

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

ISA 600 Requirement	Application Material
Scope	
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), ² and ISA 330. ³ (Ref: Para. A1A)	<p>Scope (Ref: Para. 1)</p> <p>A1A. ISA 220 (Revised) deals with the circumstance when an auditor involves other auditors 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. [Previously paragraph 2]</p>
2. [Moved to application material related to paragraph 1]	
3. [Moved to application material related to paragraph 24]	A1. [Moved to application material related to paragraph 24]
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. ⁴ In a group audit, this includes the risk that the component auditor may not detect a misstatement in the financial information of the	

¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

² ISA 315 (Revised), *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 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A34

ISA 600 Requirement	Application Material
<p>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 its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components.</p>	
<p>Effective Date</p>	
<p>7. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20XX.</p>	
<p>Objectives</p>	
<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, 	

ISA 600 Requirement	Application Material
and in evaluating the results of their procedures.	
Definitions	
9. For purposes of the ISAs, the following terms have the meanings attributed below:	
<p>(a) Component – An 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 for purposes of the group audit. For example, the entity’s information system and financial reporting process may be based on an organizational 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>
<p>(b) Component auditor – An auditor who, at the request of the group engagement team, performs audit</p>	

ISA 600 Requirement	Application Material
procedures related to a component for the group audit.	
(c) Component management – Management responsible for the financial information of a component.	
(d) Component materiality – 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 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.	

ISA 600 Requirement	Application Material
<p>(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.</p>	
<p>(j) Group financial statements – Financial statements that include the financial information of more than one component.</p>	
<p>(k) Group management – Management responsible for the preparation of the group financial statements.</p>	
	<p>A5. [Moved to application material related to paragraph 24]</p>
<p>10. Reference to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.</p> <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; or</p> <p>(b) The presentation in combined financial statements of</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</p>

ISA 600 Requirement	Application Material
<p>the financial information of components that have no parent but are under common control. (Ref: Para. A5A–A5B)</p>	<p>entity.</p> <p>A5B. 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>
<p>Requirements</p>	
<p>Leadership Responsibilities for Managing and Achieving Quality on a Group Audit</p>	
<p>[Paragraph 11 will be included in the auditor’s report section]</p>	<p>[Paragraph A8 will be included in the auditor’s report section]</p> <p>[Paragraph A9 will be included in the auditor’s report section]</p>
<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 nature and circumstances of the group engagement. (Ref: Para. A9A)</p>	<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 group includes a large number of components that may be located in multiple jurisdictions and when component auditors are involved at many different locations. In managing quality at the engagement level, ISA 220 (Revised)⁵ 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. The group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further.</p>

⁵ ISA 220 (Revised), paragraph 13

Acceptance and Continuance

11B. In applying ISA 220 (Revised), the group engagement partner shall:

- (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. (Ref: Para. A10–A12A)

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

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 partner'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 A11 may be obtained from:

- Information provided by group management;

	<ul style="list-style-type: none"> • Communication with group management; and • Where applicable, communication with the previous group engagement team, component management, or component auditors. [Previously paragraph A10] <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
<p>13. If the group engagement partner concludes that:</p> <p>(a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and</p> <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><i>Access to Information, Those Charged with Governance of the Group, Group Management, Those Charged with Governance of Component(s), Component Management and Component Auditors</i> (Ref: Para. 13)</p> <p>A12B. Access to information or people can be restricted for many reasons, such as restrictions imposed by management or local laws and regulations. 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</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. A12B–A15)</p>	<p>component that is accounted for by the equity method of accounting.</p> <p>A12C. 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 the equity method of accounting, but where, in the group engagement team's judgment, the effect is material but not pervasive. [Previously A19]</p> <p>A12D. Although the group engagement team may be able to obtain sufficient appropriate audit evidence the reason for the restriction may affect the group audit opinion. For example, the restriction may be related to the reliability of group management's responses to the group engagement team's inquiries and group management's representations to the group engagement team. [Previously A17]</p> <p>A12E. Law or regulation 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, this ISA still applies 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).⁶ [Previously A18]</p> <p>Access to Information</p> <p>A14A. When law or regulation restricts cross-border access of relevant audit documentation of a component auditor, the group engagement team may be able to overcome these restrictions. For example, the group engagement team may be able to visit the location of the component auditor and review the relevant audit documentation and discuss the procedures performed by the component auditor.</p> <p>Access to Those Charged with Governance of the Group, Group Management, Those</p>
---	---

