 to "management's view" and "auditor's view" may not have been sufficiently clear. The IAASB's intent was to provide flexibility for the group auditor to look beyond the group's legal structure to plan and perform the group audit in a way that takes into account different and increasingly complex group structures and information systems, including the use of shared service centers. However, the wording in ED-600 resulted in some confusion about how the group auditor would consider the entities or business units of the group for purposes of planning and performing the group audit.
24. Accordingly, the IAASB clarified in paragraphs 4 and A6 of ISA 600 (Revised) that a group may be organized in various ways, and the group's information system, including its financial reporting process, may or may not be aligned with the group's organizational structure. The IAASB also clarified in paragraph 5 of ISA 600 (Revised) that the group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgment in determining the components at which audit work will be performed.
25. In the IAASB's view, the changes described in paragraph 24 above better link the determination of components to the group auditor's understanding of the group's organizational structure and information system, including its financial reporting process, as required by ISA 315 (Revised 2019). Other factors, such as the presence of shared service centers, or the existence of common information systems and internal control, also affect the group auditor's determination of components, including when it may be appropriate to combine certain entities or business units for purposes of planning and performing the group audit, as described in paragraph A7 of ISA 600 (Revised).

#### Retention of Paragraph 2 of Extant ISA 600

26. In view of the comments from respondents, the IAASB concluded that the best approach was to repeat the wording of paragraph A1 of ISA 220 (Revised) in the Introduction section of ISA 600 (Revised) (paragraph 3). This wording is similar to paragraph 2 of extant ISA 600.

#### Scalability Considerations

27. The IAASB made further enhancements to address concerns raised about the application of ISA 600 (Revised) to less complex groups. Paragraph 10 of ISA 600 (Revised) was added to emphasize that ISA 600 (Revised) is intended for all group audits, regardless of size or complexity, and the requirements are intended to be applied in the context of the nature and circumstances of each group

audit. Paragraph 10 also includes examples that illustrate the scalability of the revised standard in certain circumstances.

## **Section C – Acceptance and Continuance, including Access to Information or People**

### *Background*

28. In developing ED-600, the IAASB made several enhancements to the Acceptance and Continuance section based on feedback from respondents to the ITC and the proposed revisions to ISA 220. For example, in view of the proposed revisions to ISA 220, ED-600 included new requirements and application material related to:
- Leadership responsibilities for managing and achieving quality on a group audit.
  - Being able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
  - Relevant ethical requirements.
  - Engagement resources.
  - Engagement performance.
29. Also, given the new approach to planning and performing a group audit engagement (see Section D), the IAASB added a requirement (paragraph 13 of ED-600) for the group engagement partner to make a preliminary determination about whether to involve component auditors.
30. The IAASB added paragraph 14 of ED-600 and related application material for situations when, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained.

### *Access to Information or People*

31. ED-600 recognized that there are several different types of access issues that may occur in a group audit. Each different type of access issue may require a different approach from the group auditor, and it is therefore important to differentiate among them. The IAASB recognized that ED-600 can help address these issues through application material describing ways to overcome restrictions on access to people or information but cannot enforce such access. Therefore, ED-600 differentiated between restrictions on access to information and people that are outside the control of group management (paragraph 16 of ED-600) and those that are imposed by group management (paragraph 17 of ED-600).
32. ED-600 included enhanced application material on restrictions, including how the group auditor may be able to overcome various access issues. For example, paragraph A29 of ED-600 included several examples, including for access restrictions related to equity-accounted investments.

### *Summary of Comments Received on Exposure*

33. Generally, respondents to ED-600 supported the changes made to the Acceptance and Continuance section but had various suggestions about how to further enhance it. In addition to the suggestions

on the requirements and guidance related to access to information or people (see paragraph 34 below), respondents:

- Noted that the nature and extent of requirements in this section were confusing as they included requirements that are not part of the acceptance and continuance procedures in ISA 220 (Revised). Specifically, it was noted that the requirements that address relevant ethical requirements, engagement resources and engagement performance should not be included within this section and that the table of contents and heading structure of ED-600 should be revised accordingly.
- Asked the IAASB to clarify what is required of the auditor in circumstances when information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm (paragraph 21(b) of ED-600). Specifically, it was noted that the phrase "when information has been provided" could create confusion as to the expected work effort needed in searching for the information.
- Noted a perceived inconsistency between paragraph 22 of ED-600 and the International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). Respondents noted that the wording of "if a component auditor does not meet the independence requirements" suggests that when a breach is identified the component auditor will not be allowed to be involved in the group audit even if the consequences of the breach can be addressed satisfactorily. IESBA representatives also shared this concern.

#### Access to Information or People

34. Paragraph A29 of ED-600 provided various examples of how the group auditor may be able to overcome restrictions when the group has a non-controlling interest in an entity that is accounted for by the equity method. One of the options included was considering publicly available information. Respondents to ED-600 noted that it was unclear whether obtaining publicly available information itself is sufficient. Similarly, it was noted that discussing with group management's representatives who are on the executive board or are members of those charged with governance of the non-controlled entity will not result in sufficient appropriate audit evidence. Respondents also suggested clarifying that the group auditor needs to apply professional judgment to evaluate whether the suggested actions in paragraph A29 of ED-600 are adequate to offset the impact of restricted access. It was also noted that the group auditor's professional judgment is influenced by the associated risk of material misstatement and whether the available evidence provides sufficient appropriate audit evidence to reduce the risk to an acceptably low level.

#### *IAASB Decisions*

##### Structure of the Standard

35. Some of the paragraphs previously included in the Acceptance and Continuance section (e.g., paragraphs related to relevant ethical requirements, engagement resources and engagement performance) were moved to the new section on the overall group audit strategy and group audit plan (see section D). This addressed concerns from respondents that requirements that are not part of

the acceptance and continuance procedures in ISA 220 (Revised) are included in the section on acceptance and continuance.

