

September 2022

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**INTERNATIONAL STANDARD ON AUDITING  
(UK) 600 (REVISED SEPTEMBER 2022),  
SPECIAL CONSIDERATIONS—AUDITS OF  
GROUP FINANCIAL STATEMENTS  
(INCLUDING THE WORK OF  
COMPONENT AUDITORS)**

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## Feedback Statement and Impact Assessment

### International Standard on Auditing (UK) 600 (Revised September 2022), 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 (Revised) Special Considerations – Audits of group financial statements (including the work of component auditors). 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. These enhancements are particularly welcome given the quality of group audits is a persistent inspection finding, as described in the FRCs recently published [Audit Quality Inspection and Supervision Report<sup>1</sup>](#).
4. In revising ISA 600 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 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.

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<sup>1</sup> FRC Audit Quality Inspection and Supervision Report, Tier 1 Firms – Overview, page 19.

5. 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. In April 2022 the FRC issued a public consultation on proposed revisions to ISA (UK) 600.
6. The majority of 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 material relating to access arrangements for components (included in paragraph 51-1) and to 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.

### Summary of Key Revisions, Consultation Feedback and FRC Responses

7. We received thirteen formal responses to our exposure draft, nine from audit firms, three from professional bodies and one personal letter, and conducted significant additional outreach throughout the consultation process, allowing us to obtain input from as wide a group of stakeholders as possible, and helping to inform our response below. Overall, most respondents were supportive of the FRC's proposal to adopt revised ISA (UK) 600 with the addition of targeted UK pluses.
8. The additional UK specific material we proposed is set out below, along with the consultation feedback received and the FRCs response:

Key Revision	ISRE (UK) 600 Reference	Explanation	Consultation Feedback and Response
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 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.	Most respondents found the additional diagram helpful and agreed that it provided clarity on the relationships between defined terms. A minority of respondents questioned if it was necessary, feeling that paragraph 14 (C) was sufficiently clear.  As many respondents found the included diagram helpful, we have elected to retain it.

<p>Clarification of group engagement partner, and their firms', responsibilities.</p>	<p>Para 16-1</p>	<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 effective dates of 15 December 2022.</p> <p>We have therefore included paragraph 16-1 in ISA (UK) 600 to clarify the group engagement partner and 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>	<p>Responses to the addition of paragraph 16-1 were mixed, with some respondents recognising that it was intended to remind auditors and their firms of their responsibilities in relation to group audits, and others expressing concern that additional work would be required in order to meet this requirement.</p> <p>Paragraph 16-1 was added in order to clarify the group engagement partner<sup>2</sup> and their firms<sup>3</sup> responsibilities in relation to group audits, to ensure conformity with the objectives of the recently revised quality management standards. Our intention with this addition is to remind auditors of their responsibilities when undertaking a group audit as we have received feedback that this would be beneficial for those implementing the new group auditing standard.</p>
<p>Clarification of the relevant ethical requirements in relation to a group audit in the UK.</p>	<p>Para 25 (b) Para 25-1 A60-1 to A60-3</p>	<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</p>	<p>All respondents agreed with the additional material included in paragraphs 25 (b), 25-1 and A60-1 to A60-3 and noted that it provided helpful clarity in determining the relevant ethical requirements</p>

<sup>2</sup> ISA (UK) 220 (Revised June 2016) (Updated January 2020), paragraph 18

<sup>3</sup> ISQM (UK) 1 (Issued July 2021), paragraphs 19-22

		<p>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>	
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## Detailed analysis of responses

### **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.**

9. All respondents to our consultation agreed that revising ISA (UK) 600 to adopt the revisions made to the underlying international standard was necessary.
10. Two respondents expressed reservations about the perceived complexity of the new international standard, they nevertheless believed that UK adoption was still necessary in order to ensure that equivalency with international standards was maintained. Respondents also noted that equivalency was especially desirable in the context of a group audit standard, where audit work is often conducted in several jurisdictions by different component auditors.