⁶ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

	<p>Charged with Governance of Component(s), Component Management and Component Auditors</p> <p>A15. When access to those charged with governance of the group, group management, those charged with governance of component(s), component management or 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 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 evidence 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). [The Task Force will discuss further changes to this paragraph after the September 2019 Board meeting]</p>
<p>Planning an Audit of Group Financial Statements</p>	
<p>16. In applying the requirements of ISA 300,⁷ the group engagement partner shall review the overall group audit strategy and group audit plan. (Ref: Para. A22)</p>	<p>Planning an Audit of Group Financial Statements (Ref: Para. 16)</p> <p>A22. The group engagement partner’s review of the overall group audit strategy and group audit plan 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</p>

⁷ ISA 300, *Planning an Audit of Financial Statements*, paragraphs 7–12

	<p>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 for communications with group management and those charged with governance in accordance with ISA 260 (Revised).⁸</p>
<p><i>Materiality</i></p>	
<p>[To be developed, see section IV of Agenda Item 9]</p>	
<p>Understanding the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control</p>	
<p>17. In applying the requirements in ISA 315 (Revised) 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 following matters:</p> <ul style="list-style-type: none"> (a) 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; (b) The consolidation process used by the group, including sub-consolidations and consolidation adjustments; and (c) The consistency of accounting policies and practices across the group, including whether and how such 	<p>Understanding the Entity and Its Environment, the Applicable Reporting Framework and the Entity’s System of Internal Control (Ref: Para. 17)</p> <p><i>Matters about Which the Group Engagement Team Obtains an Understanding</i></p> <p>A23. ISA 315 (Revised) contains guidance on matters the auditor may consider when obtaining an understanding of 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.⁹ Appendix 2 of this ISA contains guidance on matters specific to a group, including the consolidation process.</p> <p><i>Instructions Issued by Group Management to Components</i></p> <p>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. A reporting package ordinarily consists of standard formats for providing</p>

⁸ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁹ ISA 315 (Revised), paragraphs A25–A49

policies and practices are communicated.

The group engagement team's procedures to obtain the understanding shall be performed to the extent necessary to provide an appropriate basis for the assessment of risks of material misstatement at the group financial statement and assertion levels. (Ref: Para. A23–A26A)

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;
 - Provide 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;
 - Provide for the identification of consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and

	<ul style="list-style-type: none"> ○ Provide for the approval of the financial information by component management. <p>A26A. Shared service centers may take different forms and the terms used to describe a shared service center may vary from entity to entity and from jurisdiction to jurisdiction. However, for purposes of this ISA, a shared service center is a single location where financial reporting or accounting functions are performed for a particular group of common transactions or other financial information (e.g., initiated, authorized, recorded, processed, or reported) in a consistent and centralized manner across multiple components or business units.</p>
<p>Assessing the Risks of Material Misstatement</p>	
<p>20A. In applying ISA 315 (Revised), the group engagement team shall assess the risks of material misstatement of the group financial statements. In doing so, the group engagement team shall:</p> <ul style="list-style-type: none"> (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. A26B–A30) 	<p>Assessing the Risks of Material Misstatement (Ref: Para. 20A)</p> <p>A26B. 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 system of internal control, including those controls that are implemented throughout the group, affects the auditor’s assessment of the risk of material misstatement of the group financial statements.</p> <p><i>Discussion among Group Engagement Team Members Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud</i></p> <p>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.</p> <p>A29. The discussions provide an opportunity to:</p> <ul style="list-style-type: none"> • 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.

A29A. The group engagement team may request the component auditor to perform risk assessment procedures to assist the group engagement team in assessing risks of material misstatement of the group financial statements. 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, two-way communication between the group engagement team and the component auditor, in the

engagement team discussion and throughout the audit, 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.

Fraud

A29B. 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.¹⁰ 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, or A27 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 A27]

Risk Factors

A30. Appendix 3 sets out examples of conditions or events that, individually or together, may

¹⁰ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

	<p>indicate risks of material misstatement of the group financial statements, including risks due to fraud.</p>
<p>Responding to the Assessed Risks of Material Misstatement</p>	
<p>24. In applying ISA 330, the auditor 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.¹¹ In 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. A47–A51L)</p>	<p>Responding to the Assessed Risks of Material Misstatement (Ref: Para. 24)</p> <p>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:</p> <ul style="list-style-type: none"> (a) The assessed risks of material misstatement of the group financial statements; and (b) The group engagement team’s understanding of the component auditor. <p>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</p>

¹¹ ISA 330, *The Auditor’s Responses to Assessed Risks*

component auditor

A47B. 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.

A47C. 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 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.

A47D. In circumstances when the group engagement team determines that 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, the group engagement team may determine that it is more effective to request the component auditor to audit the 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. 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.

A47E. The group engagement team may determine that an audit of one or more account balances, classes of transactions, or disclosures 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. 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 had been obtained to provide a basis for expressing a conclusion on the account balance or class of transactions.

A47F. In other circumstances, the group engagement team 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, and to instruct the component auditor to perform only those specified procedures. In such cases, the group engagement team retains responsibility for determining the sufficiency of those procedures in providing the audit evidence needed to respond to the assessed risks.

