



Are you really ready for ISA 600

Special Considerations-Audits of a Group Financial Report

External Reporting Centre of Excellence – October 2024



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Introduction

It's October 2024, and there hasn't been as much activity as expected in preparing for the implementation of the updated ISA 600 *Special Considerations-Audits of a Group Financial Report* (ISA 600) or the ASA 600 for the Australian equivalent, despite the significant changes that have been made from the extant standard.

ISA 600 is firmly viewed as an extension to the suite of quality management standards and has resolutely been uplifted to reinforce the importance of audit quality on group audit engagements.

Outlined below is a snapshot of how you need to react to the changes in ISA 600 depending on where you fit in the group audit eco-chain. This is not an exhaustive list just a focus on areas where there is a need for a change in the way group audits need to be conducted to enhance audit quality in a group audit.



I am the group audit partner what do I need to ensure under the revised ISA 600?

You have full responsibility for the audit of the entire group in line with the requirements of ISA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (ISA 220), this responsibility cannot be delegated so consider the following actions.

Client acceptance/re-acceptance

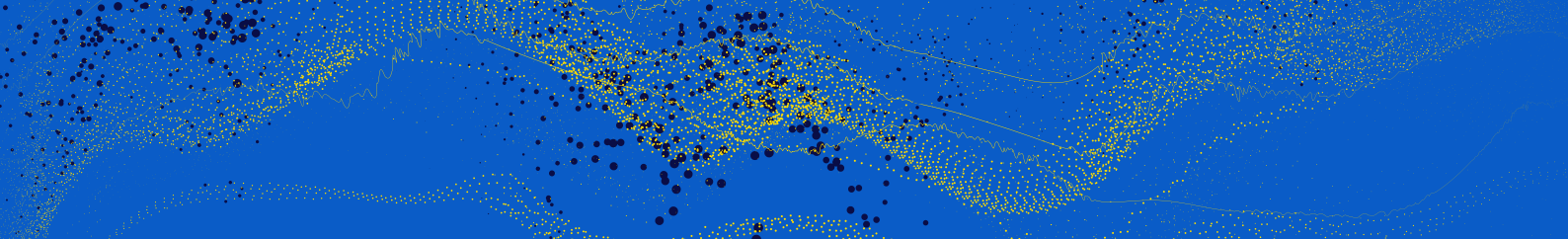
Select the checkboxes that apply as you consider each point.

Don't assume business as usual. Similar to the introduction of ISA 315 *Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and Its Environment* (ISA 315), there are now things you need to consider that you may not have in the past.

Assess the suitability of the component auditors. Meet in person or virtually to assess:

- Independence of component auditor
 - That the component auditor is willing and capable to follow the ethical requirements of the code of ethics
 - The capability of the component auditor and the experts they will need to involve
 - The System of Quality Management (SOQM) at component auditor firm
 - Whether there have been any adverse review results on the component auditor from quality reviews
 - Whether the component auditor believes that there may be any issues in obtaining sufficient appropriate audit evidence from the component management
 - That the component auditor can assure the group auditor that they will have free access to the information contained in the component auditor's audit file subject to applicable laws and regulations.
-

Notes:

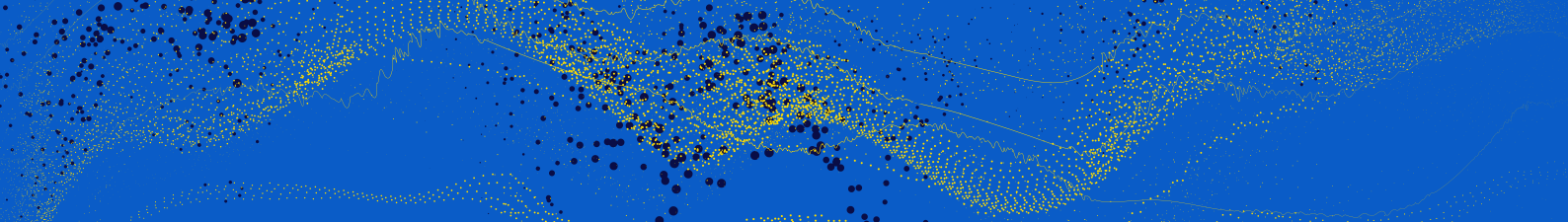


Communication with group management and those charged with governance

Select the checkboxes that apply as you consider each point.

<input type="checkbox"/>	Explain the changes to ISA 600 and the additional time that it will take you as the group auditor to complete the group audit engagement. This should also be addressed in writing in the group engagement letter and reports issued to those charged with governance.
<input type="checkbox"/>	As a result of the changes to ISA 600 additional fees will be incurred at the Group audit level.
<input type="checkbox"/>	Availability of group management and component management should be determined early so if issues are identified they can be managed.
<input type="checkbox"/>	Comprehend the consolidation process to enable a full understanding of what makes up the group's financial statements, including identifying its components.
<input type="checkbox"/>	Encourage Group Management to communicate with component management, encouraging them to provide timely assistance to the component auditor.