### **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.**

11. Most respondents agreed that the addition of the diagram in paragraph 14 (h) was beneficial in understanding the relationship between engagement team, group auditor and component auditor and that it clarified how ISA (UK) 220 (Revised July 2022), paragraph 12 (d) applied in the context of a group audit or did not comment on this addition.
12. Four respondents questioned if the diagram was necessary and believed that paragraph 14 (c) was already sufficiently clear. One respondent suggested that whilst they themselves didn't feel a diagram was necessary, they understood it would aid understanding for some. Given the majority of respondents believed the diagram was helpful we have elected to retain the diagram within the final standard.
13. Five respondents supportive of the addition of paragraph 16-1, with the remaining nine respondents mixed on the inclusion of this paragraph. Those that supported the addition agreed that it did not introduce any new requirements but simply reminded auditors of their responsibilities, and the responsibilities of the audit firm in relation to quality control, when undertaking an audit of group financial statements.
14. Of those respondents that had reservations about the inclusion of 16-1, the most common concern was that this requirement placed new and additional responsibilities on to the engagement partner over and above those included within ISA (UK) 220.
15. Three respondents asked if the FRC could include additional application material on the expected level of work an engagement partner should undertake in order to meet the requirements of paragraph 16-1, with one respondent questioning if this paragraph required a group engagement partner to review every working paper for all component auditors. In addition, one respondent queried if the removal of the concept of "significant component"<sup>4</sup> means that the same level of work would be required for all components in a group, irrespective of complexity and risk.

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<sup>4</sup> ISA (UK) 600 (Revised November 2019), paragraph 9(m)

16. Paragraph 16-1 was added in order to clarify the group engagement partner<sup>5</sup> and their firms<sup>6</sup> 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. Our intention with these additions is to remind auditors of their responsibilities when undertaking a group audit as we have received feedback that this would be beneficial for those implementing the new group auditing standard. With this in mind, we have elected to retain paragraph 16-1 in its current form.
17. The level of work necessary to meet the requirements in paragraph 16-1 is a matter of professional judgement, as it is in all engagements. This includes determining when the involvement of component auditors is necessary, the scope and extent of the work the component auditor is required to perform and the extent of supervision and review undertaken by the group engagement team.
18. We believe that paragraphs, 34 – 34, 51 and A151 – A156, in addition to the new emphasis in the standard on the importance of effective communication provide sufficient material for auditors in assessing the level of work required to meet the requirements of ISA (UK) 600. We have not therefore included additional application material. When making professional judgements regarding the level of work undertaken to meet the requirements of this ISA (UK) auditors may wish to refer to the FRC's [Professional Judgement Guidance](#)<sup>7</sup>.
19. All respondents agreed with the additional material included in paragraphs 25 (b), 25-1 and A60-1 to A60-3 in respect of the relevant ethical requirements in relation to a group audit in the UK and noted that it provided helpful clarity as to determining the relevant ethical requirements.
20. Paragraph A18 states that *“Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team”* and one respondent was concerned that this might be interpreted to mean that the volume of components is the only driver of risk. Whilst volume of components is a factor in risk, as described above, other factors such as complexity and increased incentive to misstate are also relevant in determining aggregation risk.
21. Two respondents questioned whether material should be included in respect of managed shared audit, one of the UK government's proposed market opening measures<sup>8</sup>. The details of the government's final policy on managed shared audit has not yet been finalised or been subject to Parliamentary approval. We do not therefore propose pre-empt this by including any additional material in ISA (UK) 600 (Revised September 2022). Indeed, we are not yet convinced that any such additional material would be required. When the final scope and application of the legislation implementing managed shared audit is clear, the FRC will re-consider the need for revisions to the ISA and/or the issuance of guidance.
22. One respondent enquired as to the continued application of Staff Guidance Note (SGN) 02/18, which provides guidance on determining whether components are significant and/or material and what that means for key audit partners and engagement quality control

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<sup>5</sup> ISA (UK) 220 (Revised June 2016) (Updated January 2020), paragraph 18

<sup>6</sup> ISQM (UK) 1 (Issued July 2021), paragraphs 19-22

<sup>7</sup> FRC Professional Judgement Guidance.

<sup>8</sup> Restoring Trust in Audit and Corporate Governance, section 8.1



reviewers. Subsequent to the publication of the final standard, the FRC will consider the continued need for the SGN and the need for any potential revision.

23. Respondents also highlighted in their responses minor editorial suggestions which have been taken into account when finalising the standard.

**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.**

24. The proposed effective date for revised ISA (UK) 600 is for audits of group financial statements for periods beginning on or 15 December 2023, which is in line with the IAASB's effective date. All respondents agreed that ISA (UK) 600 should have an effective date consistent with the IAASB's. A number of respondents also encouraged the FRC to finalise the UK standard as quickly as possible after the consultation period in order to provide sufficient time for the update of methodologies.

### **Impact Assessment**

25. 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.

26. We believe that ISA (UK) 600 (Revised September 2022) introduces changes that are appropriate and proportionate to address issues that have been identified since the current standard was issued. We believe that benefits in the public interest, enhancing the quality of group audit engagements, will outweigh the costs of changes that may be necessary to audit firms' methodologies. We also believe that the emphasis on taking a risk-based approach to determining the level of work required in relation to each component presents firms with the opportunity to plan the best approach to obtaining sufficient appropriate audit evidence.

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