

SPECIAL CONSIDERATIONS — AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS): CAS 600

Definitions

- **Group audit** – The audit of group F/S
- **Group engagement team** – group engagement partner and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group F/S
- **Component auditor** – An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit

Responsibility

- The **group engagement partner's** is responsible for the direction, supervision and performance of the group audit engagement and for the group audit opinion
- The auditor's report on the group F/S should not refer to a component auditor
 - Even if the group audit opinion is modified, the Basis for Modification paragraph in the auditor's report on the group F/S describes the reasons for that modification without referring to the component auditor

Acceptance and Continuance

- Group engagement team shall obtain an **understanding** of the **group**, its **components**, and their **environments** that is sufficient to identify components that are likely to be **significant components**
- If component auditors will perform work on the components, the group engagement partner should evaluate if the group engagement team will be able to be **involved in the work of those component auditors** to obtain sufficient appropriate audit evidence
- If it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management and this inability will result in a disclaimer of opinion on the group F/S, either **do not accept the engagement** (i.e. if in the case of a new engagement) or **withdraw from the engagement**
- The group engagement partner shall agree on the terms of the **group audit engagement**
 - Additional matters such as, the communication between the group engagement team and the component auditors should be unrestricted to the extent possible can be included in the engagement letter

Overall Audit Strategy and Audit Plan

- The group engagement team should establish an **overall group audit strategy** and develop a **group audit plan**; these should be reviewed by the group engagement partner
- The group engagement team should enhance its understanding of the **group**, its **components**, and their **environments**, including **group-wide controls** during the **acceptance or continuance stage** and obtain an **understanding of the consolidation process**, including the **instructions issued by group management to components**

Understanding the Component Auditor

- If the group engagement team plans to request a component auditor to perform work on a component, the group engagement team should obtain an understanding of:
 - 1) Whether the component auditor understands and will comply with the **ethical requirements** and is **independent**
 - 2) The component auditor's **professional competence**

- 3) Whether the group engagement team will be able to be **involved** in the work of the component auditor in order to obtain sufficient appropriate audit evidence; and
 - 4) Whether the component auditor **operates in a regulatory environment** that actively oversees auditors
- If a component auditor **does not meet** the **independence** requirements or the group engagement team has serious concerns about the **other matters listed above**, the group engagement team should obtain sufficient appropriate audit evidence relating to the component **directly**, without requesting that component auditor to perform work

Materiality

- The group engagement team should determine:
 - a) **Materiality** for the **group F/S** as a whole
 - b) **Performance Materiality** (optional) to be applied to those particular classes of transactions, account balances or disclosures in the **group F/S**
 - c) **Component materiality** for components where component auditors will perform an audit or review for purposes of the group audit
 - Component materiality should be lower than materiality for the group F/s as a whole
 - d) The **threshold** above which misstatements cannot be regarded as clearly **trivial** to the group F/S
- Evaluate the appropriateness of performance materiality determined at the component level

Responding to Assessed Risks

- The **group engagement determines the type of work** to be performed by the group engagement team, or the component auditors on its behalf, on the components
- The group engagement also determines **the nature, timing and extent** of its **involvement** in the **work of the component auditors**
- If the work to be performed on the consolidation process or the financial information of the components are based on an expectation that **group-wide controls are operating effectively**, or if **substantive procedures alone** cannot provide sufficient appropriate audit evidence, the **group engagement team** should test, or request a **component auditor** to test, the **operating effectiveness of those controls**
- For a **component that is significant** due to its **individual financial significance**, the group engagement team, or a component auditor, should perform an **audit** of the of the component using **component materiality**
- For a **component that is significant** because it is **likely to include significant risks of material misstatement** of the group F/S due to its specific nature or circumstances, the group engagement team or a component auditor should perform one or more of the following:
 - An **audit** of the financial information of the component using component materiality
 - **An audit of one or more account balances, classes of transactions or disclosures** relating to the likely significant risks of material misstatement of the group F/S
 - **Specified audit procedures** relating to the likely significant risks of material misstatement of the group F/S
- For **components that are not significant components**, the group engagement team should perform analytical procedures at group level
- If the group engagement believes that the work performed on the financial information of **significant components**, the work performed on **group-wide controls** and the **consolidation process**, and the **analytical procedures** performed at group level does not provide sufficient appropriate audit evidence on which to base the group audit opinion, the group engagement team

should select components that are **not significant** and perform or get a component auditor to perform **one or more** of the following:

- a) An **audit** of the **financial information** of the component using component materiality
 - b) An **audit** of one or more **account balances, classes of transactions or disclosures**
 - c) A **review** of the **financial information** of the component using component materiality
 - d) **Specified procedures**
- If a component auditor performs an audit of a significant component, the group engagement team should be **involved in the component auditor's risk assessment** to help identify the significant risks of material misstatements of the group F/S and at a **minimum** should include:
 - **Discussing** with the component auditor or component management of the component's **business activities** that are significant to the group
 - **Discussing** with the component auditor the susceptibility of the component to **material misstatement** due to fraud or error; and
 - **Reviewing** the **component auditor's documentation** of identified **significant risks of material misstatement** of the **group F/S**
 - Further audit procedures as necessary

Consolidation Process

- Group engagement team should perform further **audit procedures on the consolidation process** to respond to the assessed **risks of material misstatement arising from the consolidation process**
- Evaluate whether **all components have been included** in the group F/S
- If the financial information of a component has not been prepared using the **same accounting policies** applied to the group F/S, the group engagement team should evaluate whether the financial information of that component has been properly **adjusted** when preparing the group F/S
- Group engagement team should determine if the financial information identified in the component auditor's communication is the **same information** that is incorporated in the group F/S
- If a component has a **reporting period-end that differs from that of the group**, the group engagement team should evaluate whether appropriate adjustments have been made

Subsequent Events

- Perform procedures designed to identify events at components that occur **between the dates of the financial information** of the components and the **date of the auditor's report** on the group F/S that may require adjustment to or disclosure

Communication with the Component Auditor

- Group engagement team should communicate its requirements to the component auditor on a timely basis; the communication should include:
 - a) The **work to be performed**, the **use to be made of that work**, and the **form and content of the component auditor's communication** with the group engagement team.
 - b) A request that the component auditor confirms that the component auditor will **cooperate** with the group engagement team
 - c) **Ethical requirements** and the **independence** requirements
 - d) The **component materiality, performance materiality**, and the **threshold** above which misstatements cannot be regarded as clearly **trivial** to the **group F/S**
 - e) Identified **significant risks of material misstatement** of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor
 - f) A **list of related parties** prepared by group management, and any other related parties that the group engagement team is aware

- The group engagement should request the component auditor to communicate:
 - a) Whether the component auditor has complied with **ethical requirements**, including **independence** and **professional competence**
 - b) Whether the component auditor has complied with the group **engagement team's requirements**
 - c) **Identification of the financial information** of the component on which the component auditor is reporting;
 - d) instances of **non-compliance with laws or regulations that** could give rise to a material misstatement of the group F/S
 - e) A **list of uncorrected misstatements** of the component (no need to include misstatements that are **clearly trivial**)
 - f) Indicators of possible **management bias**
 - g) Description of any identified **significant deficiencies in internal control** at the component
 - h) Other significant matters that the component auditor communicated or expects to communicate to **those charged with governance**, including fraud or suspected fraud
 - i) Any other matters that may be relevant, including exceptions in the written representations
 - j) The component auditor's **overall findings, conclusions or opinion**
- The group engagement team should **evaluate the component auditor's communication**:
 - a) Discuss **significant matters arising from that evaluation** with the component auditor, component management or group management, as appropriate; and
 - b) Determine **whether it is necessary to review** other relevant parts of the **component auditor's audit documentation**
- If the group engagement team concludes that the **work of the component auditor is insufficient**, determine what additional procedures are to be performed and whether they are to be performed by the component auditor or by the group engagement team
- If **fraud** has been identified by the group engagement team or brought to its attention by a component auditor, or information indicates that a fraud may exist communicate this on a timely basis to the appropriate level of group management
- The group engagement team should **communicate the following matters with those charged with governance** of the group:
 - a) Overview of the **type of work** to be performed on the components
 - b) Overview of the nature of the group engagement team's **planned involvement in the work to be performed by the component auditors** of significant components
 - c) Instances where the group engagement team's evaluation of the work of a component auditor gave rise to a **concern about the quality of that auditor's work**
 - d) Any **limitations on the group audit** (i.e. where access to info may have been restricted)
 - e) **Fraud or suspected fraud**