

ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors—Drafting (Marked)*

This version is tracked from:

- The drafting presented to the Board in September 2019 (Agenda Item 9-B); or
- Extant ISA 600 for sections that were not presented to the Board in September 2019. These sections have been shaded in light grey.

ISA 600 Requirement	Application Material
Introduction	
Scope <u>of this ISA</u>	
<p>1. This ISA deals with special considerations that apply to an audit of group financial statements. This ISA also deals with special considerations when component auditors are involved in the audit. The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (group audits), in particular ISA 220 (Revised),¹ ISA 315 (Revised <u>2019</u>),² and ISA 330.³ (Ref: Para. A1A–<u>A1B</u>)</p>	<p>Scope (Ref: Para. 1)</p> <p>A1A. ISA 220 (Revised) deals with the circumstance when an auditor involves other auditors <u>are involved</u> in the audit of financial statements that are not group financial statements (i.e., an audit of the financial statements of an entity with only one component). For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location. ISA 220 (Revised) also deals with the circumstance when the engagement partner or a single component entity is in a different location than the rest of the engagement team.</p> <p><u>A1B. ISQM 2⁴ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review. ISQM 2 applies to all engagements for which an</u></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* ~~through Understanding the Entity and Its Environment~~

³ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴ Proposed International Standard on Quality Management (ISQM) 2. Engagement Quality Reviews

ISA 600 Requirement	Application Material
	<u>engagement quality review is required to be performed in accordance with ISQM 1,⁵ including group audit engagements.</u>
<p>6. Audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements.⁶ In a group audit, this includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement. This ISA explains the matters that the group engagement team considers when determining the nature, timing and extent of <u>the direction and supervision of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components, and the review of their work.</u></p>	
Effective Date	
<p>7. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20XX.</p>	

⁵ Proposed ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A34

Objectives	
<p>8. The objectives of the auditor are:</p> <ul style="list-style-type: none"> (a) To determine whether the work performed by the group engagement team, including involvement in the work of component auditors, will be sufficient to enable the group engagement partner to take overall responsibility for the group audit; (b) To plan and perform the audit of the group financial statements to obtain sufficient appropriate audit evidence as a basis for expressing an opinion on the group financial statements; and (c) To be sufficiently involved in the work of component auditors, including communicating clearly about the scope and timing of their work, and in evaluating the results of their procedures. 	
Definitions	
<p>9. For purposes of the ISAs, the following terms have the meanings attributed below:</p>	
<p><u>(aA) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the group financial statements as a whole.</u></p>	
<p>(a) Component – An separate entity or business unit whose financial information should be included in the group financial statements through a consolidation process. (Ref: Para. A2–A4)</p>	<p><i>Component</i> (Ref: Para. 9(a))</p> <p>A2. The structure of a group affects how components are determined <u>considered</u> for purposes of <u>planning and performing</u> the group audit. For example, the entity's information system and financial reporting process may be based on an organizational</p>

	<p>structure that provides for financial information to be prepared by a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity method of accounting; by a head office and one or more divisions or branches; or by a combination of both. Some groups, however, may organize their information system by function, process, product or service (or by groups of products or services), or geographic locations. In these cases, the entity or business unit for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographic location.</p> <p>A3. Various levels of components may exist within the entity's information system, in which case it may be more appropriate to identify components at certain levels of aggregation rather than individually.</p> <p>A4. Components aggregated at a certain level may constitute a component for purposes of the group audit; however, such a component may also prepare group financial statements that incorporate the financial information of the components it encompasses (that is, a subgroup). This ISA may therefore be applied by different group engagement partners and teams for different subgroups within a larger group.</p>
(b) Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for the group audit.	
(c) Component management – Management responsible for the financial information of a component.	
(d) Component <u>performance materiality – An amount set by the group engagement team to reduce to an appropriately low level the aggregation risk resulting from the disaggregation of classes of transactions, account balances and disclosures across components for purposes of performing audit procedures.</u> The materiality, determined by the group engagement	

team, to be applied in relation to the financial information of a component.	
(e) Group – All the components whose financial information is included in the group financial statements. A group always has <u>An entity with</u> more than one component.	
(f) Group audit – The audit of group financial statements.	
(g) Group audit opinion – The audit opinion on the group financial statements.	
(h) Group engagement partner – The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial statements that is issued on behalf of the firm. — When joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.	
(i) Group engagement team – Partners, including the 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 financial statements.	
(j) Group financial statements – Financial statements that include the financial information of more than one component <u>through a consolidation process.</u>	
(k) Group management – Management responsible for the preparation of the group financial statements.	
<u>(kA) Group performance materiality – Performance materiality⁷ in relation to the group financial statements, as determined by the group engagement team.</u>	
10. Reference to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.	
<p>10A. Reference to “the consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of the financial information of the components in the group financial statements by way of:</p> <p>(a) Consolidation, proportionate consolidation, or the equity methods of accounting, <u>or the aggregation of the financial information of branches or divisions</u>; or</p> <p>(b) The presentation in combined financial statements of the financial information of components that have no parent but are under common control. (Ref: Para.</p>	<p><i>Consolidation Process</i> (Ref: Para. 10A)</p> <p>A5A. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the component financial information to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise allow, the presentation of combined financial statements for entities that have no parent but are under common control. For purposes of this ISA, a consolidation process also includes the aggregation in the group financial statements of branches, divisions or other operating units of a single legal entity.</p>

⁷ ISA 320, Materiality in Planning and Performing an Audit, paragraph 11

A5A–A5C)	<p><u>A5B. When branches or divisions within a single entity prepare financial information, through separate branch or divisional accounting, financial reporting frameworks may explicitly or implicitly require the financial information of the branches or divisions to be aggregated into the financial statements of the entity, including the elimination of interbranch or interdivisional transactions and balances. However, in some circumstances, the accounting for the branches or divisions is performed centrally within a single general ledger, and there is no separate financial information for the branches or divisions that requires aggregation. In these circumstances, unless there are other components whose financial information is subject to a consolidation process as described in paragraph 10A, the financial statements do not represent group financial statements and therefore this standard does not apply.</u></p> <p><u>A5C.</u> The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves certain considerations, such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for components included in the group financial statements.</p>
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	
11. [Paragraph 11 is now paragraph 45A]	<p>A8. [Paragraph A8 is now paragraph A63A]</p> <p>A9. [Paragraph A9 is now paragraph A63B]</p>
11A. In applying ISA 220 (Revised), the group engagement partner shall be sufficiently and appropriately involved throughout the engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made and the conclusions reached with respect to the group audit are appropriate given the	<p>Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 11A)</p> <p>A9A. It may be not possible or practical for the group engagement partner to solely deal with all requirements in ISA 220 (Revised), particularly when the <u>group engagement team</u> includes a large number of component <u>auditors</u> that may be located in multiple jurisdictions and when component auditors are involved at or at many different locations. In managing</p>

<p>nature and circumstances of the group engagement. (Ref: Para. A9A-A9B)</p>	<p>quality at the engagement level, ISA 220 (Revised)⁸ allows the engagement partner to assign responsibilities for procedures, tasks, or other actions to appropriately skilled or suitable experienced members of the engagement team to assist the engagement partner. <u>Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further.</u></p> <p><u>A9B. Quality management at the engagement level is supported by the firm's system of quality management and is affected by the specific nature and circumstances of the audit engagement.⁹ Policies or procedures established by the firm or a network firm may assist the group engagement partner in being sufficiently and appropriately involved throughout the group engagement, including facilitating communication between the group engagement team and component auditors and supporting the group engagement partner's direction and supervision of component auditors and review of their work.</u></p>
<p>Acceptance and Continuance</p>	
<p><u>11B. In applying ISA 210,¹⁰ the group engagement team shall obtain agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence. (Ref: Para. A9C–A9D)</u></p>	<p><u>Agreeing the Terms of Audit Engagements (Ref: Para. 11B–11C)</u></p> <p>A9C. <u>ISA 210 requires the auditor to agree the terms of engagement with management or those charged with governance.¹¹ The terms of engagement identify the applicable financial reporting framework.¹² Additional The following matters may be included in the terms of a group audit engagement, such as the fact that:</u></p> <ul style="list-style-type: none"> • The communication between the group engagement team and the component auditors should be unrestricted to the extent possible under law or regulation; • Important communications between the component auditors, those charged with governance of the component, and component management, including communications

⁸ ISA 220 (Revised), paragraph 13

⁹ ISA 220 (Revised), paragraph A5

¹⁰ ISA 210, Agreeing the Terms of Audit Engagements, paragraph 6(b)(iii)(c)