Notes:



Communication with component auditor/s and from the component auditor/s

Select the checkboxes that apply as you consider each point.

Two-way communication is a key underlying premise of the revised ISA 600.

Need to think beyond simply sending instructions. It is important to move towards meetings whether electronically or on the ground at the component auditor's site. Make sure there is a shared understanding of the key elements included in the file.

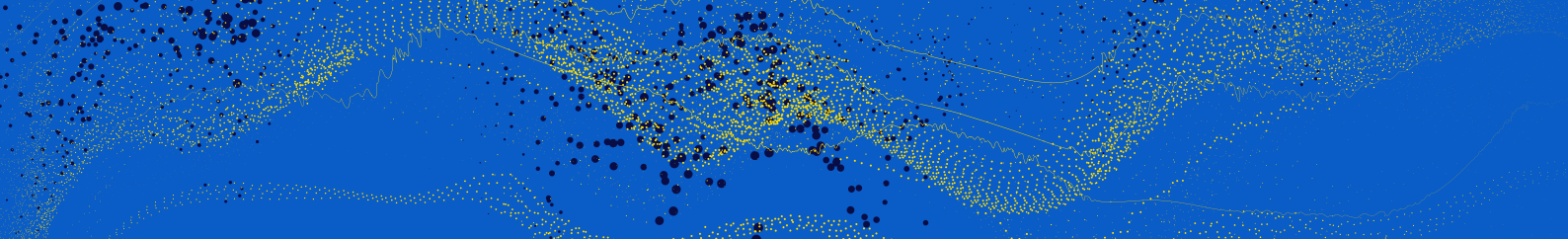
Determine the communication strategy with the component auditor and this is likely to be different depending on the number and size of components, the level of risks of material misstatement (ROMM) and the complexity of audit work to be performed. A minimum of 4 interactions would not be unreasonable in a simple group with a low-risk structure.

The risk assessment needs to be a point of discussion and not a written summary as has been the norm in the past. Key discussion points should be documented on file.

Ensure that the component auditor understands the need to communicate significant matters that arise during the audit on a real-time basis.

Ensure that the component auditor is aware of any differences between your auditing/ethics accounting standards and applicable legal regulations you will be reporting under your jurisdiction's auditing/ethics accounting standards and applicable legal regulations.

Notes:



Understanding the group and its environment, the applicable reporting framework and the group’s system of internal control

Select the checkboxes that apply as you consider each point.

Determine what forms the group, entities, branches, business units, joint ventures, equity accounted businesses. If you don’t have one already, it is a good starting point to create a Group diagram with each aspect of the group and then map out what financial balances sit within each aspect.

You need to get the ISA 315 working papers from the component auditors ideally for the current year. If the current year’s work has not been completed at the stage of assessing the ROMMs, then obtain the ISA 315 working papers from the prior year. Without this audit evidence, it will be very difficult to gain comfort with the group risk assessment as well as the risks at the component/s level.

Understanding the IT environment across the group needs to happen, and how the component’s systems talk to the Group systems, and what changes have occurred.

Notes:

Materiality

Select the checkboxes that apply as you consider each point.

The group audit team needs to establish a defensible methodology around materiality as the revised ISA 600 requires the group auditor to plan and execute at the financial statement assertions (FSA) level. The below example illustrates how the group auditor should consider the key requirements and application material in the standard.

Materiality example

The Group calculates its group materiality on a profit measure of 5% = \$550,000, there is a bit of risk in this group so will only take 25% cut for Group performance materiality (PM) \$412,500.

Taking an approach that the number of components is irrelevant and maximum aggregate component materiality (MACM) will not be applied in this example, taking a similar cut in line with the group at 25% could be applied for component PM \$309,375. Clearly Trivial (CT) has been conservatively set at 5% of the Group PM instead of Group materiality at \$20,625 to manage aggregation risk.

Component	Profit	Group PM	Component PM	Clearly Trivial
One	\$1,000,000	\$412,500	\$309,375	\$20,625
Two	\$500,000	\$412,500	\$309,375	\$20,625
Three	\$4,000,000	\$412,500	\$309,375	\$20,625
Four	\$5,500,000	\$412,500	\$309,375	\$20,625
Total	\$11,000,000			

You need to tell the component what their materiality levels are for group reporting purposes.

Quantitative and qualitative factors need to firmly be considered as alluded to in the simple example above.

Communicate specific materiality if appropriate at the FSA level.

To ensure aggregation risk is appropriately managed you will need to ensure that you instruct component auditors to put all items greater than those that are CT onto the summary of unadjusted audit differences and you as the group auditor need to review this.