36. Paragraph 13 of ED-600 included a preliminary determination about whether to involve component auditors. To address concerns that the acceptance and continuance stage is too early to make a determination about whether to involve component auditors, this requirement was moved to the section on the overall group audit strategy and group audit plan.

#### Engagement Resources

37. The IAASB clarified its intentions with respect to paragraph 21(b) of ED-600 by adding that the information would be provided by the group auditor's firm or otherwise be made available to the group engagement partner (see paragraph 26 of ISA 600 (Revised)). The reference to "has otherwise been made available" is intended to address circumstances when information comes to the attention to the group engagement partner, other than through the group auditor's firm. The IAASB also linked paragraph 21(b) to paragraph 21(a) of ED-600 to clarify that the group engagement partner also uses the results of the monitoring and remediation process or external inspections in determining whether component auditors have the appropriate competence and capabilities.
38. In response to the comments on the perceived inconsistency of paragraph 22 of ED-600 with the IESBA code, the ISA 600 Task Force Chair and Staff liaised with the Chair and Staff of IESBA's Engagement Team – Group Audits Independence Task Force (IESBA Task Force). The IESBA Task Force noted that the Code requires evaluating the significance of the breach and then determining whether appropriate action can be undertaken to satisfactorily address the consequences of the breach. Because it may be possible to take action to satisfactorily address the consequences of the breach, a breach does not automatically disqualify the use of the component auditor's work.
39. Based on the discussions with the IESBA Task Force, the IAASB addressed the perceived inconsistency by:
  - Changing the construct of paragraph 27 of ISA 600 (Revised). The IAASB separated the reference to "serious concerns about the matters in paragraphs 23–26" from the reference to "relevant ethical requirements, including those related to independence," thereby clarifying its intentions.
  - Adding application material (paragraph A69 of ISA 600 (Revised)) that explains that firm policies or procedures may address breaches of independence requirements by component auditors, and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements. The new paragraph better sets up paragraph A70 of ISA 600 (Revised), which addresses the situation when a breach has not been satisfactorily addressed.

#### Access to Information or People

40. In response to comments from respondents to ED-600, the IAASB made several changes to the section on access to information and people, including:
  - Differentiating between circumstances when the group auditor may be able to overcome restrictions on access to information and people and circumstances when the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information and people is restricted. In both circumstances, the IAASB also

provided examples of how the group auditor may be able to overcome the restrictions (see paragraphs A40 and A41 of ISA 600 (Revised)).

- Differentiating between restrictions on access to component auditor audit documentation and restrictions on access to people and information. It was noted that paragraph A29 of ED-600 included both forms of restrictions. To enhance the clarity of the standard, the IAASB was of the view that it was best to differentiate between both restrictions and decided to split the paragraph into two separate paragraphs. The paragraph related to restrictions on access to component auditor audit documentation was moved to the audit documentation section (paragraph A180 of ISA 600 (Revised)). Also see paragraphs 95 and 96 below.
- Clarifying that, when the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people is restricted, it is a matter of professional judgment whether the auditor can obtain sufficient appropriate audit evidence. In such circumstances, the application material paragraph highlights that the group auditor may consider whether such restrictions are inconsistent with group management's assertions regarding the appropriateness of the use of the equity method of accounting (see paragraph A42 of ISA 600 (Revised)).

## **Section D – Planning and Performing a Group Audit Engagement**

### *Background*

41. ED-600 included a new approach for planning and performing a group audit engagement, referred to as the risk-based approach. In developing this approach, the IAASB had the following objectives:
  - Greater alignment with the requirements in ISA 315 (Revised 2019) and ISA 330;
  - A greater focus on the group auditor's responsibility, with the assistance of component auditors as needed, to:
    - Identify and assess the risks of material misstatement of the group financial statements at the group financial statement level and assertion level, and
    - Design and perform further audit procedures, in accordance with ISA 330; and
  - A greater focus on planning an appropriate approach to obtaining sufficient appropriate audit evidence (i.e., not just defaulting to "an audit" of the component financial information). The group auditor's focus should be on whether and how the assessed risks of material misstatement of the group financial statements are addressed through work performed at the group level by the group auditor or through work performed on components, including by component auditors.
42. The risk-based approach for a group audit emphasizes the need to think about what, how and by whom and where, work is to be performed, for example:
  - What – determining significant classes of transactions, account balances or disclosures in the group financial statements when identifying and assessing risks of material misstatement of the group financial statements at the assertion level;
  - How – determining the most appropriate audit strategy (e.g., centralized or decentralized testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and

- By whom and where – determining whether the group auditor or component auditors will obtain audit evidence in response to the assessed risks of material misstatement of the group financial statements, and the components at which audit work will be performed.