¹¹ ISA 210, paragraph 9

¹² ISA 210, paragraph 8

	<p>on significant deficiencies in internal control, should be communicated as well to the group engagement team;</p> <ul style="list-style-type: none"> • Important communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team; and • To the extent That the group engagement team considers necessary, it should be permitted: <ul style="list-style-type: none"> ○ Unrestricted aAccess to component information, those charged with governance of components, component management, and the component auditors (including relevant audit documentation sought by the group engagement team); and ○ To perform work or request a component auditor to perform work on the financial information of the components. [Previously paragraph A20] <p>A9D. Restrictions imposed on:</p> <ul style="list-style-type: none"> • Ithe group engagement team's access to component information, those charged with governance of components, component management, or the component auditors (including relevant audit documentation sought by the group engagement team); or • Ithe work to be performed on the financial information of the components, <p>after the group engagement partner's acceptance of the group audit engagement, constitute an inability to obtain sufficient appropriate audit evidence that may affect the group audit opinion. In exceptional circumstances it may even lead to withdrawal from the engagement where withdrawal is possible under applicable law or regulation. [Previously paragraph A21]</p>
<p><u>11C. If the group engagement partner concludes that group management cannot provide the engagement team with unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the audit.</u></p>	

11D. In applying ISA 220 (Revised), the group engagement partner shall: (Ref: Para. A11–A12F)

(a) Determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for the opinion on the group financials statements, ~~including in relation to the consolidation process~~; and

(b) Evaluate whether the nature, timing and extent of group engagement team's involvement in the work of the component auditor will enable the group engagement team to obtain sufficient appropriate audit evidence. [Previously paragraph 11B]

Obtaining an Understanding at the Acceptance or Continuance Stage (Ref: Para. 11D)

A11. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained and in evaluating the nature, timing and extent of its involvement, the group engagement team may obtain an understanding of matters such as ~~the following~~:

- The group structure, including both the legal and organizational structure.
- Components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
- The use of service organizations.
- The use of shared service centers.
- The consolidation process.
- Whether component auditors that are not from the group engagement ~~teampartner's~~ firm ~~or network~~ will perform work on the financial information of any of the components.
- Whether the group engagement team:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information, and the component auditors (including relevant audit documentation sought by the group engagement team); and
 - Will be able to perform necessary work on the financial information of the components.

A11A. In the case of a new engagement, the group engagement team's understanding of the matters in paragraph A11 may be obtained from:

- Information provided by group management;
- Communication with group management; and

- Where applicable, communication with the previous group engagement team, component management, or component auditors.

A12. For a continuing engagement, the group engagement team's ability to obtain sufficient appropriate audit evidence may be affected by significant changes, for example:

- Changes in the group structure (for example, acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized).
- Changes in components' business activities that are significant to the group.
- Changes in the composition of those charged with governance of the group, group management, or key management of components that are financially significant.
- Concerns the group engagement team has with regard to the integrity and competence of group or component management.
- Changes in the applicable financial reporting framework.

A12A. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in other jurisdictions because of cultural and translation issues and different laws and regulations. For example, audit evidence related to a foreign component may be in a foreign language and may need to be translated.

Overall Audit Strategy and Audit Plan (Ref: Para. 11D)

A12B. The group engagement partner's review of the overall group audit strategy and group audit plan¹³ is an important part of fulfilling the group engagement partner's responsibility for the direction, supervision and review of the group audit engagement. The overall strategy and plan for a group audit is often more detailed and complex, particularly when the group includes a large number of components that may be located in multiple jurisdictions or are in different lines of business, and when component auditors are involved in performing procedures at many different locations. The review of the overall group audit strategy and audit plan also helps ~~the group engagement partner~~ in planning

¹³ ISA 300, *Planning an Audit of Financial Statements*, paragraph 11A

for communications with group management and those charged with governance in accordance with ISA 260 (Revised).¹⁴ [Previously paragraph A22]

~~Restrictions ~~to~~ Access to Information or People (Ref: Para. 11D), Those Charged with Governance of the Group, Group Management, Those Charged with Governance of Component(s), Component Management and Component Auditors (Ref: Para. 13)~~

A12C. Access to information or people can be restricted for many reasons, such as restrictions imposed by management, local laws and regulations or other conditions, for example, war, civil unrest or outbreaks of disease. ~~For example, there may be local laws or regulations that restrict cross-border access of relevant audit documentation of a component auditor. Access may also be restricted because of war, other unrest or outbreaks of hazardous diseases, or the group engagement team may not have access to those charged with governance, management, or the auditor of a component that is accounted for by the equity method of accounting.~~ [Previously paragraph A12B]

A12D. In many cases, the group engagement team may be able to overcome restrictions on access to information or people, for example:

- When law or regulation restricts the sharing of relevant audit documentation across borders, the group engagement team may be able to access the relevant audit documentation by visiting the location of the component auditor, reviewing the relevant audit documentation, and discussing the procedures performed by the component auditor. The group engagement team may also have access to technology that enables the review of documentation to be performed centrally.
- When the group has a non-controlling interest in an entity that is accounted for by the equity method, the group engagement team may be able to overcome the restrictions by:
 - Considering the information that may be available from group management, as group management also needs to obtain the component's financial information in order to prepare the group financial statements. For example, group management may have considerable information (although it may be unaudited) regarding the

¹⁴—ISA 260 (Revised), *Communication with Those Charged with Governance*

component, particularly where the group prepares quarterly or more frequent management reports.

- Reviewing the terms of joint venture agreements, or the terms of other investment agreements, for provisions relevant to right of access. Provisions may exist regarding the access the group needs to component financial information and access to the component's auditor.
- Considering other sources of information that, although not sufficient on their own, may corroborate or otherwise contribute to audit evidence obtained. For example, if the group has representatives who are on the executive Board or are a member of those charged with governance of the component, discussion with them regarding the component and its operations and financial status may be a useful source of information.
- When war, other unrest or disease restricts access to relevant audit documentation of a component auditor, the group engagement team may be able to meet with the component auditor in a different location.

Access to Information

Access to Those Charged with Governance of the Group, Group Management, Those Charged with Governance of Component(s), Component Management and Component Auditors

- When access to those charged with governance of the group, group management, those charged with governance of component(s), component management or those charged with governance of the component is restricted, component auditors is restricted, the group engagement team may still be able to obtain sufficient appropriate audit evidence. For example, the group engagement team may be able to perform work centrally by working with group management or those charged with governance of the group. may not have access to those charged with governance, management, or the auditor (including relevant audit documentation sought by the group engagement team) of a component that is accounted for by the equity method of accounting. If the component is not a significant component, and the group

~~engagement team has a complete set of financial statements of the component, including the auditor's report thereon, and has access to information kept by group management in relation to that component, the group engagement team may conclude that this information constitutes sufficient appropriate audit evidence in relation to that component. If the component is a significant component, however, the group engagement team will not be able to comply with the requirements of this ISA relevant in the circumstances of the group audit. For example, the group engagement team will not be able to comply with the requirement in paragraphs 30–31 to be involved in the work of the component auditor. The group engagement team will not, therefore, be able to obtain sufficient appropriate audit evidence¹⁵ in relation to that component. The effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of ISA 705 (Revised).~~
[Last bullet previously A15]

~~A12E. Although the group engagement team may be able to obtain sufficient appropriate audit evidence Restrictions on access the reason for the restriction may affect the group audit opinion have other implications for the group audit. For example, restrictions are imposed by group management, the restriction may be related to group auditor may need to reconsider the reliability of group management's responses to the group engagement team's inquiries and may call into question group management's representations to the group engagement team integrity.~~ **[Previously A12D]**

~~A12F. Restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence. When the group engagement team is unable to obtain sufficient appropriate audit evidence, the considerations in ISA 705 (Revised)¹⁵ apply.~~

13. If the group engagement partner concludes that:

- (a) ~~it~~ it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and

Effect of Restrictions on the Auditor's Report on Group Financial Statements (Ref: Para. 13)

A12G. Appendix 1 contains an example of an auditor's report containing a qualified opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a component that ~~is financially significant~~ and is accounted for by

¹⁵ ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

<p>(b) The possible effect of this inability will result in a disclaimer of opinion on the group financial statements,</p> <p>the group engagement partner shall either:</p> <p>(a) In the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or</p> <p>(b) Where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A12G–A12H)</p>	<p>the equity method of accounting, but where, in the group engagement team's judgment, the effect is material but not pervasive. [Previously A12C]</p> <p><i>Laws and Regulations Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement</i> (Ref: Para. 13)</p> <p>A12H. Laws or regulations may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, <u>the requirements in</u> this ISA still applies-apply to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms-of ISA 705 (Revised).⁴⁶ [Previously A12E]</p>
Planning an Audit of Group Financial Statements	
<p>16. In applying the requirements of ISA 300,¹⁷ the group engagement partner shall review the overall group audit strategy and group audit plan. (Ref: Para. A22)</p>	<p>A22. [Paragraph A22 is now paragraph 12B]</p>
Understanding the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control	
<p>17. In applying the requirements in ISA 315 (Revised <u>2019</u>) with respect to obtaining an understanding of the entity and its environment, the applicable reporting framework and the entity's system of internal control, the group engagement team shall: obtain an understanding of the</p>	<p>Understanding the Entity and Its Environment, the Applicable Reporting Framework and the Entity's System of Internal Control (Ref: Para. 17)</p> <p>A23. ISA 315 (Revised <u>2019</u>) contains guidance on matters the auditor may consider when obtaining an understanding of <u>the entity and its environment, the applicable financial</u></p>

⁴⁶ — ~~ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report~~

¹⁷ — ~~ISA 300, Planning an Audit of Financial Statements, paragraphs 7–12~~

~~following matters:~~ (Ref: Para. A23–A26)

(a) Obtain an understanding of the following matters:

- (i) The degree of centralization of the group's information system, and the commonality of other controls across the group, including whether the group uses shared service centers; (Ref: Para. A26A–A26D)
- (ii) The consolidation process used by the group, including sub-consolidations and consolidation adjustments; and
- (iii) The consistency of accounting policies and practices across the group, including whether and how such policies and practices are communicated; and-

(a)(b) Communicate with component auditors or component management about component business activities that may give rise to a risk of material misstatement of the group financial statements. (Ref: Para. A28–A29)

~~reporting framework, the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance.~~¹⁸ Appendix 2 of this ISA contains guidance on matters specific to a group, including the consolidation process.