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.
[Previously paragraph A5]

A47H. 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 materiality for purposes of the audit of the group financial statements.

A471. 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:

- 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 audit of the financial statements of the component will be completed in time to meet the group reporting timetable. [Previously paragraph A1]

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 assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures at the group level.
- 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.

A50. The group engagement team may perform substantive analytical procedures at group

level in accordance with ISA 520¹² to address the risk of material misstatement at the assertion level for account balances, classes of transactions 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 of material misstatement of the aggregated financial information of components that are not financially significant.

A50A. 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.

¹² ISA 520, *Analytical Procedures*

<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 and, if applicable, further audit procedures on sub-consolidations. (Ref: Para. A55A–A55B)</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>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.</p> <p>36. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 41(c)) is the financial information that is incorporated in the group financial statements.</p> <p>37. If the group financial statements include the financial statements of a component with a financial reporting</p>	<p><i>Consolidation</i></p> <p>Sub-Consolidations (Ref: Para. 33)</p> <p>A55A. 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.</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 effect of ineffective controls over the consolidation process on the sub-consolidation; and • Evaluating material consolidation entries processed in the sub-consolidation. <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

<p>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.</p>	<p>documented; and</p> <ul style="list-style-type: none"> • Checking the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.
<p>Using the Work of Component Auditors</p>	
<p><i>Quality Management</i></p>	
<p>37A. In applying the requirements of ISA 220 (Revised) with respect to relevant ethical requirements the group engagement partner shall:</p> <ul style="list-style-type: none"> (a) Determine that the component auditors have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; (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 (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. (Ref: Para. A57A–A57C) 	<p><i>Relevant Ethical Requirements</i> (Ref: Para. 37A)</p> <p>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 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</p>

	<p>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. [Previously paragraph A37]</p> <p>A57C. The 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 requirements¹³ by the engagement team, including component auditors. 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 policies and procedures in respect of relevant ethical requirements. In such circumstances the group engagement partner 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–A57F)</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. A57G–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; (Ref: Para. A57L)</p> <p>(c) Determine whether information can be obtained</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.</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. In such circumstances the group engagement team's communications with component auditors are important in determining whether resources are sufficient and appropriate in performing the engagement. For example, the group engagement partner may determine that the work of an auditor's expert is needed in relation to an account balance at a 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 partner's purpose, is more</p>

¹³ ISA 220 (Revised), paragraph 17

about the results of the monitoring and remediation process with respect to the component auditor's firm, and, if so, determine the relevance and effect, 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. (Ref: Para. A57M)

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. In such circumstance the group engagement team may discuss the qualifications of the auditor's expert with the component auditor. If the group engagement partner is unable to determine the sufficiency and appropriateness of the resource, the group engagement partner may need to obtain the expertise in the jurisdiction where the group engagement partner is located.

Engagement Performance (Ref: Para. 37B)

A57F. 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.¹⁴ 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 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

¹⁴ ISA 220 (Revised), paragraph 27

are all situated in the same location.

- 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.

Competence and Capabilities of the Component Auditors (Ref: Para. 37B(a))

A57G. 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.

A57F. 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 take into consideration matters such as:

- Previous experience with or knowledge of the component auditor.
- Information obtained through interactions with component management, those charged with governance, and other key entity personnel, such as internal auditors.
- 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:
 - 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.
- The consistency or similarity of:
 - Laws and regulations or legal system, language and culture;
 - Professional oversight, discipline, and external quality assurance; or
 - Professional organizations and standards. [Previously paragraph A33]

A57H. The procedures to determine the component auditor's competency and capability may include, for example:

- 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.¹⁵
- Discussing the matters in paragraph A33 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 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. [Previously paragraph A35]

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

¹⁵ 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 <to update reference>, or national requirements that are at least as demanding.

paragraph A33, 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. [Previously paragraph A34]

A57J. The engagement partner's firm level responses may include common policies or procedures established by a network¹⁶ of which the component auditor is a member. 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 or procedures dealing with professional training, or recruitment or required use of audit methodologies and related implementation tools when they are common across the network. In accordance with ISQM1, 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.

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 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

¹⁶ ISQM 1, paragraph <to update reference>

	<p>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. [Previously paragraph A36]</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>
<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. A57N–A57P)</p>	<p><i>Application of the Group Engagement Team’s Understanding of a Component Auditor</i> (Ref: Para. 37C)</p> <p>A57N. 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 A39]</p> <p>A57O. 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</p>

	<p>information of the component. [Previously paragraph A40]</p> <p>A57P. 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 A41]</p>
<p><i>Communication and Involvement in the Work Performed by Component Auditors</i></p>	
<p>[To be developed]</p>	