*Summary of Comments Received on Exposure*

43. On balance, respondents to ED-600 noted significant support for the principles of the risk-based approach and the overall premise that the group auditor takes responsibility for the risk assessment procedures and work performed to support the group audit opinion. However, respondents nonetheless challenged what appeared to be a presumption in ED-600 that the group auditor should directly perform, or take over much of, what component auditors are doing under extant ISA 600. In that regard, respondents highlighted the important role that component auditors play in a group audit. Respondents also indicated that, for some group audits, a focus on significant components may continue to be appropriate.
44. Respondents noted that the risk-based approach without the involvement of component auditors may work well for audits of the group financial statements of fairly homogenous, large corporate groups with an effective system of internal control and whose entities and business units are mostly situated in the same country, with a comparatively uniform language, culture, laws and regulations, and business practices. When this is not the case, the involvement of component auditors is of critical importance to audit quality, as not involving component auditors may result in:
  - Overlooking significant risks to the group financial statements arising at the component level, particularly for groups that are complex and large. This may in turn lead to an incomplete or inaccurate assessment of risks of material misstatement by the group auditor and an insufficient response to those assessed risks.
  - A wide diversity in practice across teams and firms due to the highly iterative nature of the requirements and the lack of a defined structure in ED-600 to the approach for determining components and scoping the work to be performed for the group audit.
45. Furthermore, respondents noted that certain wording in ED-600 may undermine the important role of the component auditor and could discourage the involvement of component auditors and overemphasize the role of the group auditor.
46. Respondents also questioned the placement of the section on Two-Way Communication Between the Group Engagement Team and the Component Auditor in ED-600 and suggested that more emphasis on two-way communication could be added earlier in the standard. In addition, respondents noted that the wording of many of the communication requirements was more top-down from the group auditor to component auditors, and that more could be done in relation to expectations about communications from the component auditors to the group auditor (i.e., bottom-up).
47. Respondents noted that there are specific challenges in determining the approach to the group audit when there are a large number of individually insignificant components that may be financially significant to the group in the aggregate. Although paragraph A89 of ED-600 discussed this issue, it was suggested that additional guidance would be helpful to clarify how a risk of material misstatement relevant to multiple business units or entities across the group may be addressed.

## *IAASB Decisions*

### Structure of the Standard

48. Based on comments from respondents to ED-600, it became clear that ED-600 was missing a clear framework on how to apply the risk-based approach, especially in relation to:
- What needs to be done to identify, assess and respond to the risks of material misstatement of the group financial statements; and
  - Who needs to do the work (i.e., the most appropriate allocation of effort between the group auditor and component auditors).
49. In response, the IAASB made the following changes to the structure of the standard related to the risk-based approach:
- A new section was introduced that highlights the special considerations in a group audit related to the development of the overall group audit strategy and group audit plan. This section links ISA 600 (Revised) with ISA 300 (Also see paragraphs 51–54 below).
  - The flow of the standard was enhanced. The IAASB was of the view that when component auditors are involved in performing risk assessment procedures, they would generally be involved in both obtaining an understanding of the group and its environment and the identification and assessment of risks of material misstatement. The IAASB therefore merged the requirements related to the involvement of component auditors in these two aspects of the audit (paragraphs 25 and 32 of ED-600) into paragraph 34 of ISA 600 (Revised).
  - Provided greater clarity about when each of the three approaches for assigning further audit procedures to component auditors (e.g., design and perform further audit procedures on the entire financial information of the component, design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, or perform specific further audit procedures) could be used.
50. The IAASB also acknowledged that, notwithstanding the structure of the standard, planning and performing a group audit is not a linear process; initial decisions made may need to be changed based on information obtained as the group audit progresses. Therefore, the IAASB highlighted the iterative nature of a group audit. See for example, paragraphs A47, A108 and A151 of ISA 600 (Revised).

### Overall Group Audit Strategy and Group Audit Plan

51. Paragraphs 15 and 16 in extant ISA 600 were based on ISA 300. In developing ED-600, the IAASB concluded that paragraph 15 did not include a special consideration for group audits and was therefore deleted. Paragraph 16 required the group engagement partner to review the overall group audit strategy and group audit plan. The IAASB deemed this to be useful for all audit engagements, and therefore ED-600 included a consequential amendment to ISA 300 to extend the requirement to all audits.
52. In its deliberations on the responses to ED-600, the IAASB noted the importance of setting the overall group audit strategy and group audit plan. The overall group audit strategy and group audit plan set out what, how, by whom and where the audit work will be performed. The IAASB was of the view that overall group audit strategy and group audit plan help to build a framework on how to approach the group audit and helps the group auditor to, for example:



- Identify the resources needed, including the amount of resources to be allocated and the nature of resources to be deployed for specific audit areas (e.g., deploying experienced team members for high-risk areas or the assignment of experts to address complex matters); and
- Determine the nature, timing and extent of audit work to be performed, including the components at which to perform audit work and the nature of the audit work.

53. The IAASB concluded that the special considerations in setting the overall group audit strategy and group audit plan relate to:

- The components at which audit work will be performed; and
- The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved.

To address these special considerations, the IAASB included a new requirement (paragraph 22 of ISA 600 (Revised)) on the overall group audit strategy and group audit plan, thereby reinforcing the link between ISA 600 (Revised) and ISA 300.

54. To address comments raised by respondents to ED-600 about the removal of the concept of significant components, the IAASB noted in paragraph A51 of ISA 600 (Revised) that the determination of components at which to perform audit work is a matter of professional judgment. This paragraph also highlights matters that may influence the group auditor's determination at which components to perform audit work, including the disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.

#### Importance of Involving Component Auditors

55. The IAASB is of the view that the involvement of component auditors is critical for many group audit engagements and recognizes that this message was not clear for many respondents to ED-600. To address respondents' comments, the IAASB made several changes throughout ISA 600 (Revised) to highlight the important role that component auditors play in a group audit:

- Introduction – The IAASB highlighted that 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).
- Overall group audit strategy and group audit plan – The IAASB included extensive application material on the resources needed to perform the group audit engagement. Among other matters, the application material:
  - Sets out matters that may influence the group auditor's determination about whether to involve component auditors; and
  - Highlights that component auditors will often be involved in all phases of the group audit.
- Responding to assessed risks of material misstatement – The IAASB made several changes to this section, including:
  - Clarifying the requirement to respond to the assessed risks of material misstatement (paragraph 37 of ISA 600 (Revised)) by adding that the group auditor's responsibility for

the nature, timing and extent of the further audit procedures performed includes determining the components at which to perform further audit procedures, and the nature, timing and extent of the work to be performed at those components.