A23A. ~~Group management may implement controls that operate throughout the group, for example, a common code of conduct, or a group-wide accounting system and financial reporting process.~~ The auditor's understanding of the entity's system of internal control, including those controls that are implemented throughout the group, affects the group engagement team auditor's identification and assessment of the risk of material misstatement of the group financial statements. [Previously A26B]

A23B. The auditor's risk identification and assessment process is iterative and dynamic.¹⁹ The group auditor may develop initial expectations about the risks of material misstatement based on the group auditor's understanding of the group obtained during client acceptance and continuance, and particularly the understanding of:

- The group structure, including both the legal and organizational structure, and the relative size of the components; and
- The components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.

A23C. Such initial expectations may be further refined as the group engagement team's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control develops and through the process to identify and assess the risks of material misstatement, particularly in a first-year audit, through communications with:

- Group management or component management, who have knowledge of the instructions issued by group management to components regarding internal

¹⁸ ISA 315 (Revised 2019), paragraphs A50–A89A25–A49

¹⁹ ISA 315 (Revised 2019), paragraph 7

controls, accounting policies and practices, and the consolidation process; or.

- Statutory auditors, who may have a more in-depth knowledge of the components, their activities, and the environments in which they operate.

Instructions Issued by Group Management to Components

A24. To achieve uniformity and comparability of financial information, group management ordinarily issues instructions to components. Such instructions specify the requirements for financial information of the components to be included in the group financial statements and often include details about financial reporting procedures and a reporting package. Obtaining an understanding of the instructions issued by group management to components may affect the group engagement team's identification and assessment of the risks of material misstatement of the group financial statements. For example, poor quality instructions may, for example, increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies at the component are incorrectly applied.~~A reporting package ordinarily consists of standard formats for providing financial information for incorporation in the group financial statements. Reporting packages generally do not, however, take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework.~~

~~A25. The instructions ordinarily cover:~~

- ~~• The accounting policies to be applied, which may be included in a group-wide accounting and financial reporting manual provided in hard copy or accessible through the entity's intranet;~~
- ~~• Statutory and other disclosure requirements applicable to the group financial statements, including:~~
- ~~• The identification and reporting of segments;~~
- ~~• Related party relationships and transactions;~~
- ~~• Intra-group transactions and unrealized profits;~~

• ~~Intra-group account balances; and~~

• ~~A reporting timetable.~~

A26. The group engagement team's understanding of the instructions may include the following:

- The clarity and practicality of the instructions for completing the reporting package.
- Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
 - ~~Provide~~ Address information necessary to prepare for disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
 - ~~Address information necessary for making~~ Provide for the identification of consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and
 - ~~Provide for the approval of the financial information by component management.~~
 - Include a reporting timetable.

The Degree of Centralization of the Group's Information System, and the Commonality of Other Controls Across the Group (Ref: Para. 17(a)(i))

A26A. Group management may have designed controls that are intended to be implemented consistently across a single component or at multiple components. To determine the commonality of a control across the group, the group engagement team may consider whether:

- The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components;
- The control is implemented and, if applicable, monitored by individuals with similar

responsibilities and capabilities at all the components where the control is implemented;

- _____
- If a control uses information from IT systems, the IT systems that generate the information are the same across the components or locations;
- If the control is automated, it is configured in the same IT application across the components; and
- The control is centrally monitored.

A26B. Evidence obtained in determining whether common controls have been implemented and testing their operating effectiveness at selected components (including when component auditors perform such testing), may corroborate or contradict the conclusion that such controls have been implemented and are operating effectively commonly across a group.

[The Task Force will consider whether further application material is needed on the commonality of controls, for example, to explain why obtaining an understanding of 'common controls' is relevant to the risk assessment].

Shared Service Centers (Ref: Para. 17(a)(i))

A26C. Shared service centers may take different forms and the terms used to describe ~~a shared service center~~them may vary from entity to entity and from jurisdiction to jurisdiction. However, for purposes of this ISA, a shared service center is generally considered to be a single location where financial reporting or accounting functions are performed for a particular group of common transactions or other financial information (e.g., where revenue transactions are initiated, authorized, recorded, processed, or reported) in a consistent and centralized manner across multiple components~~—or business units~~. An entity may have multiple shared service centers that may provide services to multiple components. The considerations in this ISA may apply regardless of whether or not a shared service center is considered to be a component for the purpose of this standard. [Previously A26A]

A26D. The use of shared service centers may add complexity for the auditor's understanding of the entity's system of internal control, including the information system. Therefore, it may be important for the group engagement team to understand how shared service centers fit into the overall group structure, and the nature of the activities undertaken at shared service centers. This understanding helps the auditor to identify and assess the risks of material misstatement and appropriately respond to the assessed risks of material misstatement.

~~Discussion among Group Engagement Team Members Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud~~Discussion (Ref: Para. 17(b))

A28. The group engagement partner's determination of which members of the ~~group~~ engagement team to include in the discussions, how and when the discussions occur, and the topics to be discussed, is affected by factors such as prior experience with the group.

A29. The discussions provide an opportunity to:

- Share knowledge of the components and their environments.
- Exchange information about the business risks of the components or the group.
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error.
- Identify practices followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting, for example, revenue recognition practices that do not comply with the applicable financial reporting framework.
- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk that group or component management may override controls.

- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).
- Discuss fraud that has been identified in components, or information that indicates existence of a fraud in a component.
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Identify risks relevant to components where the exercise of professional skepticism may be particularly important.

17A. The group engagement team's risk assessment procedures to obtain the understanding shall be performed to the extent necessary to provide an appropriate basis for the identification- and assessment of risks of material misstatement at the group financial statement and assertion levels. (Ref: Para. A29A–A29B)

Assigning of Risk Assessment Procedures to Component Auditors (Ref: Para. 17A)

A29A. ~~In certain circumstances, such as when the component auditor has a more in-depth knowledge of the component than the group engagement team, the group engagement team may request assign the performance of the component auditor to perform risk assessment procedures to component auditors, to assist the group engagement team in identifying and assessing risks of material misstatement of the group financial statements that result from inherent risk factors related to the financial information of the component. Component auditors may have a more in-depth knowledge of the components at which they perform audit procedures than the group engagement team is expected to have. Therefore~~In these circumstances, two-way communication between the group engagement team and the component auditor, ~~in the engagement team discussion and throughout the audit, is important~~may assist the group engagement team in assessing risks of material misstatements of the group financial statements that result from inherent risk factors related to the financial information of a component.

A29B. In other circumstances, the group engagement team may perform the risk assessment procedures without input from the component auditors. This may be the

case when the group's processes and activities are similar across components and less complex, or when the group has centralized accounting processes.

Materiality

17BA24. In applying ISA 320, when classes of transactions, account balances or disclosures are disaggregated across components for purposes of planning and performing audit procedures, the group engagement team shall determine and communicate to the component auditor the following: (Ref: Para. A42)

~~(a) Materiality for the group financial statements as a whole when establishing the overall group audit strategy.~~

~~(b) If, in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.~~

~~(c) Component performance materiality. Such amount shall be lower than group performance materiality to address aggregation risk for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce to an appropriately low level the probability that the~~

Materiality (Ref: Para. 17B)

~~A42. The auditor is required:~~²⁰

~~(a) When establishing the overall audit strategy, to determine:~~

~~(i) Materiality for the financial statements as a whole; and~~

~~(ii) If, in the specific circumstances of the entity, there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures; and~~

~~(b) To determine performance materiality.~~

~~In the context of a group audit, materiality is established for both the group financial statements as a whole, and for the financial information of the components. Materiality for the group financial statements as a whole is used when establishing the overall group audit strategy.~~

A29C. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.