You will need to consider the level of coverage of the group that is required. The '15%' benchmark in determining significant components as per the extant ISA 600 no longer exists.

Notes:



Overall group audit strategy and group audit plan

Select the checkboxes that apply as you consider each point.

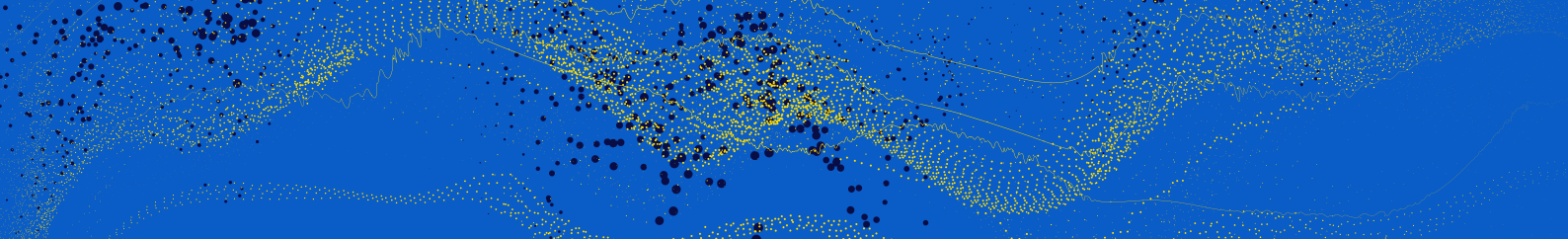
Assess risks at the assertion level. Starting with the group and then at the component level – Reference Appendix 3 of ISA 600.

You will need to consider the level of coverage of the group that is required. The '15%' benchmark in determining significant components as per the extant ISA 600 no longer exists.

Need to consider and determine whether a full audit or only certain balances be required to be tested in certain components.

The overall Group Audit Strategy and Group Audit Plan should be communicated to all component auditors, so each component auditor is not acting in a silo.

Notes:



Responding to the assessed risks of material misstatement

Select the checkboxes that apply as you consider each point.

<input type="checkbox"/>	What control testing has been done.
<input type="checkbox"/>	Is a fully substantive audit approach appropriate.
<input type="checkbox"/>	Understand sampling methodology or tell component auditor the level of sampling required by FSA having regard for the level of inherent risk.
<input type="checkbox"/>	Determine how the component auditor identifies and selects specific items (targeted testing) and how they apply sample testing – non-statistical (haphazard, block selections) and statistical (random, systematic, monetary unit sampling selections).
<input type="checkbox"/>	Understand data analytics if used by component auditor, and whether it is appropriate as a basis of audit evidence.

Notes:



Evaluating the component auditor's work

Select the checkboxes that apply as you consider each point.

Direction, supervision and review are the key to a group audit under the revised ISA 600.

This cannot be undertaken just before the signing of the auditor's report. You need to determine phases of review, starting from reviewing the work done on risk assessment at the ISA 315 level. If the operating effectiveness of controls is being tested, then you need to review this on a timely basis. Regardless of whether a controls based audit approach is applied or not you need to review the appropriateness of the substantive procedures carried out by the component auditor.

Review an appropriate number of work papers to address the level of risks of material misstatements (ROMMS) identified.

Determine the extent of component auditor work papers you need to replicate on your file.

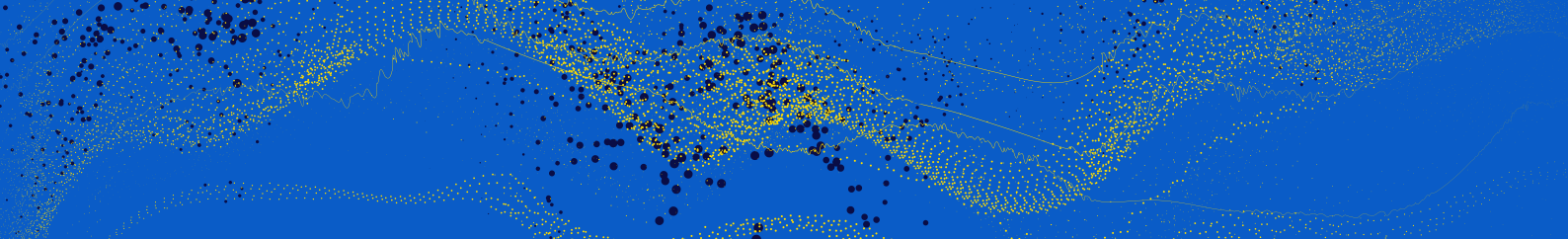
Determine documentation requirements, to be consolidated into the group file or not (determine with your documentation software provider what is possible).

Assess whether there has been an appropriate usage of auditor's experts.