- o Using more neutral wording in the application material. Respondents to ED-600 noted that the application material placed increased focus on the group auditor performing procedures centrally and that the involvement of component auditors was portrayed as a less desirable approach. In response, the IAASB revised paragraphs A124–A127 of ISA 600 (Revised). The IAASB also highlighted that when further audit procedures are performed centrally, component auditors may still be involved in the performance of the further audit procedures (paragraph A126 of ISA 600 (Revised)).

56. Given the changes described in paragraph 55 above, the IAASB was of the view that Appendix 1 to ED-600 was no longer needed as most of the material in that Appendix was included in the application material to the Overall Group Audit Strategy and Group Audit Plan section of ISA 600 (Revised).

#### Communications Between the Group Auditor and Component Auditors

57. In response to comments from respondents, the IAASB:

- Moved the requirement for the group auditor to communicate with component auditors about the component auditor's responsibilities and the group auditor's expectations earlier in the standard, as part of the Overall Group Audit Strategy and Group Audit Plan section (paragraph 29 of ISA 600 (Revised)). The IAASB was of the view that this paragraph, and the related application material, is more general in nature and establishes the overall principles for two-way communication throughout the group audit. To address comments from respondents about the perceived top-down nature of the requirements, the IAASB revised the requirement and application material to include expectations about the nature, timing and extent of communications.
- Restructured the requirements related to the communications from the group auditor to the component auditor and vice versa. To address comments that the structure of the communications was not clear, the IAASB moved paragraph 41 of ED-600 to become paragraph 32 of ISA 600 (Revised) in the Understanding the Group and Its Environment section.
- Expanded paragraph 45(e) of ISA 600 (Revised) to include a requirement for the component auditor to communicate corrected misstatements, in addition to uncorrected misstatements, of component financial information identified by the component auditor that are above the threshold communicated by the group auditor. The IAASB was of the view that the group auditor should be aware of the corrected misstatements as this may indicate the existence of other misstatements in other components' financial information within the group.
- Revised paragraph 45(k) of ISA 600 (Revised) to refer only to the component auditor's overall findings and conclusions to address concerns about undue reliance by the group auditor on an "opinion" provided by a component auditor.

## Large Number of Components Whose Financial Information Is Individually Immaterial but Material in the Aggregate to the Group Financial Statements

58. The IAASB acknowledged the unique challenges that the group auditor may face in planning and performing further audit procedures in circumstances in which the significant classes of transactions, account balances or disclosures in the group financial statements are disaggregated over a large number of components. Therefore, the IAASB revised the application material in ISA 600 (Revised) (paragraphs A128–A130 of ISA 600 (Revised)) to provide additional guidance in these circumstances. In doing so, the IAASB deleted the reference to “individually financially insignificant” components and instead focused on a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements.
59. In these circumstances, ISA 600 (Revised) notes that one of the options to obtain sufficient appropriate audit evidence is to perform substantive analytical procedures in accordance with ISA 520.<sup>13</sup> The IAASB incorporated paragraph A90 of ED-600 into paragraph A129 of ISA 600 (Revised) because respondents were confused about whether paragraph A90 of ED-600 was intended to be a broad reference to performing substantive analytical procedures in a group audit or related to these specific circumstances.

## Section E – Using Audit Evidence from an Audit Performed for Another Purpose

### *Background*

60. ED-600 included a requirement (paragraph 42) that applied in situations when an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor’s report has been issued for statutory, regulatory or other reasons, and the group auditor plans to use such work as audit evidence for the group audit.

### *Summary of Comments Received on Exposure*

61. Respondents noted that, as written, the paragraph was too limiting and did not fully address a number of relevant issues, including that:
- The audit for another purpose and the group audit are often performed concurrently;
  - The audit evidence obtained from an audit performed for another purpose can be critical to a group audit; and
  - Not using the work of the audit for another purpose will result in the duplication of procedures.
62. Respondents recommended that this topic be addressed more comprehensively (for example, by including a framework) to guide practitioners about the use of audit evidence obtained from an audit performed for another purpose. A framework would help to make clear the circumstances in which the use of such audit evidence is appropriate, including the benefits that may arise in coordinating the work effort between the group auditor and component auditors.

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<sup>13</sup> ISA 520, *Analytical Procedures*

### *IAASB Decisions*

63. The IAASB discussed respondents' comments and acknowledged that paragraph 42 in ED-600 lacked clarity. The IAASB noted that there are many different ways in which the group audit and the audit performed for another purpose can be structured and coordinated.
64. Based on the comments received, the IAASB agreed that ISA 600 (Revised) should continue to focus on the group audit only and not explain in detail the practical considerations or interactions that are needed between the group auditor and the component auditor related to the work being undertaken for an audit performed for another purpose. Therefore, the IAASB agreed to:
- Delete paragraph 42 given that it was creating significant confusion.
  - Include application material to the Introduction (paragraphs A10 and A11) to ISA 600 (Revised) to acknowledge that when audit procedures are performed by a component auditor for an audit of the financial statements of a component for statutory, regulatory or other reasons, the group auditor may be able to use that audit work, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit. The application material highlights that in any event, the requirements of ISA 600 (Revised) apply, including those relating to the direction and supervision of component auditors and the review of their work. Paragraph A76 of ISA 600 (Revised) provides examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work.
  - Develop non-authoritative guidance (e.g., as part of implementation support materials) to explain how the group auditor may comply with the requirements of ISA 600 (Revised) when using the work being undertaken for an audit performed for another purpose.