~~A29D. To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality is set~~

²⁰—ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 10–14

~~aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality shall be lower than materiality for the group financial statements as a whole.~~ (Ref: Para. A29C–A29E)

- (d) ~~The threshold above which misstatements identified in component financial information are to be communicated to the group engagement team. Such threshold shall not exceed the amount cannot be regarded as clearly trivial to the group financial statements.~~ (Ref: Para. A29F) [Previously paragraph 21]

~~lower than materiality for the group financial statements as a whole.~~ Different component performance materiality amounts may be established ~~for different~~ when audit procedures are performed on financial information that is disaggregated across components. Component ~~The component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality for the group financial statements as a whole and, consequently, the aggregate of component performance materiality amounts for the different components may exceed the materiality for the group financial statements as a whole. Component materiality is used when establishing the overall audit strategy for a component.~~ group performance materiality. [Previously paragraph A43]

A29E. Factors the group engagement may take into account in setting component performance materiality include the following:

- ~~The extent of disaggregation of the financial information across components (for example, as the extent of disaggregation across components increases, a lower amount of component performance materiality generally would be appropriate to address aggregation risk). The relative financial significance of the component to the group may affect the extent of disaggregation (for example, if a single component represents 70% of the group, there likely may be less disaggregation across components).~~
- ~~Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example:~~
 - ~~Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions)~~
 - ~~The nature and extent of misstatements identified at the component in prior audits~~

~~A44. Component materiality is determined for those components whose financial information will be audited or reviewed as part of the group audit in accordance with paragraphs 26, 27(a) and 29. Component materiality is used by the component auditor to evaluate whether~~

	<p>uncorrected detected misstatements are material, individually or in the aggregate.</p> <p>A45. A threshold for misstatements is determined in addition to component materiality. Misstatements identified in the financial information of the component that are above the threshold for misstatements are communicated to the group engagement team.</p> <p>A29F. The threshold for communicating uncorrected misstatements to the group engagement team is set at amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements to reduce the likelihood that the aggregate of uncorrected misstatements, whether identified by the group engagement team or component auditors, does not exceed materiality for the group financial statements as a whole. Paragraph A63 provides guidance on the evaluation of uncorrected misstatements by the group engagement team.</p>
<p>22. Where component auditors will perform an audit for purposes of the group audit, the group engagement team shall evaluate the appropriateness of performance materiality determined at the component level. (Ref: Para. A46)</p>	<p>A46. In the case of an audit of the financial information of a component, the component auditor (or group engagement team) determines performance materiality at the component level. This is necessary to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial information of the component exceeds component materiality. In practice, the group engagement team may set component materiality at this lower level. Where this is the case, the component auditor uses component materiality for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks as well as for evaluating whether detected misstatements are material individually or in the aggregate.</p>
<p>23. [Moved to Responding to the Assessed Risks of Material Misstatement section paragraph 24A]</p>	

Assessing the Risks of Material Misstatement

20A. In applying ISA 315 (Revised 2019), the group engagement team shall assess the risks of material misstatement of the group financial statements. In doing so, the group engagement team shall :

~~(a) Communicate the risks of material misstatement of the group financial statements that are relevant to the work of the component auditor; and~~

~~(b) Determine whether the component auditor has identified risks of material misstatement in the financial information of the component that affect the risks of material misstatement of the group financial statements.~~ (Ref: Para. A29G–A30);

~~Assessing the Risks of Material Misstatement~~

Fraud (Ref: Para. 20A)

A29G. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.²¹ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risks that the group financial statements may be materially misstated as a result of fraud.
- Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or ~~account balances~~, classes of transactions, account balances, or for which a risk of fraud is likely.
- Whether there are particular components for which a risk of fraud is likely.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group. [Previously paragraph A29B]

Inherent Risk Factors (Ref: Para. 20A)

A30. Appendix 3 sets out examples of characteristics of events and conditions ~~or events~~ that,

²¹ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

individually or together, may indicate risks of material misstatement of the group financial statements, including risks due to fraud.

Responding to the Assessed Risks of Material Misstatement

24. ~~In applying~~ ISA 330 ~~requires~~, the auditor ~~to shall~~ design and implement appropriate responses to address the assessed risks of material misstatement of the group financial statements at the assertion level or the financial statement level.²² In ~~applying ISA 330~~~~doing so~~, the group engagement team shall; ~~for each material account balance, class of transaction or disclosure~~, determine the nature, timing and extent of further audit procedures to be performed by the group engagement team or component auditors. (Ref: Para. A30A–A30M)

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 24)

~~A47. The group engagement team's determination of the type of work to be performed on the financial information of a component and its involvement in the work of the component auditor is affected by:~~

- ~~(a) The assessed risks of material misstatement of the group financial statements; and~~
- ~~(b) The group engagement team's understanding of the component auditor.~~

~~A47A. Inherent risk factors related to the financial information at the component may result in risks of material misstatement of the group financial statements and also may affect the determination of the nature and extent of work to be performed on the financial information of a component and the extent of the auditor's involvement in the work of the component auditor.~~

²² — ~~ISA 330, The Auditor's Responses to Assessed Risks~~

Scoping a Group Audit

A30A. In responding to the assessed risks of material misstatement of the group financial statements, the group engagement team, ~~or a component auditor on its behalf,~~ may decide to use different approaches, or a combination of approaches, to obtain audit evidence on classes of transactions, account balances and disclosures across the various components. perform one or more of the following:

- ~~(a) An audit of all financial information of the component using component materiality.~~
- ~~(b) An audit of one or more account balances or classes of transactions of the financial information of a component, or information relevant to disclosures, relating to risks of material misstatement of the group financial statements.~~
- ~~(c) Specific further audit procedures relating to risks of material misstatement of the group financial statements.~~ [Previously paragraph A47C]

A30B. When designing and performing further audit procedures in response to a risk of material misstatement related to an account balance, class of transaction or disclosure in the group financial statements, the group engagement team may need to consider whether sufficient appropriate audit evidence can be obtained from the further audit procedures to address the risks of material misstatement related to the account balance, class of transaction or disclosure, and therefore whether audit risk will be reduced to an acceptably low level.

A30C. The group engagement team may design and perform further audit procedures centrally if the audit evidence to be obtained from performing further audit procedures on one or more classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally for the group (e.g., at a shared service center), the group engagement team may perform, or request a component auditor to perform, further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures.

A30D. As the complexity and the diversity of the group increases (for example, if the group

has many different revenue streams, multiple lines of business, operates across multiple locations or has de-centralized systems of internal controls), the group engagement team may find it more difficult to perform further audit procedures centrally. In such circumstances, the group engagement team may consider whether there are risks of material misstatement that are unique to the financial information of a component (e.g., complex or unusual transactions) and then consider the further audit procedures required to address those risks related to the account balance, class of transaction or disclosure.

A30E. The group engagement team may determine that the financial information of several components can be considered as one population for the purpose of substantive testing, for example, when transactions are considered to be homogenous because they share the same characteristics and are subject to the same system of internal control.

A30F. The group engagement team may have identified a significant account balance, class of transactions, or disclosure in the group financial statements that comprises classes of transactions, account balances or disclosures at many components, none of which individually could result in a material misstatement at the group financial statement level. To obtain sufficient appropriate audit evidence, audit procedures on these classes of transactions, account balances or disclosures may be performed centrally if they are homogeneous and subject to common controls. If this is not the case, the group engagement team may need to perform audit procedures at selected components.

A30G. The group engagement team may perform substantive analytical procedures at the group level in accordance with ISA 520²³ to address the risk of material misstatement at the assertion level for ~~account balances~~, classes of transactions, account balances or disclosures in the group financial statements. Depending on the circumstances of the engagement, the financial information of the components may be aggregated by the engagement team at various levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the analytical procedures. ~~The results of the analytical procedures may corroborate the group engagement team's conclusions that there are no significant risks~~

²³ ISA 520, *Analytical Procedures*

~~of material misstatement of the aggregated financial information of components that are not financially significant. [Previously paragraph A50]~~

Element of Unpredictability

A30H. Including an element of unpredictability in the type of work to be performed, the components at which procedures are performed and the extent to which the group engagement team is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements. ~~For example, when the group consists of a large number of components that are not individually financially significant, the group engagement team may decide to introduce an element of unpredictability by changing the components at which procedures are performed from one year to the next when responding to the assessed risks of material misstatement of the group financial statements. [Previously paragraph A47B]~~

Operating Effectiveness of Controls that Are Common Across the Group

A30I. If the group engagement team intends to rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components, the group engagement team, in accordance with ISA 330, is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls are operating at the components as designed. The group engagement team may request the component auditor to assist the group engagement team in performing these procedures. [Previously paragraph A50A]

Assigning Further Audit Procedures to Component Auditors

A30J. The group engagement team may request the component auditor to assist the group engagement team in determining the nature, timing and extent of further audit procedures to be performed. Component auditors may have a more in-depth knowledge of the components than the group engagement team is expected to have, and therefore it may not be practical for the group engagement team to determine the nature, timing

and extent of further audit procedures to be performed.

