

ICAEW KNOW-HOW
AUDIT AND ASSURANCE FACULTY



ISA 600 *What's Changing*

June 2023

Matt Howells and Catherine
Hardinge

Ask a question



The screenshot shows a mobile application interface for asking questions. At the top, it says 'Q&A'. Below that, there is a section for a question and answer. The question is 'What happens when I raise my hand?' with a timestamp of 18:03. The answer is 'I can take you off of mute.' with a timestamp of 18:04. Below the answer is a large empty text input field with the placeholder text 'Please input your question'. At the bottom left, there is a checkbox labeled 'Send Anonymously'. At the bottom right, there is a blue button labeled 'Send'.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.



Did you know?

From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations bring in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).



Today's presenters



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Introduction

Standard

Audit and Assurance



September 2022

INTERNATIONAL STANDARD ON AUDITING (UK) 600 (REVISED SEPTEMBER 2022)

Special considerations—Audits of
group financial statements
(Including the work of component auditors)

Introduction

ISA (UK) 600 has been significantly revised

Revisions affect group and component auditors, large and small

Effective for periods commencing on or after 15 December 2023

- Broadly December 2024 year ends
- Watch out for short periods!

What hasn't changed?

“Special considerations”
standard

- Other ISAs (UK) apply to a group audit too

Group engagement
partner

- Ultimately responsible and accountable for compliance with ISA

Group auditor responsible
for overall approach

- How much work to do on each component to form group opinion
- How much (if at all) to rely on component auditor(s)

Applies to all group audits,
no matter how “simple”

- Latest QAD findings...



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Home > Regulation > Working in the regulated area of audit > Audit quality concern from 2022 monitoring reviews

Audit quality concern from 2022 monitoring reviews

Three recurring aspects, one of which was group audits

“Issues relating to group audits are not restricted to multinational audits conducted by the largest audit firms utilising component auditors across the globe”

Key changes

Definition of “engagement team”

