



Exposure Draft **Proposed Canadian** **Auditing Standard**

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

May 2020

**COMMENTS TO THE AASB MUST BE RECEIVED BY
September 11, 2020**

**COMMENTS TO THE IAASB MUST BE RECEIVED BY
October 2, 2020**

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by uploading your response letter via this [online form](#). Please address your response to:

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This Exposure Draft reflects proposals made by the International Auditing and Assurance Standards Board that the Auditing and Assurance Standards Board (AASB) intends to adopt, subject to deliberating comments received, as Canadian generally accepted auditing standards.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments received by the AASB will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

HIGHLIGHTS

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, to adopt with appropriate amendments, if any, issued by the International Auditing and Assurance Standards Board (IAASB):

- proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*; and
- proposed conforming and consequential amendments to other ISAs.

The result would be revised respective Canadian Auditing Standards (CASs).

This Exposure Draft consists of:

- an explanation of why change is needed;
- key public interest considerations;
- proposed changes;
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum;
- a description of the AASB's process for adopting ISAs;
- a discussion of proposed significant Canadian amendments; and
- a proposed effective date.

Please review “ Comments requested ” on page 5 for information on preparing your response to this Exposure Draft.

Why change is needed

In December 2015, the IAASB issued 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. In its response to the ITC, the AASB raised the following issues relating to group audits:

- Auditors have struggled to understand and implement key sections of extant ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. Clarifying the standard will lead to greater consistency in group audits and improve audit quality.
- ISA 600 (Revised) should be based on a risk-based approach, as scoping a group audit based on the identification of components may not always result in an appropriate assessment of the risks of material misstatement at the group financial statement level.

In December 2016, the IAASB approved a project proposal to revise ISA 600. The project proposal's objectives include addressing the issues raised by the AASB.

Key public interest considerations

All the proposed revisions in the Exposure Draft are made with public interest considerations at the forefront. The table below sets out the key public interest issues and how they have been addressed in the Exposure Draft.

Key Public Interest Issues	Description of Changes made to Address Identified Key Public Interest Issues
<p>Keeping the IAASB’s standard on group audits fit for purpose</p>	<p><i>Scope of the standard</i></p> <p>Clarified the scope of the standard, through the definitions and application material, including whether, and how, proposed ISA 600 (Revised) applies for:</p> <ul style="list-style-type: none"> • Shared service centers; • Entities with branches and divisions; and • Non-controlled entities, including equity-accounted investees and investments carried at cost.
	<p><i>Linkages with other standards</i></p> <p>Clarified and reinforced in proposed 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 proposed ISA 220 (Revised),¹ ISA 315 (Revised 2019)² and ISA 330.³</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"> • Focusing the group engagement team’s attention on identifying, assessing and responding to the risks of material misstatement; and • Including separate sections throughout proposed ISA 600 (Revised) to highlight the requirements and guidance for circumstances when component auditors are involved.
	<p><i>Documentation</i></p> <p>Enhanced the documentation requirements and included application material to emphasize the linkage to the requirements in ISA 230⁴ and to clarify what the group engagement team may need to document in different situations, including when there are restrictions on access to component auditor documentation.</p>

¹ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*
² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*
³ ISA 330, *The Auditor’s Responses to Assessed Risks*
⁴ ISA 230, *Audit Documentation*

Key Public Interest Issues	Description of Changes made to Address Identified Key Public Interest Issues
<p>Encouraging proactive management of quality at the engagement level</p>	<p><i>Managing and achieving quality in a Group audit</i></p> <p>Clarified how the requirements in proposed 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>Throughout proposed ISA 600 (Revised), separate sections are included for circumstances when component auditors are involved.</p> <hr/> <p><i>Planning and performing a group audit engagement</i></p> <p>Focused the group engagement team’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> <hr/> <p><i>Restrictions on access to people and information</i></p> <p>Clarified how to address restrictions on people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors or information at the components.⁵</p> <hr/> <p><i>Component materiality</i></p> <p>Clarified the concepts of component materiality (now component performance materiality) and aggregation risk.</p>
<p>Fostering an appropriately independent and challenging skeptical mindset of the auditor</p>	<p><i>Fostering the appropriate exercise of professional skepticism</i></p> <p>Emphasized the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> • Determining the direction, supervision and review of the component auditor’s work; and • The group engagement team’s evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for the opinion on the group financial statements.
<p>Reinforcing the need for robust communication and interactions during the audit</p>	<p><i>Robust communications and interactions between the group engagement team / group engagement partner and component auditors</i></p> <p>Strengthened and clarified the application of proposed ISA 220 (Revised) in a group audit, including:</p> <ul style="list-style-type: none"> • Communications between the group engagement team and component auditors, emphasizing the importance of two-way communications. • Various aspects of the group engagement team’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 engagement team in the work of the component auditor. <p>Throughout proposed ISA 600 (Revised), separate sections are included for circumstances when component auditors are involved.</p>

⁵ The IAASB recognizes that proposed ISA 600 (Revised) cannot enforce access to people and information, but the IAASB can help by developing guidance for situations where access to people or information is restricted.