A30K. ~~In circumstances when~~ the group engagement team may ~~determines~~ that audit evidence needs to be obtained~~further audit procedures are required~~ on all or a significant proportion of a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team may determine that it is more effective ~~to request the component auditor to request that the component auditor audits the entire financial information of the component. The reference to an audit of the financial information of the component is generally used for purposes of communication with the component auditor, and sometimes may be referred to as full scope procedures in a firm's audit methodology or the instructions to the component auditor and may assign the design and performance of further audit procedures to the component auditor. In those circumstances, the component auditor may also be responsible for evaluating whether sufficient, appropriate audit evidence has been obtained with respect to the financial information of the component. The reference to an audit of the entire financial information of the component is generally used for purposes of communication with the component auditor. The component auditor is responsible for determining the overall nature, timing and extent of procedures to be performed and evaluating whether sufficient, appropriate audit evidence has been obtained to provide a basis for expressing a conclusion on the financial information of the component.~~ [Previously paragraph A47D]

A30L. The group engagement team may determine that audit evidence needs to be obtained on an audit of one or more ~~account balances~~, classes of transactions, account balances, or disclosures ~~of the financial information of a component~~ is an appropriate response, for example, if there are higher assessed risks of material misstatement of the group financial statements relating to those account balances or classes of transactions. ~~In some cases, an audit in this context may be referred to as limited scope procedures. In such circumstances, the group engagement team may request that the component auditor audits the classes of transactions, account balances or disclosures and may assign the design and performance of further audit procedures to the component auditor. The component auditor may also have responsibility is responsible for determining the overall nature, timing and extent of procedures to be performed and evaluating whether~~

sufficient, appropriate audit evidence ~~has~~ been ~~obtained~~ obtained to provide a basis for expressing a conclusion on the account balance or class of transactions. [Previously paragraph A47E]

A30M. In ~~other~~ circumstances, the group engagement team may request a component auditor to perform specific ~~may choose to determine the further~~ audit procedures ~~to be performed~~ on the financial information of a component to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, ~~and to instruct the component auditor to perform only those specified procedures. In such cases,~~ the group engagement team retains responsibility for determining the overall nature, timing and extent of procedures to be performed and appropriateness ~~sufficiency~~ of those procedures in providing the audit evidence needed to respond to the assessed risks. [Previously paragraph A47F]

~~A47G. In deciding whether to perform an audit of the financial information of the component, the group engagement team may consider the financial significance of the component relative to the overall group financial statements. Whether a component is considered to be individually financially significant is a matter of professional judgment. A component may be considered to be financially significant, for example, if it exceeds 15% of an appropriate benchmark, such as group pretax income, revenue or total assets. A higher or lower percentage may, however, be deemed appropriate in the circumstances.~~

ISA 600 Requirement	Application Material
<p><u>Using Audit Evidence from an Audit Performed for Another Purpose</u></p> <p>24A. If <u>an audit has been performed on a component is subject to audit for by</u> statutory, regulatory or other reasons, <u>and the group engagement team plans to use work to provide audit evidence for the group audit, and the group engagement team shall decide to use that audit to provide audit evidence for the group audit evaluate whether, the group engagement team shall determine whether:</u> (Ref: Para. A30N–A30O)</p> <p>(a) <u>The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;</u></p> <p>(ab) <u>Overall materiality for the component financial statements as a whole;</u> and</p> <p>(b) <u>performance materiality at the component level used for that audit meet the requirements of this ISA are appropriate;</u> and.</p> <p>(c) <u>Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 37A and 37B.</u> [Previously paragraph 23]</p>	<p><u>Using Audit Evidence from an Audit Performed for Another Purpose</u> (Ref: Para. A24A)</p> <p>A30N. If an audit has been performed on a A-component may have an audit performed for another purpose, for example to fulfill statutory requirements. In these circumstances, the group engagement team may use audit evidence from that audit if the group engagement team has been sufficiently involved in the direction, supervision and review of the work performed (as required by paragraph 37B), and is satisfied that the work is appropriate for the group engagement team's purposes, including whether the materiality used by the component auditor is an appropriate component <u>performance</u> materiality for purposes of the audit of the group financial statements. [Previously paragraph A47H]</p> <p>A30O. Factors that may affect the group engagement team's decision whether to use the audit evidence from an audit required by statute, regulation or for another reason to provide audit evidence for the group audit include the following:</p> <ul style="list-style-type: none"> • Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements. • Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements. • Whether the audit procedures relevant to the group audit performed as part of <u>an</u> audit of the financial statements of the component will be completed in time to meet the group reporting timetable. [Previously paragraph A47I] <p>A49. The group engagement team may design further audit procedures to be performed at either the group level or at one or more components that respond to assessed risks of material misstatement of the group financial statements. For example: If the accounting records for the revenue transactions of the entire group are maintained centrally at the group (e.g. a shared service center), the group engagement team may perform or request component auditors to perform, further audit procedures to address the</p>

ISA 600 Requirement	Application Material
	<p>assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures at the group level.</p> <ul style="list-style-type: none"> • If the accounting records for the revenue transactions of the entire group are maintained centrally at the group (e.g. a shared service center), the group engagement team may perform or request component auditors to perform, further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures at the group level. <p>If the accounting records for inventory obsolescence are held locally at each component, the group engagement team may perform, or request a component auditor to perform, further audit procedures on the valuation of inventory at a component that holds a large quantity of potentially obsolete inventory</p>
<i>Consolidation</i>	
<p>33. The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements <u>as required by the applicable financial reporting framework</u> and, if applicable, <u>to perform</u> further audit procedures on sub-consolidations. (Ref: Para. A55A–A55B)</p>	<p><i>Consolidation</i></p> <p>Sub-Consolidations (Ref: Para. 33)</p> <p><u>A55A.—Consolidation procedures may include evaluating whether those components whose financial information has been included in the group financial statements were appropriately included and valued in the consolidation process as required by the financial reporting framework.</u></p> <p>A55B. The further audit procedures on the sub-consolidation may include:</p> <ul style="list-style-type: none"> • Determining that all journal entries necessary for the sub-consolidation are processed; • Evaluating the <u>operating effectiveness</u> of the ineffective controls over the consolidation process <u>and</u> on the sub-consolidation <u>process and responding appropriately if any controls are determined to be ineffective</u>; and • Evaluating material consolidation entries processed in the sub-consolidation.

ISA 600 Requirement	Application Material
	[To add application material that explains what is meant by the term sub-consolidation]
<p><u>33A. When component auditors perform further audit procedures on the sub-consolidation processes, the group engagement team shall determine the nature and extent of direction, supervision and review of the further audit procedures. (Ref: Para. A55C)</u></p>	<p><u>Group Engagement Team's Involvement in the Sub-Consolidation Processes (Ref: Para. 33A)</u></p> <p>A55C. When component auditors perform further audit procedures on sub-consolidations, the group engagement team may need to be involved to properly evaluate the consolidation adjustments at the sub-consolidation level. The appropriate level of the group engagement team's involvement may depend on the circumstances and the structure of the group and other factors, such as the group engagement team's previous experience with the component auditors that perform procedures on sub-consolidations (also see paragraph A57SF). [Previously paragraph A55A]</p>
<p>34. The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and shall evaluate whether any fraud risk factors or indicators of possible management bias exist. (Ref: Para. A56)</p>	<p>Consolidation Adjustments and Reclassifications (Ref: Para. 34)</p> <p>A56. The consolidation process may require adjustments to amounts reported in the group financial statements that do not pass through the usual transaction processing systems, and may not be subject to the same internal controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments may include:</p> <ul style="list-style-type: none"> • Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them; • Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management; • Determining whether significant adjustments are properly supported and sufficiently documented; and • Checking the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.

ISA 600 Requirement	Application Material
35. If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements.	
36. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 41(ae)) is the financial information that is incorporated in the group financial statements.	
37. If the group financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the group engagement team shall evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.	
<u>Quality Management When Using the Work of Component Auditors Are Involved</u>	
<i>Quality Management</i>	
37A. In applying the requirements of ISA 220 (Revised) with respect to relevant ethical requirements the group engagement partner shall: (Ref: Para. A57A–A57C) (a) Determine that the component auditors have been	<i>Relevant Ethical Requirements</i> (Ref: Para. 37A) A57A. ISA 220 (Revised) requires the engagement partner to determine that other members of the engagement team, including component auditors, have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of

ISA 600 Requirement	Application Material
<p>made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;</p> <p>(b) Obtain an understanding about whether the component auditors understand and will comply with the ethical requirements that are relevant to the group audit and, in particular, are independent; and</p> <p>(c) Prior to dating the auditor's report, obtain a confirmation from component auditors that ethical requirements relevant to the group audit, including those related to independence, have been fulfilled.</p>	<p>the audit engagement. In making this determination, the group engagement partner may need to communicate the relevant ethical requirements, including those related to independence, to all component auditors including by, for example:</p> <ul style="list-style-type: none"> • Providing information, manuals or guides containing the relevant provisions of the relevant ethical requirements for the group audit engagement; • Where applicable, providing training on relevant ethical requirements for component auditors; or • Obtaining confirmation from component auditors that they understand and will comply with the ethical requirements that are relevant to the group audit. <p>A57B. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. When performing work on the financial information of a component for a group audit, the component auditor is subject to ethical requirements, including those relating to independence, that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing a statutory audit in the component auditor's jurisdiction. Accordingly, the group engagement partner is required by paragraph 37A(b) to obtain an understanding about whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit, sufficient to fulfill the component auditor's responsibilities in the group audit.</p> <p>A57C. ISA 220 (Revised) requires tThe group engagement partner is required to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements²⁴ by the engagement team, including component auditors.²⁵ Observing actual or suspected breaches of relevant ethical requirements may be more challenging for a group audit, particularly where component auditors are not subject to common quality management</p>

