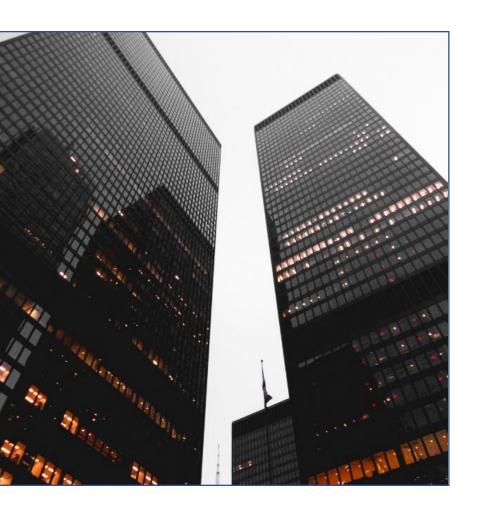


# Newsletter

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## In this Issue

The IAASB published a revised standard on ISA 600 Audits of Group Financial Statements (Including the Work Component Auditors). This introduces significant changes to the audit of groups for periods commencing on or after 15 December 2023 (with early adoption permitted).



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### INTERNATIONAL STANDARD ON AUDITING 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

#### **BACKGROUND**

Revision in the ISA 600 is driven by the objective of strengthening the auditors' approach to planning and performing group audit and to clarify and align to other revised standards.

#### SCOPE OF THIS STANDARD

The revised standard on ISA 600 introduces significant changes to the audit of groups. It introduces a proactive risk-based approach to the audit of groups which means more focus on identifying and assessing the risks of material misstatement, planning the approach to the audit, and performing engagement procedures that respond to the assessed risks.

#### **EFFECTIVITY**

This takes effect for audits of group financial statements for periods beginning on or after December 15, 2023.

#### **KEY CHANGES**

#### 1. Encouraging proactive management of quality

- Managing and achieving quality in a group audit
  - It clarifies 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.
- Restrictions on access to information and people
  - 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.
- Materiality considerations
  - It clarifies how the concepts of materiality and aggregation risk apply in a group audit.
- Planning and Performing a Group Audit Engagement
  - It 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 emphasizes the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.



#### 2. Keeping the group audit standard fit for purpose

- Scope of the standard clarified whether ISA 600 (Revised) is applicable to: entities with branches and divisions, shared service centres, and non-controlled entities.
- Linkages of ISA 600 with other standards significant for implementation:
  - ISA 220 (Revised), Quality Management for an Audit of Financial Statements
  - ISA 230, Audit Documentation
  - ISA 300, Planning an Audit of Financial Statements
  - ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement...
  - ISA 330, The Auditor's Responses to Assessed Risks

#### Documentation

ISA 600 (Revised) includes enhanced documentation requirements and application material to emphasize the linkage to the requirements in ISA 230 and the documentation requirements in other relevant ISAs. The revised standard also clarifies what the group auditor may need to document in different situations, including when there are restrictions on access to component auditor audit documentation

This also highlights the importance of the group auditor's review of component auditor audit documentation. 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 throughout the group audit.

#### 3. Reinforcing the need for robust communication and interactions

ISA 600 (Revised) strengthens and clarifies:

- o The importance of two-way communications between the group auditor and component auditors.
- 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

#### 4. Fostering the Appropriate Exercise of Professional Skepticism

Emphasized the importance of professional skepticism, including as part of the group auditor's:

- Direction, supervision and review of the work of engagement team members, including component auditors; and
- 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.



#### 5. How is scalability addressed?

ISA 600 (Revised) introduces a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:

- Focusing on identifying, assessing and responding to the risks of material misstatement of the group financial statements; and
- o Including separate sections throughout ISA 600 (Revised) to highlight the requirements and application material for circumstances when component auditors are involved.

#### Our View:

In light of ISA 600 revisions, practitioners may consider reassessing the requirements and audit methodologies that are previously used in considering component materiality and aggregation risk in performing group audit.

Changes in ISA 600 includes enhancement on communication between the group auditor and component auditors regarding their respective responsibilities when performing group audit which leads to achieving a quality audit. This also includes strengthening the group engagement partner's responsibility regarding the direction and supervision in reviewing the work of component auditors when assessing risks of material misstatements of the group financial statements.

For full text of the revised standard, please refer to the link below:

https://www.ifac.org/system/files/publications/files/IAASB-ISA-600-Revised.pdf



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Comments and suggestions are welcome.

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