Communication within group audit team and with component auditors

Scoping and risk assessment

Calculation of component materiality

Controls and IT

Implications for component auditors



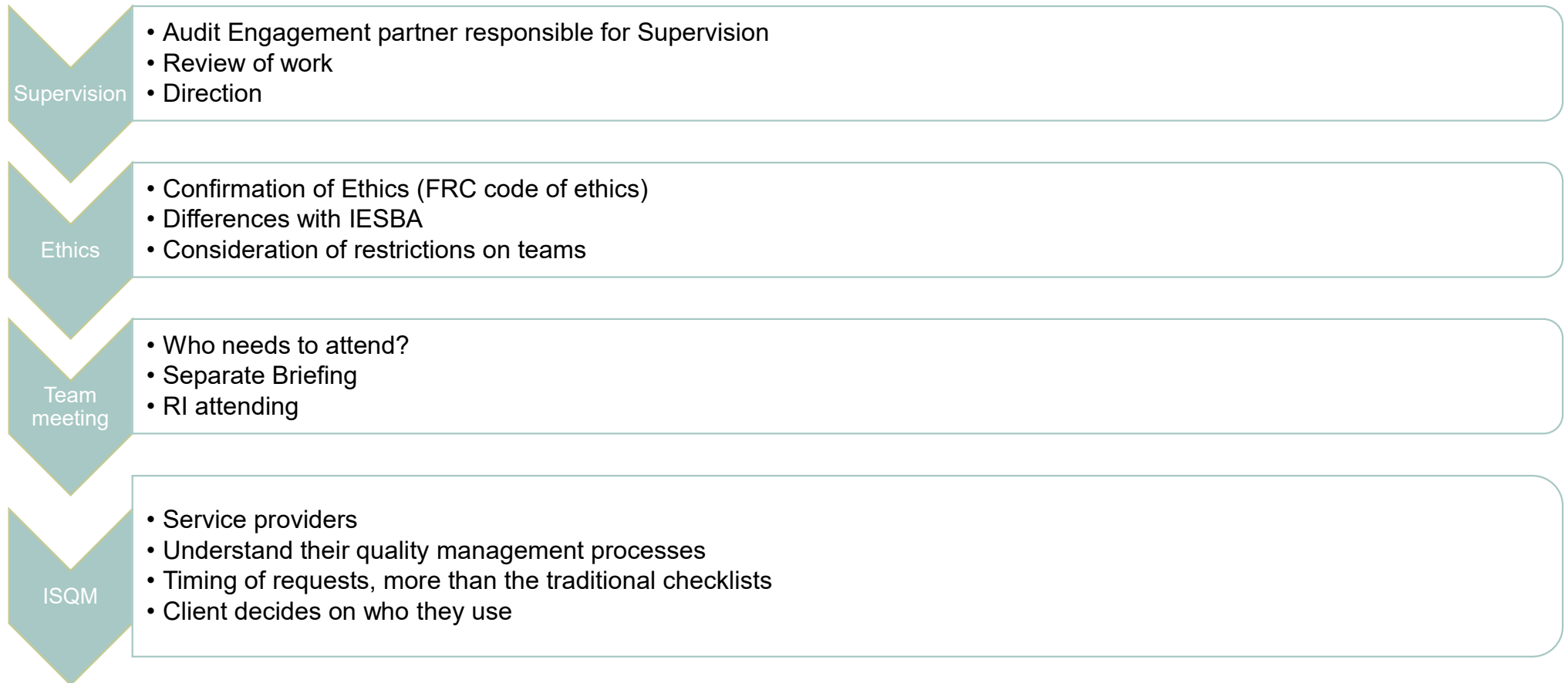
Engagement team

Engagement Team



- ISA (UK) 220 (Revised July 2021) definition changed to include those who perform audit procedures on the audit engagement.
- Specifically includes those who may perform procedures on a component as part of the group audit.
- ISA 600 updated to reflect the change to ISA 220 & ISQM

Impact of the new definition of the engagement team?





Communication

High-level requirement

“The objectives of the auditor are to:

...

(c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work...” (para 13)

BUT

- More detailed requirements for group engagement partner
- Timing implications for communicating with component auditors

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

“... the group engagement partner shall...”

- Responsible for creating environment that emphasises expected behaviours of engagement team members
- Sufficiently and appropriately involved throughout, including in work of component auditors, to have basis for determining appropriateness of significant judgments and conclusions reached

Ethics

“... the group engagement partner shall...”

- Responsible for confirming whether component auditors understand and will comply with relevant ethical requirements
- Includes obtaining confirmation they are able to comply with FRC's Ethical Standard

Timing

“The group auditor shall communicate... an expectation that communications between the group auditor and component auditors take place at appropriate times throughout the group audit”

- Given extent of changes described in this webinar, earlier communication with components likely to be needed
- LOTS of application guidance on this paragraph

Communication – application guidance (1)

Clear

Timely

Direction

Effective

Expectations

Scepticism

Communication – application guidance (2)

Clarity of instructions

Mutual understanding
that component
auditor may discuss
requests

Mutual understanding
of relevant issues and
expected actions

Form of
communications (not
just email)

Mutual understanding
of who is responsible
for managing
communications on
both sides

Process

Involvement in component auditor's work

Areas of
higher and
significant
risk in
group FS

- If the component auditor determines what work to do in these areas, the group auditor must evaluate appropriateness
- Timing of communication is important here!

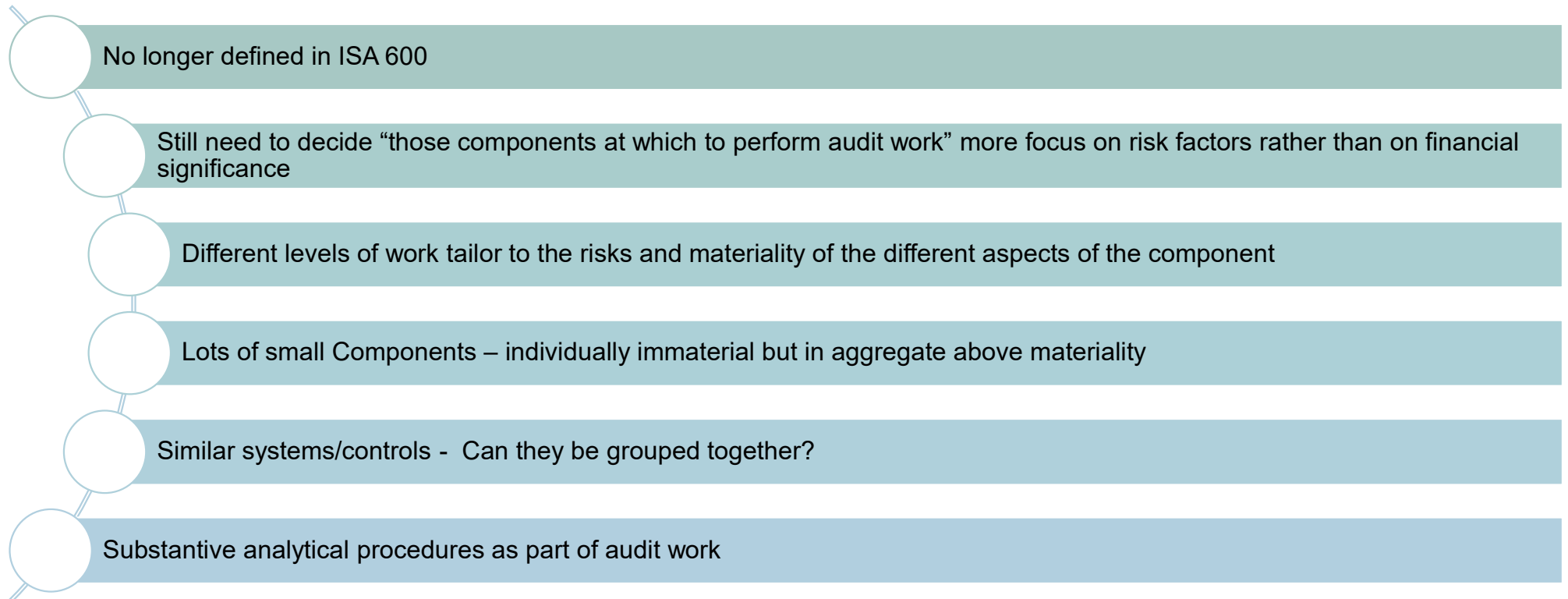


Significant components, risk assessment and component materiality

Components - reminder

- Component – An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit.
- Component auditor – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit. A component auditor may also be a Key Audit Partner.

Significant components?

- 
- No longer defined in ISA 600
 - Still need to decide “those components at which to perform audit work” more focus on risk factors rather than on financial significance
 - Different levels of work tailor to the risks and materiality of the different aspects of the component
 - Lots of small Components – individually immaterial but in aggregate above materiality
 - Similar systems/controls - Can they be grouped together?
 - Substantive analytical procedures as part of audit work

Component Materiality

No specific requirement to set overall materiality for a component

Materiality

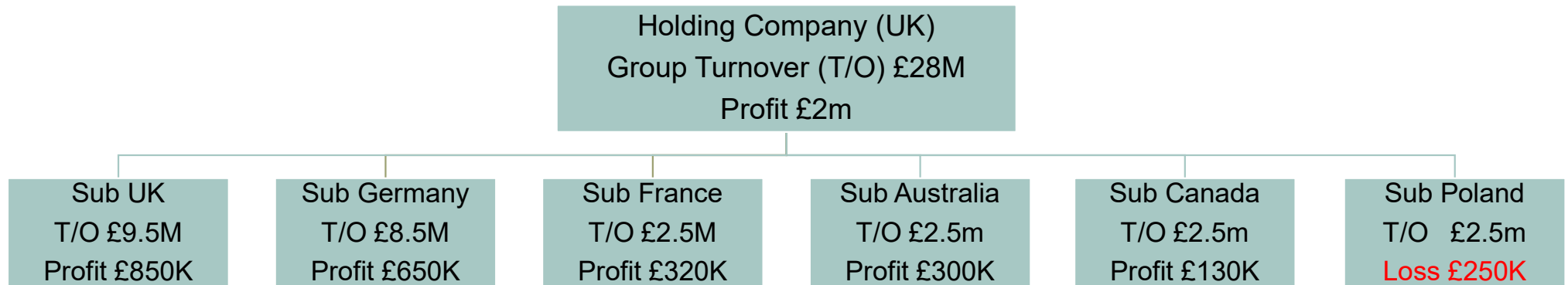
35. In applying ISA (UK) 320 (Revised June 2016)²⁵ and ISA (UK) 450 (Revised June 2016),²⁶ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group auditor shall determine:
- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A116–A120)
 - (b) The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A121)

Component Performance Materiality

...not a
simple
mechanical
calculation...
factors
include...

- Extent of disaggregation
- Expectation of nature and magnitude of misstatements
- Aggregate of component performance materiality may exceed group performance materiality

Scenario



How would you determine level of work required?

- Impact of risk indicators?
- Materiality?
- Sample sizes?
- How would it change if had 10 subsidiaries or similar size?



Controls and IT

Understanding the system of internal control

The extent to which the group's business model integrates the use of IT

- Eg a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers

Nature and extent of commonality of controls

- Eg central design and monitoring, common IT applications
- Granularity
- Implications for D&I testing

Whether, and if so, how, the group centralizes activities relevant to financial reporting

- Shared service centres

Risks arising from use of IT

Revisions to ISA (UK) 315 placed greater emphasis on understanding these risks

- Applies equally to a group audit
- Group auditor may require component auditor to carry out more work than previously in this area
- Early communication!



Component auditor implications

Implications if you are the component auditor

- Provide more information about the firm, quality management and the experience of those involved
- Group auditors more involved in audit
- Provision of access to work papers
- Read the instructions/declarations
- Ethics – other services/relationships
- Make sure your engagement letters include group reporting
- Understand the group structure and reporting timelines and keep the group auditors up to date with progress and issues.



Any questions?

Thank you for attending

Please take the time to fill out our short survey:

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