²⁴ ~~ISA 220 (Revised), paragraph 17~~

²⁵ ~~ISA 220 (Revised), paragraph 17~~

ISA 600 Requirement	Application Material
	<p>policies and procedures in respect of relevant ethical requirements. In such circumstances the group engagement teampartner may instruct component auditors to communicate relevant information to the group engagement partner when actual or suspected breaches by component auditors may have occurred.</p>
<p>37B. In applying the requirements of ISA 220 (Revised) with respect to the competence and capabilities of the engagement team, the group engagement partner shall: (Ref: Para. A57D–A57E)</p> <p>(a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the procedures on the financial information of the component; (Ref: Para. A57F–A57K)</p> <p>(b) When the component auditor operates in a regulatory environment that actively oversees auditors, obtain and evaluate information available about the regulatory environment and the component auditor; and (Ref: Para. A57L)</p> <p>(c) When Determine whether information can be obtained about the results of the monitoring and remediation process with respect to the component auditor's firm, and, if so, determine the relevance <u>of such information to,</u> and effect <u>on, the group audit,</u> if any, on the work performed by the component auditor and the group audit. If such information is not available, the engagement partner shall apply paragraph 37C</p>	<p><i>Competence and Capabilities of the Engagement Team</i></p> <p>Engagement Resources (Ref: Para. 37B)</p> <p>A57D. ISA 220 (Revised) requires the engagement partner to determine that, given the nature and circumstances of the audit engagement, sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team <u>by the firm on a timely basis.</u>²⁶</p> <p>A57E. Such a determination may be more challenging in a group audit engagement due to audit work being conducted across different locations (e.g., different jurisdictions) where collaboration is more challenging, and when component auditors are from different firms <u>that do not have common quality management policies and procedures.</u> For example, <u>a component auditor</u> the group engagement partner may determine that the work of an auditor's expert is needed in relation to an account balance at <u>a the component that is located in a different jurisdiction. Evaluating the appropriateness of that resource, i.e. whether the auditor's expert has the necessary competence, capabilities and objectivity for the group engagement's partner's purpose, is more challenging when the group engagement partner's firm is unfamiliar with the professional body or industry association in the jurisdiction where the component is based.</u> In such circumstances, the group engagement team may <u>wish to</u> discuss the qualifications of the auditor's expert with the component auditor <u>to evaluate whether the auditor's expert has the necessary expertise and objectivity.</u> If the group engagement partner is unable to determine <u>whether the auditor's expert has the necessary sufficiency and appropriateness of the resource expertise and objectivity,</u> the group engagement teampartner may need to <u>seek another expert obtain with the appropriate expertise and objectivity in the jurisdiction</u></p>

²⁶ ISA 220 (Revised), paragraph 23

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(Ref: Para. A57M–A57N)	<p>where the group engagement team partner is located.</p> <p>Engagement Performance (Ref: Para. 37B)</p> <p>A57F. [Paragraph A57F is now A57R and A57S]</p> <p>Competence and Capabilities of the Component Auditors (Ref: Para. 37B(a))</p> <p>A57F. Determining whether the component auditor has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the requirements of the ISAs and the nature and circumstances of the group audit engagement.</p> <p>[Previously paragraph A57G]</p> <p>A57G. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures on the financial information of the component for purposes of the group audit, the group engagement partner may considertake into consideration matters such as:</p> <ul style="list-style-type: none"> • Previous experience with or knowledge of the component auditor. • The component auditor's special skills (for example, industry specific knowledge). • The component auditor's understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management, e.g., a group-wide financial reporting package. • The degree to which the group engagement team and component auditor are subject to common policies and procedures, for example, whether the group engagement team and a component auditor share: <ul style="list-style-type: none"> ○ Common policies and procedures for performing the work (for example, audit methodologies); ○ Common quality management policies and procedures (including training); or ○ Common monitoring policies and procedures.

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	<ul style="list-style-type: none"> • The consistency or similarity of: <ul style="list-style-type: none"> ○ <u>Laws and regulations or legal system;</u> ○ <u>L,</u> language and culture; ○ <u>Education and training;</u> ○ Professional oversight, discipline, and external quality assurance; or ○ Professional organizations and standards. • Information obtained through interactions with component management, those charged with governance, and other key entity personnel, such as internal auditors. <p>A57H. The procedures to determine the component auditor's competency and capability may include, for example:</p> <ul style="list-style-type: none"> • An evaluation of the results of the quality management monitoring activities where the group engagement team and component auditor are from a firm or network that operates under and complies with common policies and procedures.²⁷ • Discussing the matters in paragraph A57S33 with the component auditor. • Requesting the component auditor to confirm the matters referred to in paragraph 37A in writing. Appendix 4 contains an example of written confirmations by a component auditor. • Requesting the component auditor to complete questionnaires about the matters in paragraph 37A. • Discussing the component auditor with colleagues in the group engagement partner's firm, or with a reputable third party that has knowledge of the component auditor. • Obtaining confirmations from the professional body or bodies to which the

²⁷ As required by ~~International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements~~, paragraph 61, or national requirements that are at least as demanding.

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	<p>component auditor belongs, the authorities by which the component auditor is licensed, or other third parties. In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 37B(a)–(c)] has changed since the previous year.</p> <p>A57I. The nature and extent of the procedures to determine the component auditor's competency and capability will vary based on consideration of the matters described in paragraph A57S33, including, for example, previous experience with the component auditor and whether the component auditor applies common quality management policies and procedures and a common audit methodology.</p> <p>A57J. The engagement partner's firm's <u>system of quality management-level responses</u> may include <u>network requirements or networks services that are common across policies or procedures established by the</u> network²⁸ of which the <u>group engagement team and component auditor are a members</u>. For example, when determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to <u>depend on network policies and</u> procedures <u>addressing dealing with</u> professional training, or recruitment or required use of audit methodologies and related implementation tools when they are common across the network. In accordance with ISQM_1, the firm is responsible for its system of quality management, and as such, network policies and procedures may need to be supplemented or adapted for use in the firm's system of quality management to appropriately address the nature and circumstances of the engagement. In particular, policies and procedures established by the network may not be designed to address the assessed quality risks and the reasons for the assessments given to the quality risks. In such circumstances, the group engagement partner may not be able to depend on network policies and procedures in determining the competence and capability of the component auditor.</p>

²⁸ ISQM 1, paragraph 58 and 59

ISA 600 Requirement	Application Material
	<p>A57K. Requesting component auditors to perform further audit procedures differs from working with individuals from the same firm. For example, the group engagement team and component auditors may work in different countries with different languages, culture, business and market conditions. Also, different firms <u>often</u> have different systems of quality management, and the skills and experience of the group engagement team in respect of the group audit may differ from those of the component auditors. These differences pose challenges in the coordination of the overall audit strategy and audit plan between the group engagement team and component auditors. Without adequate involvement by the group engagement partner and group engagement team to address these challenges, the group engagement partner may not be able to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby draw reasonable conclusions on which to base the opinion on the group financial statements.</p> <p>Regulatory Environment (Ref: Para. 37B(b))</p> <p>A57L. Where independent oversight bodies have been established to oversee the auditing profession and monitor the quality of audits in the jurisdiction of a component auditor, information provided by the independent oversight bodies, including in relation to external inspections, may assist the group engagement team in evaluating the independence and competence of the component auditor. Information about the regulatory environment may also be obtained from the component auditor.</p> <p>Monitoring and Remediation (Ref: Para. 37B(c))</p> <p>A57M. If the component auditor is a partner or staff of a network firm that shares common quality management policies and procedures with the group engagement partner's firm, the results of the network's monitoring activities may include findings or deficiencies in relation to the component auditor's firm that may be relevant to the group engagement team's understanding of the competence and capability of the component auditor. The group engagement team may also have access to the results of external inspections and other relevant information that the group auditor's firm obtains.</p>

ISA 600 Requirement	Application Material
	<p><u>A57N. When the group engagement team cannot directly obtain information about the results of the monitoring and remediation process with respect to the component auditor's firm, the group engagement team may be able to obtain information through other sources, for example, the group engagement firm's network may provide summarized information about results across firms within the network that includes the component auditor firm.</u></p>
<p>37C. If a component auditor does not meet the independence requirements that are relevant to the group audit, or the group engagement partner has serious concerns about any of the matters in paragraph 37B, the group engagement team shall obtain sufficient appropriate audit evidence relating to the financial information of the component without requesting that component auditor to perform work on the financial information of that component. (Ref: Para. A57O–A57Q)</p>	<p><i>Application of the Group Engagement Team's Understanding of a Component Auditor</i> (Ref: Para. 37C)</p> <p>A57O. The group engagement team cannot overcome the fact that a component auditor is not independent by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component. [Previously paragraph A57N]</p> <p>A57P. However, the group engagement team may be able to overcome less than serious concerns about the component auditor's professional competency (for example, lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component. [Previously paragraph A57O]</p> <p>A57Q. Where law or regulation prohibits access to relevant parts of the audit documentation of the component auditor, the group engagement team may request the component auditor to overcome this by preparing a memorandum that covers the relevant information. [Previously paragraph A57P]</p>

Involvement in the Work Performed by Component AuditorsEngagement PerformanceSignificant Components—Risk Assessment

37D. In applying ISA 220 (Revised), the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of the members of the group engagement team and component auditors and the review of their work. In doing so, the group engagement partner takes into account areas: (Ref: Para. A57R–A57T)

- (a) Where the assessed risk of material misstatement of the group financial statements is higher or where a significant risk has been identified, in relation to the component's financial information; and
- (b) In the group financial statements that involve significant judgment.