Any changes to the engagement teams and skills and expertise have been understood and assessed for adequacy.

Evaluate whether monitoring and remediation under ISQM/ASQM 1 has been sufficiently completed for the current year cycle.

Notes:

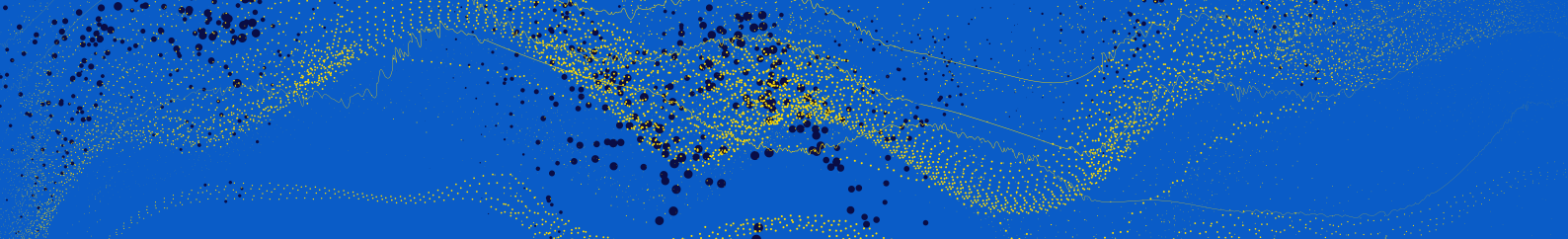


Communication with component auditor/s and from the component auditor/s

Select the checkboxes that apply as you consider each point.

<input type="checkbox"/>	Two-way communication is a key underlying premise of the revised ISA 600.
<input type="checkbox"/>	Ensure that you are satisfied with all the deliverables of the component auditor.
<input type="checkbox"/>	Discuss subsequent events at the component level as close to the group signing date as possible, preferably within 24 hours.

Notes:



I am the component auditor in the same network as the group auditor what do I need to ensure under the revised ISA 600?

These are the key questions to ask the Group auditor. Try to achieve this face-to face in person/virtually and document the agenda and the minutes.

Select the checkboxes that apply as you consider each point.

Confirmation of understanding of what's affecting us as the component auditor under ISA 600.

When would you like to review the work – tentatively agree on the timeline for phased review.

When would you like us to have completed the work on ISA 315 to inform the development of your overall audit strategy and plan?

What are the objectives of the group audit?

What are the significant risks that we should be aware of at the group level?

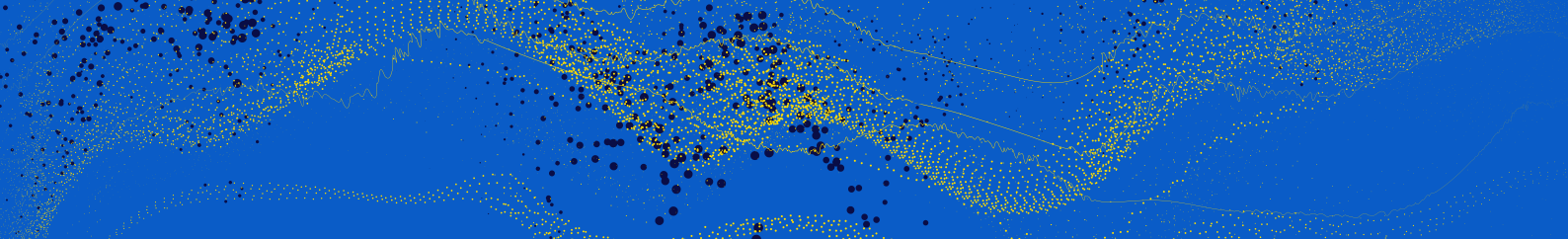
What is the materiality level for my component?

Can you confirm that we are following the Networks audit methodology?

Do you want us to consolidate our working papers into your file for ease of supervision and review?

Will I apply the sampling methodology in the Networks audit methodology?

Notes:



I am the component auditor in a firm that is not part of the group auditor network what do I need to ensure under the revised ISA 600?

These are the key questions to ask the Group auditor. Try to achieve this face-to face in person/virtually and document the agenda and the minutes.

Select the checkboxes that apply as you consider each point.

Do you need to supply me with your firm's audit methodology for me to follow?

Confirmation of understanding of what's affecting us as the component auditor under ISA 600.

What do I need to do to ensure my independence as I am not a Network firm of yours?

What is the materiality level for my component?

How and when do you want to review my working papers, as I know there is a substantial change in this area? – tentatively agree on the timeline for a phased review.

When would you like us to have completed the work on ISA 315 to inform the development of your overall audit strategy and plan?

What level of audit sampling controls/substantive testing are you requiring?

What quality management processes must we have in place?

Confirm my requirement to comply with ISA's.

Notes:

