

April 2022

Proposed ISA (UK) 600 (Revised) Invitation to Comment and Impact Assessment

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Objective

- The Financial Reporting Council (FRC) proposes, subject to consultation, to adopt the International Standard on Auditing (UK) 600 *Special Considerations – Audits of group financial statements (including the work of component auditors)* to reflect recent revisions to international standards on auditing, to be issued by the International Auditing and Assurance Standards Board. (IAASB¹)
- Revised ISA (UK) 600, with its focus on the risk of material misstatement at the group financial statement level, clarification of linkage to other standards, and reinforcement of the need for robust communications during a group audit will improve the quality of audit engagements by addressing key public interest issues related to the conduct of a group audit.
- As the standard is being updated to reflect changes made at the international level, and we are satisfied that the revised standard has been amended to sufficiently to address matters raised by the FRC in our [comment letter](#) on the IAASB's Exposure Draft, the FRC is proposing minimal UK material in addition to the existing UK pluses included in the current version of ISA (UK) 600.²

Invitation to comment

- The FRC is requesting comments on this consultation by 8th July. Comments are invited in writing on all aspects of the consultation, particularly in relation to questions 1-3 as detailed below. Comments on the Consultation Paper should be sent to:

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Financial Reporting Council
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¹ IAASB is a committee of the International Federation of Accountants (IFAC). The IAASB's constitution and due process is described in its 'Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements'.

² ISA (UK) 600 (Revised November 2019) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

Introduction

1. The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator and balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work, to maintain investor and wider stakeholder confidence in audit and assurance.
2. The ISAs (UK) are based on the corresponding international standards issued by the IAASB. Where necessary, the international standards have been augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural, and business context.
3. In December 2021, the IAASB approved the final version of a substantially revised ISA 600 *Special Considerations – Audits of group financial statements (including the work of component auditors)*. The due process for setting this standard is currently being reviewed by the Public Interest Oversight Board (PIOB), and the IAASB will published once this review is complete.
4. The FRC is strongly supportive of the aim of the IAASB to address the key public interest issues in respect of the audits of group financial statements and believe the enhancements to ISA 600 will support group auditor's efforts in achieving high quality audits.
5. The IAASBs objectives in revising this standard, discussed in detail in their [April 2020 Exposure Draft](#), overlap significantly with the FRC's public interest remit and objectives. The IAASB objectives included ensuring that the standard remained fit for purpose, encouraged proactive manage of quality at the engagement level, fostered an appropriate independent and challenging sceptical mindset and reinforced the need for robust communication and interactions during a group audit.
6. In revising ISA 600 in order to meet the above objectives, the IAASB have made the following key revisions:
 - Clarification on the scope and applicability of the standard.
 - Clarification and reinforcement of that fact that all ISAs are to be applied in group audits, by establishing stronger links with other ISAs, in particular ISA 220 (Revised), ISA 315 (Revised) and ISA 330.
 - Focusing the group engagement team's attention on the identification and assessment of risk of at the group financial statement level and emphasising the importance of designing and performing appropriate procedures to respond to those risks.
 - Reinforcing the need for robust communication and interactions between the group engagement team, group engagement partner and competent auditors.
7. The majority of the UK additions to the standard are existing UK pluses already included within the current version of ISA (UK) 600. These additions relate primarily to UK specific legislation, such as access arrangements for components included in paragraph 51-1 and competent authority access to working papers for the purposes of supervision and enforcement activities included within paragraphs 59-2 and 59-3. These enhancements are supported by those the FRC made to ISA (UK) 240 (Revised May 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* to clarify the auditor's responsibilities in relation to fraud in group audit.

8. Further additional UK specific material has been included to aid in clarifying the relevant ethical requirements applicable to group audits, to clarify the group engagement partner and their firms' responsibilities as a result of the implementation of ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220, and to provide additional clarity on the relationship between the defined terms 'engagement team', 'group auditor' and 'component auditor'.

Summary of Key Revisions

9. Included below is a summary of the UK material included within revised ISA (UK) 600 in addition to the existing UK pluses included in the current version of ISA (UK) 600:

Key UK Addition	Revised ISA (UK) 600 Paragraph Reference	Explanation
Clarification of the relationship between engagement team, group auditor and component auditor.	Para 14 (h)	The definitions in paragraphs 14 (h) and (c) of group auditor and component auditor, along with the definition of engagement team within ISA (UK) 220 ³ are clear. However, the FRC feels that the addition of a diagram within ISA (UK) 600 to bring the three concepts together in one place, and to clarify their relationship to each other, is beneficial to users understanding.
Clarification of group engagement partner, and their firms', responsibilities	Para 16-1	<p>ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220 have recently been substantially revised in order to improve the quality of engagements through addressing key public interest issues related to the management of quality at a firm and engagement level and the performance of engagement quality reviews, with an effective date of 15 December 2022.</p> <p>As such, we have included paragraph 16-1 in ISA (UK) 600 to clarify the group engagement partner and their firms' responsibilities in relation to group audits, to ensure conformity with the objectives of the recently revised quality management standards. Conforming amendments have also been made to ISA (UK) 220 to ensure consistency and clarity.</p>
Clarification of the relevant ethical requirements in relation to a group audit in the UK	Para 25 (b) Para 25-1 A57-1 to A57-3	<p>In line with the requirements of ISA (UK) 220, the group engagement partner is responsible for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures.⁴</p> <p>For an audit conducted in line with ISA (UK) 600, this includes ensuring that the component auditors, as part of the engagement team, are aware of the relevant ethical requirements.</p> <p>The FRC's Revised Ethical Standard 2019⁵ is clear that in order to use the work of another firm, including component auditors in the case of a group audit engagement, the lead firm has to obtain sufficient appropriate evidence that the component auditor is independent in accordance with supporting ethical provision 2.4 of the FRC's Ethical Standard.</p>

³ ISA (UK) 220 (Revised July 2021), Paragraph 12 (a)

⁴ ISA (UK) 220 (Revised July 2021), Paragraph 17

⁵ The FRC's Revised Ethical Standard 2019, Paragraph 1.47.

		<p>The FRC has included additional wording within paragraph 25 (b) to make clear that, in the UK, the group engagement partner must confirm with the component auditor that they are able to comply with the FRC Ethical Standard requirements that are relevant to the engagement. We have also included additional application material, paragraphs A57-1 to A57-3 and linked to ISA (UK) 220 where relevant, to provide additional clarity and to support auditors in complying with this requirement.</p> <p>The FRC Ethical Standard requirements relating to the use of other firms work in engagements are not new and have been in place since 2019, the addition of the relevant paragraphs to revised ISA (UK) 600 is to provide clarity to auditors.</p> <p>In addition, we have included paragraph 25 (c), requiring the group engagement partner to obtain confirmation from components auditors that the ethical requirements relevant to the group audit engagement have been fulfilled, prior to dating the audit report.</p>
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Effective Date

10. The proposed effective date of revised ISA (UK) 600 for it to be effective for audits of group financial statements for periods beginning on or after December 15, 2023. This is in line with the IAASB's effective date for the international version of the ISA and the FRC believes this is a reasonable timeframe to allow for effective implementation and provides sufficient time for firms to prepare after the implementation of the requirements of ISQM (UK) 1 and 2 and ISA (UK) 220, which have effective dates of 15th December 2022.

Questions

Q1: Do you agree that ISA (UK) 600 should be revised in order to adopt the revisions made to the underlying international standard? If not, please provide your reasons.

Q2: If you agree that ISA (UK) 600 should be revised to adopt the revisions to the underlying international standard, do you agree that the proposed UK supplementary material is appropriate? If not, please give your reasons and explain what further additions should be made.

Q3: Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISA, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

Impact Assessment

11. As a matter of policy, the FRC's auditing standards are based on the corresponding international standards issued by the IAASB. Where necessary the international standards are augmented with additional requirements to address specific UK legal and regulatory requirements; and additional guidance that is appropriate in the UK national legislative, cultural, and business context. We believe that the revisions to ISA (UK) 600 are appropriate and proportionate to address issues that have been identified since the current standard was issued. We propose to maintain the FRC's supplementary material, where appropriate, from the current standards.

12. The revised standards have been designed to be scalable. We believe that benefits in the public interest of enhancements to the quality of audit, although not quantifiable, will outweigh the costs of changes that may be necessary to audit firms' approaches to group audit.

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