Engagement Performance (Ref: Para. 37D)

A57R. The group engagement partner is responsible for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of the work performed.²⁹ However, as described in paragraph A9A, it may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple jurisdictions or at many different locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team and these members may assign responsibilities further. [Previously paragraph A57F]

A57S. The nature timing and extent of direction, supervision and review may be tailored ~~The group engagement partner may tailor the approach to direction, supervision and review~~ taking into account the nature and circumstances of the engagement and, for example:

- The assessed risks of material misstatement. For example, if the group engagement team has identified a component that is likely to include significant risks of material misstatement of the group financial statements, a corresponding increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's work may be appropriate.
- The competence and capabilities of the component auditors performing the audit work. For example, if the group engagement team has no previous experience working with the component auditors, the group engagement team may communicate more detailed instructions or introduce greater in person supervision of the component auditor as the work is performed.
- The location of engagement team members, including extent to which engagement team members are dispersed across multiple locations, including where service

²⁹ ISA 220 (Revised), paragraph 27

	<p>delivery centers are used. For example, direction and supervision of individuals located at remote service delivery centers and the review of their work may need to be more formalized and structured than when members of the engagement team are all situated in the same location.</p> <ul style="list-style-type: none"> • Access to component auditors' working papers. For example, where component auditor working papers cannot be moved out of the jurisdiction, greater in-person supervision of the component auditor and review of the component auditor's work, may be appropriate. (see also paragraph A12C–A12F) [Previously paragraph A57F] <p><u>A57T. There are different ways in which the group engagement partner may direct, supervise and review work performed by the component auditors, for example:</u></p> <ul style="list-style-type: none"> • <u>Meeting or calls with component auditors to communicate identified and assessed risk, issues, findings and conclusions;</u> • <u>Reviews of the component auditor's documentation;</u> • <u>Reviewing the communications from the component auditor, for example the findings and conclusions; or</u> • <u>Participating in the closing and other key meetings between the component auditors and component management.</u>
<p>30. If a component auditor performs an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by the group engagement team's understanding of the component auditor, but at a minimum shall include:</p> <p>(a) Discussing with the component auditor or component management those of the component's business activities that are significant to the group;</p>	<p>A54. Factors that may affect the group engagement team's involvement in the work of the component auditor include:</p> <p>(a) The significance of the component;</p> <p>(b) The identified significant risks of material misstatement of the group financial statements; and</p> <p>(c) The group engagement team's understanding of the component auditor.</p> <p>In the case of a significant component or identified significant risks, the group engagement team performs the procedures described in paragraphs 30–31. In the case of a component that is not a significant component, the nature, timing and extent of the group engagement team's involvement in the work of the component auditor will vary</p>

<p>(b) Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and</p> <p>(c) Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor's conclusion with regard to the identified significant risks.</p>	<p>based on the group engagement team's understanding of that component auditor. The fact that the component is not a significant component becomes secondary. For example, even though a component is not considered a significant component, the group engagement team nevertheless may decide to be involved in the component auditor's risk assessment, because it has less than serious concerns about the component auditor's professional competency (for example, lack of industry specific knowledge), or the component auditor does not operate in an environment that actively oversees auditors.</p> <p>A55. Forms of involvement in the work of a component auditor other than those described in paragraphs 30–31 and 42 may, based on the group engagement team's understanding of the component auditor, include one or more of the following:</p> <p>(a) Meeting with component management or the component auditors to obtain an understanding of the component and its environment.</p> <p>(b) Reviewing the component auditors' overall audit strategy and audit plan.</p> <p>(c) Performing risk assessment procedures to identify and assess the risks of material misstatement at the component level. These may be performed with the component auditors, or by the group engagement team.</p> <p>(d) Designing and performing further audit procedures. These may be designed and performed with the component auditors, or by the group engagement team.</p> <p>(e) Participating in the closing and other key meetings between the component auditors and component management.</p> <p>(f) Reviewing other relevant parts of the component auditors' audit documentation.</p>
<p>Identified Significant Risks of Material Misstatement of the Group Financial Statements—Further Audit Procedures</p> <p>31. If significant risks of material misstatement of the group financial statements have been identified in a component on which a component auditor performs the work, the group engagement team shall evaluate the</p>	

~~appropriateness of the further audit procedures to be performed to respond to the identified significant risks of material misstatement of the group financial statements. Based on its understanding of the component auditor, the group engagement team shall determine whether it is necessary to be involved in the further audit procedures.~~

Two-Way Communication ~~with~~ Between the Group Engagement Team and the Component Auditor

40. The group engagement team shall communicate on a timely basis with component auditors~~its requirements to the component auditor on a timely basis. This communication shall~~ (Ref: Para. A57U-A60C)

~~(a) The matters required by~~ paragraph 17B, 20A, 37B and 41B set out 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. It shall also include the following: (Ref: Para. A57, A58, A60)

~~(ba)~~ A request that the component auditor, ~~knowing the context in which the group engagement team will use the work of the component auditor,~~ confirms that the component auditor will cooperate with the group engagement team.

~~(b) The ethical requirements that are relevant to the group audit and, in particular, the independence requirements.~~

~~(c) In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or~~

Two-Way Communication Between the Group Engagement Team and the Component Auditor (Ref: Para. 40)

A57U. Clear and timely communication between the group engagement team and the component auditor helps to establish the basis for effective two-way communication. If effective two-way communication between the group engagement team and the component auditors does not exist, there is a risk that the group engagement team may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. Clear and timely communication of the group engagement team's requirements forms the basis of effective two-way communication between the group engagement team and the component auditor. [Previously paragraph A57]

A57V. Matters that may also contribute to effective two-way communication include discussion of:

- The purpose of the group engagement team's requested communications. When the purpose is clear, the group engagement team and the component auditor are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form in which communications will be made.
- The person(s) in the group engagement team who will communicate regarding particular matters.
- The group engagement's team's expectations that communication will be two-way, and that the component auditor is expected to communicate with the auditor matters

~~disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.~~

~~(d) 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. The group engagement team shall request the component auditor to communicate on a timely basis any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and the component auditor's responses to such risks.~~

~~(e) A list of related parties prepared by group management, and any other related parties of which the group engagement team is aware. The group engagement team shall request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team shall determine whether to identify such additional related parties to other component auditors.~~

they consider relevant to the group audit, for example, the suspicion or the detection of fraud, and concerns with the integrity or competence of component management.

- The process for taking action and reporting back on matters communicated by the group engagement team.
- The process for taking action and reporting back on matters communicated by the component auditor.

Form of Communication

A58. The group engagement team's requirements are often communicated in a letter of instruction. Appendix 5 contains guidance on required and additional matters that may be included in such a letter of instruction. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply.

A58A. The form of communication (e.g., whether to communicate orally or in writing and the extent of detail or summarization in the communication) may be affected by such factors as:

- The significance of the matter.
- Whether the matter will be communicated to group management and those charged with governance of the group.

A60. Where a member of the group engagement team is also a component auditor, the objective for the group engagement team to communicate clearly with the component auditor can often be achieved by means other than specific written communication. For example:

- Access by the component auditor to the overall audit strategy and audit plan may be sufficient to communicate the group engagement team's requirements set out in paragraph 40; and
- A review of the component auditor's audit documentation by the group engagement team may be sufficient to communicate matters relevant to the group engagement team's conclusion set out in paragraph 41.

Timing of Communications

A60A. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.