## **Section F – Materiality**

### *Background and Summary of Comments Received on Exposure*

65. Given the calls from stakeholders for greater clarity about the concept of aggregation risk, a definition of aggregation risk was added in paragraph 9(a) of ED-600. Respondents supported the definition of aggregation risk. However, given that aggregation risk exists in all audits, as noted in paragraph A11 of ED-600, respondents suggested that the definition of aggregation risk also should be included in ISA 320.
66. The terms “component materiality” and “component performance materiality” are both used in extant ISA 600. Under the risk-based approach in ED-600, there was neither a requirement for the group auditor to identify significant components, nor a requirement for an audit of those significant components. Given the risk-based approach in ED-600, the IAASB determined that the materiality amount to be used in planning and performing audit procedures on component financial information for purposes of the group audit was most appropriately referred to as “component performance materiality” and included a definition of that term in paragraph 9(e) of ED-600.
67. Respondents supported the definition of component performance materiality but also suggested that the IAASB consider retaining the separate definition of “component materiality” for situations when the group auditor requests a component auditor to perform an “audit” of the component’s financial information.
68. Respondents also requested additional guidance, in addition to the factors in paragraph A75 of ED-600, to assist the group auditor in appropriately and consistently determining component

performance materiality. In addition, respondents suggested that additional guidance could be provided about situations in which it may be appropriate to set component performance materiality at a level that approaches group performance materiality.

### *IAASB Decisions*

69. The IAASB noted that the concept of aggregation risk is already included in paragraph A13 of ISA 320, but aggregation risk is not separately defined in that standard. However, in response to comments received and to recognize that aggregation risk exists in all audits, the IAASB decided to include a definition of aggregation risk as a consequential amendment to ISA 320, along with a corresponding change to the definition of performance materiality.
70. The IAASB reaffirmed its view that component performance materiality was the appropriate term to use in ISA 600 (Revised) (paragraph 14(e)). In doing so, the IAASB noted that its rationale for not referring to “component materiality” in ISA 600 (Revised) was to differentiate the materiality used in planning and performing audit procedures on component financial information from the materiality used in performing a standalone audit of the financial statements of the component (i.e., for statutory, regulatory or other reasons).
71. In its discussions on ED-600, the IAASB determined that the factors in paragraph A75 of ED-600 that the group auditor may take into account in setting component performance materiality should be principles-based and should focus on matters relating to aggregation risk. After considering respondent comments, the IAASB concluded that the list of factors in paragraph A118 of ISA 600 (Revised) remains appropriate. However, the IAASB indicated in paragraph A118 that the determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment.
72. The IAASB added paragraph A119 of ISA 600 (Revised) to provide guidance about circumstances in which it may be appropriate to set component performance materiality at an amount closer to group performance materiality, and determining component performance materiality for a non-controlling interest in an entity that is accounted for the equity method. The IAASB also considered the requests for additional guidance or examples for determining component performance materiality but concluded that any worked examples should be provided outside of ISA 600 (Revised) (e.g., as part of implementation support materials). Although there are some methods that may be more commonly used in practice, providing examples in ISA 600 (Revised) may have unintended consequences, including perceptions of sanctioning a particular approach.

## **Section G – Documentation**

### *Background*

73. The IAASB recognizes that robust requirements and guidance regarding audit documentation for a group audit is an important public interest issue. Therefore, in developing ED-600, the IAASB sought to enhance the documentation requirements for group audits and to clarify that the audit documentation for a group audit is subject to the requirements of ISA 230 and the specific documentation requirements in other relevant ISAs.
74. Based on its discussions and input from stakeholders, the IAASB included enhanced documentation requirements in ED-600, including a revised requirement focused on the group auditor’s direction, supervision and review of component auditors, consistent with other changes throughout ED-600 to

align with the principles and requirements in proposed ISA 220 (Revised). The application material to ED-600 included examples of documentation of the group auditor's involvement in the work of component auditors.

75. The IAASB explained in ED-600 that the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation), and that such documentation may reside in the component auditor's audit file and need not be replicated in the group auditor's audit file.
76. The IAASB also discussed whether guidance could be provided in ED-600 regarding component auditor documentation that may need to be included in the group auditor's audit file. Beyond the matters already addressed in paragraph 57(e) of ED-600, the IAASB determined that providing examples of other matters might be viewed as incomplete in view of the many different circumstances encountered in group audits. Accordingly, paragraph A124 of ED-600 indicated that the group auditor may determine, based on professional judgment, that it is appropriate to include relevant parts of the component auditor's documentation in the group auditor's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit).
77. Based on input from and outreach with regulators and other stakeholders, the IAASB added application material to ED-600 to address the additional complexities and challenges with respect to audit documentation in a group audit when access to component auditor documentation is restricted.

#### *Summary of Comments Received on Exposure*

78. Overall, respondents expressed support for the enhanced documentation requirements and application material in ED-600, including the additional guidance related to the documentation of the direction and supervision of component auditors and the review of their work. However, respondents had a number of suggestions for matters, other than those described in paragraph 57 of ED-600, that should be required to be documented or for which additional guidance would be helpful, generally related to the following key themes:
  - *The group auditor's review of component auditor audit documentation.* In this regard, respondents indicated that the documentation should demonstrate the extent of oversight of the component auditors (i.e., direction and supervision) and how the group auditor reached its conclusions regarding the adequacy of their work.
  - *The extent to which component auditor audit documentation should be included in the group auditor's audit file.* Respondents had mixed views about the nature and extent of documentation relating to the work of component auditors that should be included in the group auditor's audit file. In some cases, respondents believed that, even when there are no restrictions on access, the group auditor's file should include a more detailed description of the audit procedures performed by component auditors, as well as a description of evidence obtained and the component auditor's findings and conclusions. Other respondents supported the guidance in ED-600 and the need for professional judgment by the group auditor.
  - *The group auditor's evaluation about whether sufficient appropriate audit evidence has been obtained.* Respondents suggested that the documentation for the group audit engagement should provide a basis for the group auditor's evaluation about whether sufficient appropriate audit evidence has been obtained, including with respect to the work performed by component auditors, on which to base the group audit opinion. In this regard, respondents noted that the

documentation requirements could be strengthened by more explicitly linking the documentation requirements in paragraph 57 of ED-600 to the overall evaluation of the sufficiency and appropriateness of audit evidence.

- *Communications between the group auditor and component auditors.* Respondents generally supported the proposed requirements in ED-600 but asked for additional clarity about which communications should be documented. There were also suggestions for a requirement to document the group auditor's communication with component auditors about their responsibilities and the group auditor's expectations about the work to be performed.
- *The evaluation of the competence and capabilities of component auditors.* Paragraph 21 of ED-600 required the group engagement partner to determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the work requested of them. Respondents noted, however, that there was no requirement in ED-600 regarding the documentation of the basis for this evaluation.

79. Paragraph A124 of ED-600 included wording, consistent with ISA 230, that the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. Respondents suggested that this be more explicitly stated within the requirements of the revised standard.
80. Respondents generally supported the application material in ED-600 related to circumstances in which access to component auditor documentation is restricted. However, respondents commented that additional guidance would be helpful to clarify the level of detail needed to describe the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters.

#### *IAASB Decisions*

81. Consistent with its approach in developing ED-600, the IAASB discussed the need to keep the documentation requirements in ISA 600 (Revised) principles-based and build on the principles of ISA 230. To enhance the linkage to ISA 230, the IAASB elevated the "experienced auditor" wording from the application material to the requirements in ISA 600 (Revised) (paragraph 59). The IAASB also added application material explaining that other ISAs contain specific documentation requirements that are intended to clarify the application of ISA 230 in the particular circumstances of those ISAs.
82. To provide additional clarity, the IAASB revised the application material (paragraph A168) to include a factual statement that the audit documentation for a group audit comprises the documentation in the group auditor's file and the separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (i.e., component auditor audit documentation).
83. In response to comments from respondents, the IAASB made several revisions to enhance the requirements and application material in ISA 600 (Revised), as explained further in paragraphs 84–97 below, related to the key themes discussed in paragraph 78 above.

### Group Auditor's Review of Component Auditor Audit Documentation

84. The IAASB discussed that the review of component auditor audit documentation is directly related to, and influenced by, the group auditor's direction and supervision of the component auditors and the review of their work, consistent with the principles in ISA 220 (Revised). In this regard, the IAASB noted that communications between the group auditor and component auditors occur throughout the group audit, in addition to the required communication from the component auditor about matters relevant to the group auditor's conclusion with regard to the group audit (paragraph 44 of ED-600). The IAASB also noted that the group auditor may review the work of a component auditor at various points during the group audit.
85. After considering the comments from respondents to ED-600, and to highlight the importance of the group auditor's review of component auditor audit documentation, the IAASB moved the requirement in paragraph 45(b) of ED-600 into a separate requirement (paragraph 47 of ISA 600 (Revised)). To emphasize that this required review is intended to be incremental to other reviews of component auditor work already performed during the group audit, the IAASB revised the wording to indicate that the group auditor is required to determine whether, and the extent to which, it is necessary to review *additional* component auditor audit documentation (emphasis added). The IAASB further enhanced the requirement to indicate that, in making the determination, the group auditor is required to consider the nature, timing and extent of the work performed by the component auditor, the component auditor's competence and capabilities, and the direction and supervision of the component auditor and the review of their work.
86. The requirement in paragraph 47 of ISA 600 (Revised) is supported by application material that builds on the principles in ISA 220 (Revised). The application material (paragraph A148 of ISA 600 (Revised)) highlights matters relevant to the group auditor's ongoing involvement in the work of the component auditor, including:
- Communications from the component auditor. The IAASB noted that communications are an integral part of the direction, supervision and review of component auditors and therefore should be considered in making the determination required by paragraph 47 (e.g., communications between the group auditor and component auditor may indicate a need to change the nature, timing or extent of the direction, supervision and review of the component auditor).
  - The review of component auditor audit documentation by the group auditor during the course of the group audit engagement or by the group engagement partner in accordance with paragraph 31 of ISA 220 (Revised).
87. The IAASB also discussed concerns raised that the conditional nature of the wording in paragraph 47 of ISA 600 (Revised) may result in the group auditor deciding not to review component auditor audit documentation when such review would otherwise be warranted in the circumstances. However, the IAASB concluded that the requirement provides for a positive determination by the group auditor regarding the review of additional component auditor audit documentation that appropriately considers the facts and circumstances of the group audit, and is driven by the group auditor's consideration of the matters in paragraph 47.
88. The IAASB also strengthened the requirement in paragraph 59(f) of ISA 600 (Revised) to add a specific reference to the group auditor's review of additional component auditor audit documentation in accordance with paragraph 47 of ISA 600 (Revised).



#### Extent of Component Auditor Audit Documentation Included in the Group Auditor's Audit File

89. In response to comments received, the IAASB revised the wording in the application material (paragraph A176 of ISA 600 (Revised)) to emphasize the general principle that component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. However, the IAASB clarified that the group auditor may decide to summarize, replicate or retain copies of certain component auditor audit documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the component auditor, and provides examples.

#### Basis for the Group Auditor's Evaluation about Whether Sufficient Appropriate Audit Evidence Has Been Obtained, Including the Work Performed by Component Auditors

90. The IAASB added application material (paragraph A167) of ISA 600 (Revised)) to provide a stronger link between the documentation requirements and the group auditor's overall evaluation as to whether sufficient appropriate audit evidence has been obtained, including from the work performed by component auditors, on which to base the group audit opinion.
91. The IAASB also noted that the requirements in paragraphs 45-48 of ISA 600 (Revised) relate to the evaluation of the component auditor's communications and the adequacy of their work. These requirements, which were reordered from ED-600 to present a more logical flow, inform the group auditor's evaluation of whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion.