Proposed changes

The Exposure Draft proposes several key changes, which include:

- clarifying the linkages between ISA 600 (Revised) and other ISAs;
- placing requirements and application material related to the involvement of component auditors in separate subsections to clarify the interactions between the group engagement team and the component auditors, and to provide scalability for circumstances when component auditors are not involved;
- clarifying the scope and applicability of ISA 600 (Revised);
- enhancing the acceptance and continuance considerations, including considerations relating to restrictions on access to people or information;
- introducing a risk-based approach to planning and performing a group audit engagement;
- adding guidance on common controls and centralized activities relevant to financial reporting;
- clarifying the concept of materiality in a group audit engagement, including guidance on considerations relating to aggregation risks and component materiality;
- enhancing documentation requirements; and
- emphasizing professional skepticism in a group audit engagement, including examples of areas where the auditor exercises professional skepticism.

IAASB Exposure Draft

The IAASB's Exposure Draft, "[Proposed International Standard on Auditing 600 \(Revised\): Special Considerations – Audits of Group Financial Statements \(Including the work of Component Auditors\)](#)," is available on the [IAASB website](#).

In addition to the text of proposed ISA 600 (Revised), the IAASB's Exposure Draft includes the Explanatory Memorandum, which provides background to, and an explanation for, the proposed revisions to extant ISA 600.

Process for adopting ISAs

In adopting the ISAs as CASs, the AASB issues as a Canadian exposure draft, every IAASB exposure draft of a proposed ISA. However, in doing so, the AASB recognizes that it has a vital role to play in monitoring changes made by the IAASB to ensure that standards remain in the Canadian public interest and that adoption of an ISA is not automatic. The AASB follows amendment criteria set out in the "[APPENDIX](#)" that allow the AASB to make amendments in specific circumstances.

The AASB normally uses the same effective date for the CASs as the IAASB does for the ISAs. The AASB makes CASs available shortly after they are approved, so Canadian stakeholders can become familiar with them and prepare to implement them by the effective date.

Proposed significant Canadian amendments

Subject to input from Canadian stakeholders, the AASB proposes to replace references to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (IESBA Code) in ISA 600 (Revised) with relevant ethical requirements applicable in Canada. Amendments would be made to the following paragraph:

CA39. As described in CSQM 1, there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement and where such insufficiency may diminish the firm's ability to perform the engagement in accordance with

professional standards and applicable legal and regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a more important consideration by the firm in respect to group audit engagements where, for example, there are multiple components at which audit procedures are performed. Relevant ethical requirements set out in the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies set out requirements and application material addressing threats to compliance with the fundamental principles and to independence that might be created by fees and other remuneration arrangements. [In ISA 600 (Revised), this paragraph states: As described in ISQM 1, there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement and where such insufficiency may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a more important consideration by the firm in respect to group audit engagements where, for example, there are multiple components at which audit procedures are performed. The International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out requirements and application material addressing threats to compliance with the fundamental principles and to independence that might be created by fees and other remuneration arrangements.]

Proposed effective date

The IAASB proposes that ISA 600 (Revised) be effective for financial reporting periods beginning approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The revised CASs are expected to have the same effective date as the revised ISAs. Auditors will be permitted to apply these revised CASs before the effective date.

Comments requested

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. When a respondent agrees with proposals in the Exposure Draft, it will be helpful for the AASB to be made aware of this view.

Responding to the IAASB's Exposure Draft

Stakeholders are asked to provide comments on the IAASB's Exposure Draft directly to the IAASB and provide the AASB with a copy of the response. The AASB will take these comments into account in drafting its own response to the IAASB's Exposure Draft. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB.

Please refer to the "Guide for Respondents" contained in the IAASB's Exposure Draft and respond to the specific questions therein.

Providing comments to the AASB

The AASB would appreciate receiving responses to the questions set out below, in addition to receiving a copy of the response to the IAASB's Exposure Draft.

In responding to the questions in the IAASB's Exposure Draft and the questions below, the AASB invites firms of all sizes to field test the requirements in proposed CAS 600 and communicate the outcome in its response letter. Lessons learned from field testing will provide the AASB with a better understanding of the proposals' practical implications.

1. Do you agree with the proposed Canadian amendments?
2. Do you believe the AASB should make additional Canadian amendments to proposed ISA 600 (Revised) or the proposed conforming and consequential amendments? If so, please include your reasoning and describe their nature and extent. Any proposed amendments would need to meet the criteria set out in Appendix.
3. Do you believe any of the requirements in the proposals could create initial implementation difficulties, despite the guidance provided? If so, please explain.

The deadline for providing your comments to the AASB on the above is September 11, 2020.

APPENDIX

Criteria for amending ISAs when adopting them as CASs

With respect to the adoption of ISAs, the AASB's overriding goal is to adopt ISAs into the CPA Canada Handbook – Assurance without amendment. However, there may be circumstances when amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISAs:

1. The AASB limits additions to an ISA to those required to comply with Canadian legal and regulatory requirements.¹
2. The AASB limits deletions from, or other amendments to, an ISA to the following:
 - (a) The elimination of options (alternatives) provided for in the ISA.
 - (b) Requirements or guidance, the application of which Canadian law or regulation¹ does not permit, or which require amendments to be consistent with law or regulation.
 - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
 - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
 - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISA are highlighted in exposure drafts of proposed Canadian standards. The AASB indicates the reasoning for the amendments and respondents are invited to comment on them, including when the amendment will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Amendments to ISAs are separately identified in the final Handbook material.

¹ Canadian incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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