Cooperation with the Group Engagement Team

A60B. In cooperating with the group engagement team, the component auditor, for example, would provide the group engagement team with access to relevant audit documentation if not prohibited by law or regulation. [Previously paragraph A59]

Non-Compliance with Laws and Regulations

A60C. The group engagement team may become aware of information about non-compliance or suspected non-compliance with laws and regulations that the group engagement team believes may be relevant to the financial information of a component (or the audit procedures being performed by the component auditor). In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor, unless prohibited from doing so by law or regulation, to enable the component auditor to determine whether, and if so, how to address the matter. The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may also extend to components that are not included in the scope of the

	<u>group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit).</u>
<p>41. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A60D)</p> <p>(a) Whether the component auditor has complied with ethical requirements that are relevant to the group audit, including independence and professional competence;</p> <p>(b) Whether the component auditor has complied with the group engagement team's requirements;</p> <p>(a) Identification of the financial information of the component on which the component auditor is reporting;</p> <p>(b) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements;</p> <p>(c) A list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team (see paragraph 17B(b));</p> <p>(d) Indicators of possible management bias;</p> <p>(e) Description of any identified significant deficiencies in internal control at the component level;</p>	<p><u>A60D. When the component auditor does not communicate matters relevant to the group engagement team's conclusion with regard to the group audit, the group engagement team may consider whether the information can be obtained through other sources. If such information cannot be obtained, the group engagement team may need to consider the implications for the group audit, including the ability to obtain sufficient appropriate audit evidence.</u></p>

<p>(f) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component;</p> <p>(g) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and</p> <p>(h) The component auditor's overall findings, conclusions or opinion</p>	
<p>[THIS PARAGRAPH HAS TRACK CHANGES FROM PRELIMINARY DRAFTING AS PRESENTED TO THE BOARD IN SEPTEMBER 2019 IN AGENDA ITEM 9]</p> <p><i>Evaluating the Component Auditor's Communication and Adequacy of their Work</i></p> <p>41A. The group engagement team shall evaluate the component auditor's communications with the component auditor (see paragraph 41). The group engagement team shall:</p> <p>(a) Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and</p>	<p><i>Reviewing the Component Auditor's Audit Documentation</i> (Ref: Para. 41A(b))</p> <p>A61. What parts of the audit documentation of the component auditor will be relevant to the group audit may vary depending on the circumstances. Often the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review may be affected by:</p> <p><u>(a) The identified risks of material misstatement of the group financial statements, including the degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of those risks;</u></p> <p><u>(b) The group engagement team's understanding of the component auditor, including the competence and capabilities of the component auditor; and</u></p> <p><u>(c) The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's review procedures.</u></p>

- (b) Determine whether it is necessary to review other relevant parts of the component auditor's audit documentation. (Ref: Para. A61) [Previously paragraph 42]

Related Parties

41B. In applying ISA 550 (Revised),³⁰ the group engagement team shall:

- (a) Discuss with component auditors related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that is relevant to the financial information of the component.
- (b) Request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team; and
- (c) Determine whether to identify related parties not previously identified by group management or the group engagement team to other component auditors.

Going Concern

41C. In applying ISA 570 (Revised),³¹ the group engagement team shall:

- (a) Discuss with component auditors any events or conditions identified by group management, or the

³⁰ ISA 550, *Related Parties*

³¹ ISA 570 (Revised), *Going Concern*

<p><u>group engagement team, that may be relevant to the financial information of the component.</u></p> <p><u>(b) Request that component auditors communicate any events or conditions relating to the component that may be relevant to the group management's assessment of the group's ability to continue as a going concern; and</u></p> <p><u>(c) Remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the group's ability to continue as a going concern, including where component auditors have obtained audit evidence behalf of the group engagement team.</u></p>	
<p>Subsequent Events</p>	
<p>41D. Where the group engagement team or component auditors perform audits on the financial information of components,In applying ISA 560,³² the group engagement team or the component auditors shall perform procedures designed to identify events <u>that may require adjustment to or disclosure in the group financial statements, including, as applicable, events at those components</u> that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements, and that may require adjustment to or disclosure in the group financial statements. (Ref: Para. A61A-A61B) [Previously paragraph 38]</p>	<p>Subsequent Events (Ref: Para. 41D)</p> <p><u>A61A. The group engagement team may request a component auditor to perform subsequent events procedures to assist the group engagement team to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.</u></p> <p><u>A61B. When component auditors perform subsequent events procedures, the group engagement team may consider it necessary and appropriate to perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.</u></p>

³² ISA 560, *Subsequent Events*, paragraph 7

~~41E39. Where component auditors perform work other than audits of the financial information of components,~~ the group engagement team shall request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements. [Previously paragraph 39]

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

[TRACK CHANGES FROM PRELIMINARY DRAFTING AS PRESENTED TO THE BOARD IN SEPTEMBER 2019 IN AGENDA ITEM 9]

Sufficiency and Appropriateness of Audit Evidence

44. In applying ~~the requirements of~~ ISA 330,³³ the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to ~~the consolidation process and~~ the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A61C-A62)

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 44–45)

A61C. The evaluation required by paragraph 44 assists the group engagement team in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330³⁴ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure in the group financial statements also may be helpful for purposes of this evaluation.

A62. If the group engagement team concludes that sufficient appropriate audit evidence on which to base the group audit opinion has not been obtained, the group engagement team may request the component auditor to perform additional procedures. If this is not feasible, the group engagement team may perform its own procedures on the financial information of the component.

44A. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional

³³ ISA 330, paragraph 26

³⁴ -ISA 330, paragraph 18

procedures are to be performed, and whether they are to be performed by the component auditor or by the group engagement team. [Previously paragraph 43]	
45. <u>In applying ISA 450,³⁵ t</u> The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A63)	A63. The group engagement partner's evaluation of the aggregate effect of any misstatements (either identified by the group engagement team or communicated by component auditors) allows the group engagement partner to determine whether the group financial statements as a whole are materially misstated. Note Task Force will develop AM on the <mirror words a29F>
<u>Auditor's Report</u>	
45A. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances. T As a result, the auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A63A–A63B) [Previously paragraph 11]	Auditor's Report (Ref: Para. A45A) A63A. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion. [Previously paragraph A8] A63B. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Modification paragraph in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances. ³⁶ [Previously paragraph A9]

³⁵ ISA 450. Evaluation of Misstatements Identified During the Audit

³⁶ ISA 705 (Revised), paragraph 20

Communication with Group Management and Those Charged with Governance of the Group	
<p><i>Communication with Group Management</i></p> <p>46. The group engagement team shall determine which identified deficiencies in internal control to communicate to those charged with governance and group management in accordance with ISA 265.³⁷ In making this determination, the group engagement team shall consider: <u>(Ref. Para. A64)</u></p> <p>(a) Deficiencies in common controlsgroup-wide internal control that the group engagement team has identified;</p> <p>(b) Deficiencies in internal control that the group engagement team has identified in internal controls at components; and</p> <p>(c) Deficiencies in internal control that component auditors have brought to the attention of the group engagement team.</p>	<p><i>Communication with Group Management</i> (Ref: Para. 46–48)</p> <p>A64. ISA 240 contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.³⁸</p>
<p>47. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 41(f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A64)</p>	

³⁷ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

³⁸ ISA 240, paragraphs 41–43

48. ~~A~~ component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. In that case, the group engagement team shall request group management to inform component management of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the component, but of which component management may be unaware. If group management refuses to communicate the matter to component management, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved. (Ref: Para. ~~A64~~–A65)

Communication with Those Charged with Governance of the Group

49. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised)³⁹ and other ISAs: (Ref: Para. A66)

~~(a) An overview of the type of work to be performed on the financial information of the components.~~

~~(b)~~ An overview of the nature of the group engagement team's planned involvement in the work to be

A65. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.
- Significant legal agreements.

Communication with Those Charged with Governance of the Group (Ref: Para. 49)

A66. The matters the group engagement team communicates to those charged with governance of the group may include those brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group takes place at various times during the group audit. For example, the matters referred to in paragraph 49(a)–~~(b)~~ may be communicated after the group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 49(~~eb~~) may be communicated at the end of the audit, and the matters referred to in paragraph 49(~~dc~~)–(~~ed~~) may be communicated when they

³⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*

performed by ~~the~~ component auditors ~~on the financial information of significant components~~.

(~~eb~~) 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, and how the group engagement team addressed the concern.

(~~ec~~) Any limitations on the group audit, for example, where the group engagement team's access to information or people may have been restricted.

(~~ed~~) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the system of group-wide controls ~~internal control~~ or others where the fraud resulted in a material misstatement of the group financial statements.

occur.

Documentation

50. In applying ISA 230,⁴⁰ t~~The~~ group engagement team shall include in the audit documentation the following matters:⁴⁴

(a) Matters related to access to people or information that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.

Documentation (Ref: Para. 50(c))

A67. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group engagement team in documenting the direction, supervision and review of the work performed by component auditors. For example, the firm may have developed an electronic audit tool that may be used to facilitate communications between the group engagement team and component auditors, and also is used for audit documentation.

⁴⁰ ISA 230, Audit Documentation, paragraphs 8–11, and A6

⁴⁴ ~~ISA 230, Audit Documentation, paragraphs 8–11, and A6~~

~~(a) An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.~~

~~(b) The determination of component performance materiality and the threshold for communicating misstatements in component financial information to the group engagement team.~~

~~(c) The nature, timing and extent of the group engagement team's direction, supervision and review involvement in the work performed by the component auditor on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon. (Ref: Para. A67–A67A)~~

~~(d) Written eCommunications between the group engagement team and the component auditors in accordance with paragraph 40 about the group engagement team's requirements.~~

~~(e) The group engagement team's evaluation of, and response to, findings of the component auditors with respect to matters that could have a material effect on the group financial statements.~~

A67A. The group engagement team's direction, supervision and review of the work performed by component auditors may be documented as part of the overall audit strategy and audit plan in accordance with ISA 300. See also [paragraph A12B](#).

The Task Force will revise the appendices after the December 2019 meeting