#### Communications Between the Group Auditor and Component Auditors

92. The IAASB clarified paragraph 59(g)(i) of ISA 600 (Revised) to indicate that these communications are about matters, if any, related to fraud, related parties, and going concern communicated in accordance with paragraph 32 of ISA 600 (Revised).
93. Also see paragraph 57 above regarding the overarching requirement for two-way communication between the group auditor and component auditors.

#### Evaluation of the Competence and Capabilities of Component Auditors

94. In response to comments received, the IAASB added a requirement in ISA 600 (Revised) (paragraph 59(d)) regarding the basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components. The IAASB concluded that such a requirement is appropriate given that the involvement of component auditors is an important special consideration for a group audit.

#### Other Documentation Matters

##### Restrictions on access to component auditor audit documentation

95. The IAASB discussed that the wording in ED-600 may not have been sufficiently clear to describe the circumstances in which access to the component auditor audit documentation may be restricted, and the group auditor's response. To clarify the guidance for these circumstances, the IAASB revised the application material (paragraph A180 of ISA 600 (Revised)) to provide examples of the actions the group auditor may take to be able to overcome the restrictions. The application material indicates that it is a matter of professional judgment whether one or more of the actions may be sufficient to

overcome the restrictions, depending on the facts and circumstances of the group audit. Importantly, paragraph A181 of ISA 600 (Revised) indicates that, when access to component auditor audit documentation is restricted, the group auditor's documentation nonetheless needs to comply with the requirements of the ISAs, including those relating to the documentation of the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work.

96. The IAASB also added application material (paragraph A182 of ISA 600 (Revised)) to address comments from respondents that a scope limitation may exist that may require a modification to the opinion on the group financial statements if the group auditor is unable to overcome restrictions on access to component auditor audit documentation.

#### Consolidation process

97. The IAASB initially discussed that the documentation requirements of paragraph 38 of ISA 315 (Revised 2019) would apply to the group auditor's understanding of the consolidation process. However, the IAASB concluded that a documentation requirement for the key elements of the auditor's understanding of the matters in paragraph 30(c) of ISA 600 (Revised) would be appropriate given that these are important special considerations in a group audit. Accordingly, the IAASB added a requirement in paragraph 59(e) of ISA 600 (Revised).

## Section H – Professional Skepticism

### *Background*

98. The IAASB recognizes the importance of professional skepticism and professional judgment in performing a group audit. Therefore, ED-600 highlighted that the exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement.

### *Summary of Comments Received on Exposure*

99. Respondents generally agreed that the proposals in ED-600 appropriately reinforced the exercise of professional skepticism in a group audit. Respondents also noted that, given the risks posed by the complexity of many groups, it would be appropriate for the group auditor to frequently stand back and consider whether the progress of the audit is satisfactory (e.g., regarding the appropriate identification of risks, selection of audit procedures, etc.).
100. Despite the broad support, concerns were expressed that the risk-based approach as outlined in ED-600 could be detrimental to the exercise of professional skepticism by component auditors or could limit the information available to the group auditor in making informed decisions about the identification and assessment of the risks of material misstatement of the group financial statements. Respondents also noted that a stronger link was needed to the requirements in ISA 220 (Revised) as they relate to the group engagement partner's responsibility to establish and communicate the expected behavior of engagement team members, including achieving quality and exercising professional skepticism throughout the audit.

### *IAASB Decisions*

101. The IAASB concluded that the changes to the structure of the standard from ED-600 (as explained in Section D above), along with clarifications to the requirements and application material relating to the involvement of component auditors, also addressed the concerns expressed about the risk-based approach in ED-600 being detrimental to the exercise of professional skepticism by component auditors.
102. In response to other comments, the IAASB made the following changes in ISA 600 (Revised):
- Added a requirement (paragraph 16(a) of ISA 600 (Revised)) for the group engagement partner to take responsibility for creating an environment for the group audit engagement that emphasizes the expected behavior of engagement team members. The IAASB noted that this also helps to address respondents' comments for a stronger link to ISA 220 (Revised) regarding the engagement team behavior, including the exercise of professional skepticism.
  - Enhanced the application material (paragraphs A14–A18 of ISA 600 (Revised)) to include guidance and examples specific to group audits, while retaining the reference to ISA 220 (Revised) regarding examples of the impediments to the exercise of professional skepticism at the engagement level, and possible actions that the engagement team may take to mitigate such impediments.
  - Expanded the application material (paragraph A78 of ISA 600 (Revised)) to emphasize that two-way communication between the group auditor and component auditors also provides an opportunity for the group engagement partner to reinforce the need for component auditors to exercise professional skepticism in the work performed for purposes of the group audit.
103. The IAASB also noted that paragraph 34 of ISA 600 (Revised) helps to address the comments relating to the need for the group auditor to stand back at the risk assessment stage to determine that the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements.

## **Section I – Linkages with Other Standards**

### *Background*

104. ED-600 clarified and reinforced that all ISAs, when applicable, need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330. The IAASB did so by:
- Clarifying in the Introduction section that ED-600 deals with special considerations in an audit of group financial statements and that the requirements and application material in ED-600 refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements; and
  - When applicable, including a reference to the foundational standard in the requirement or application material.
105. Proposed ISA 220 (Revised) was a key foundational standard for ED-600. Among other matters, ED-600 included special considerations related to relevant ethical requirements, engagement resources and direction and supervision of component auditors and review of their work.

### *Comments Received on Exposure*

106. Generally, respondents supported the enhanced linkages to other standards. However, respondents identified a few areas where the linkages could be strengthened, for example, in relation to the definition of engagement team (ISA 220 (Revised)) and in relation to the use of auditor's experts (ISA 620).<sup>14</sup>
107. Respondents to ED-600 noted that the revised definition of engagement team in ISA 220 (Revised) could lead to practical challenges in a group audit, related to, for example:
- Complying with independence and other ethical requirements. It was suggested to liaise with IESBA given IESBA's project to align the definition of engagement team in the IESBA Code to the revised definition in ISA 220 (Revised)
  - Taking responsibility for the direction, supervision and review of component auditors; and
  - Determining the competence and capabilities of component auditors.
108. With respect to the wording used in ED-600, respondents noted that the difference between "engagement team," "group engagement team" and "component auditors" could be more clearly explained.
109. With respect to the use of auditor's experts in a group audit, respondents to ED-600 noted that it would be useful to add additional guidance on how ISA 620 should be considered in group audits. It was noted that experts often may be involved in group audits, including at the component level, particularly in certain industries.

### *IAASB Decisions*

110. The IAASB addressed many of the matters raised by respondents about linkages to other standards as part of the revisions as explained in the other sections of this Basis for Conclusions. For example, comments on the linkage with ISA 315 (Revised 2019) often related to the need for a framework in ED-600 to apply the risk-based approach and were addressed as part of the changes made to the risk-based approach (see Section D).

### *Engagement Team Definition*

111. To address the concerns raised by respondents to ED-600, the ISA 600 Task Force liaised with the IESBA Task Force on addressing the practical implications of the change in the definition relative to compliance with independence and other ethical requirements. The IAASB also added application material (paragraph A62 ISA 600 (Revised)) to better explain how the direction, supervision and review of component auditors, and the consideration of their competence and capabilities, could be addressed for component auditors generally (i.e., for component auditors from both network firms and non-network firms).
112. With respect to the difference between the terms "engagement team," "group engagement team" and "component auditor," the IAASB was of the view that confusion could be caused by the similarity of the terms "group engagement team" and "engagement team." Many respondents appeared to interpret the term "group engagement team" as simply meaning the engagement team as applied in the context of a group audit, as opposed to how the standard defines this term, being a specific

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<sup>14</sup> ISA 620 (Revised), *Using the Work of an Auditor's Expert*

subset of the broader engagement team. To address this confusion, the IAASB agreed to change the term “group engagement team” to “group auditor.” This change makes the difference between the terms clearer by eliminating the word “team,” aligns the wording more closely with the term commonly used in practice by auditors and more naturally complements the term “component auditor.”

113. The IAASB also clarified in paragraph A21 of ISA 600 (Revised) that references to the engagement team in ISA 600 (Revised) include the group auditor and component auditors. Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor’s firm (e.g., another office within the group auditor’s firm).

#### Auditor’s Experts

114. In response to comments from respondents to ED-600, the IAASB added additional guidance in ISA 600 (Revised) addressing the use of an auditor’s expert in a group audit. For example, the application material highlights that:
- If an auditor’s expert is used by a component auditor, the group engagement partner may need to obtain information from the component auditor (paragraph A67 of ISA 600 (Revised)), to fulfil the requirements of ISA 220 (Revised).
  - When a component auditor involves an auditor’s expert, the group auditor does not have to perform the evaluation of the adequacy of the auditor expert’s work. In such circumstances, the group auditor may discuss with the component auditor the nature, scope and objectives of the auditor’s expert’s work or the component auditor’s evaluation of the adequacy of the work of the auditor’s expert for the group auditor’s purposes (paragraph A142 of ISA 600 (Revised)).

#### Section J – Conforming and Consequential Amendments

115. The IAASB also proposed conforming and consequential amendments to the ISAs arising from ED-600. The IAASB responded to the comments received and aligned the final conforming and consequential amendments to the ISAs with the final changes to ISA 600 (Revised).
116. In response to comments received, the IAASB decided to include a definition of aggregation risk as a consequential amendment to ISA 320 (see section F) along with a corresponding change to the definition of performance materiality. The conforming and consequential amendments arising from ISA 600 (Revised) were also updated to reflect changes as a result of the conforming and consequential amendments arising from recent revisions to other standards (e.g., ISA 540 (Revised),<sup>15</sup> ISA 315 (Revised 2019) and the Quality Management standards).<sup>16</sup>

#### Section K – Effective Date

##### *Background and Summary of Comments Received on Exposure*

117. As set out in the explanatory memorandum to ED-600, the IAASB believed that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of the final ISA, recognizing that ED-600 is a substantive revision, and given

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<sup>15</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

<sup>16</sup> The Quality Management standards are International Standard on Quality Management (ISQM) 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised)

the need for national due process and translation, as applicable. Earlier application would be permitted and encouraged.

118. Respondents provided comments on the effective date but did so in various ways. For example, some respondents supported or otherwise commented on a specific effective date or implementation period, while others commented more broadly on the need to allow for sufficient time to support effective implementation. Generally, respondents:
- Agreed with the proposed effective date of approximately 18 months following the approval of the final revised standard; or
  - Supported an implementation period longer than 18 months (e.g., at least 18 months, 24 months or a minimum of 24 months following approval of the final revised standard) or recommended an effective date of financial reporting periods beginning on or after December 15, 2023.

#### *IAASB Decisions*

119. Taking into account the approval date of ISA 600 (Revised) (i.e., IAASB approval in December 2021 and PIOB approval of due process in April 2022) and respondent's comments, the IAASB decided that ISA 600 (Revised) should be effective for audits of group financial statements for periods beginning on or after December 15, 2023 (i.e., 2024 calendar year audits), with early adoption being permitted and encouraged.
120. In the IAASB's view, the effective date is in the public interest because it would provide for an implementation period of approximately 21 months after PIOB approval of due process or 24 months after IAASB approval of the final standard. This implementation period would:
- Provide stakeholders with sufficient implementation time, including time for translation, changes to firm methodologies and training, and planning and communications by other stakeholders (e.g., audit regulators, national standard setters).
  - Provide for a one-year lag following the implementation of the quality management standards, which has the added benefit of allowing stakeholders to focus attention on implementing those important standards first.

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