### AU-C Section 600 – Audits of Group Financial Statements

**Stage of Audit Affected:** Planning, Fieldwork and Reporting

<table>
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<th>Application</th>
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<td>- Applies to audit engagements for <em>group financial statements</em>, in particular those in which part of the work related to the financial statements on which the principal auditor is reporting is performed by other auditors (component auditors).</td>
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<td>- <em>Group financial statements</em> - include the financial information of more than one component</td>
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<td>- Examples of a component may include a subsidiary, division, account balance or an investment accounted for under the equity method of accounting</td>
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<td>- <em>Component auditor</em> - part of the group audit engagement partner’s firm in a different location, a network firm or another firm</td>
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<td>- May be useful, adapted as necessary in the circumstances, when an auditor involves other auditors in the audit of financial statements that are not <em>group financial statements</em>.</td>
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<td>- For example, the principal auditor may involve another auditor to observe the inventory count or inspect fixed assets at a remote location</td>
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<td>- Effective for periods ending on or after December 15, 2012.</td>
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**What’s Different?**

- Principal auditor is now referred to as group engagement partner, group engagement team, or auditor of the group financial statements.

  The clarified standard more clearly articulates the group engagement team’s degree of involvement, communication with and supervision of the component auditor.

  - The group engagement team is required to gain an understanding of the component auditors and determine the extent the group engagement team will be involved in the work of the component auditors, then choose to either:

    - Assume responsibility for, and thus be required to be involved in, the work of component auditors, in which case the group engagement team would perform additional procedures and issue the standard report, or

    - Not assume responsibility for, and accordingly make reference to, the audit of a component auditor in the auditor’s report on the group financial statements

  - When the auditor chooses to assume responsibility for the work of the component auditor, the new standard increases auditor responsibilities (and their involvement with the component auditor) with respect to:

    - Significant components (either a component of individual financial significance or a component likely to include significant risks of material misstatement of the group financial statements)

      - When a component is deemed significant, the required audit procedures exceed those of the old standard. Additional procedures include requiring the group engagement team to be involved in the risk assessment of the component. The following diagram shows how the significance of the component affects the group engagement team’s determination of the type of work to be performed on the financial information of the component.

    - Subsequent events – the group engagement team is now required to request the component auditor notify them of any relevant subsequent events

    - Communications with the component auditor - additional communications are necessary

**Example(s)**

- A firm in one location uses resources from one of their firm’s other offices or from another firm to conduct an inventory observation in another location; or

- A firm audits consolidated financial statements for a parent company and its subsidiaries, one of which has engaged another external audit firm (a component auditor) to audit its separate financial statements.
### Auditor Considerations

- If the auditor of the group financial statements historically only obtained and reviewed the component auditor’s report to support the audit opinion, this clarified standard may result in additional procedures related to:
  - Acceptance and continuance considerations
  - The group engagement team’s process to assess risk
  - The determination of materiality to be used to audit the components and group financial statements
  - The selection of components and account balances for audit testing
  - Communications between the group engagement team and component auditors (including gaining an understanding of the component auditor)
  - Assessing how adequate and appropriate audit evidence is in forming an opinion on the financial statements

- The enhanced responsibilities of the auditor of the group financial statements with respect to a) significant components, and b) involvement with the component auditor when responsibility is assumed by the auditor of the group financial statements may require additional work and should be considered when managing audit scope, pricing and client expectations.

- If the principal auditor chooses to apply this standard when he/she involves another auditor to observe the inventory count or inspect fixed assets at a remote location, the additional work should be considered when managing scope, pricing and client expectations.

- The period of subsequent events when the component auditor may issue the report on the subsidiary prior to the group engagement team issuing the report on the parent company may cause some practical challenges in terms of communications as the group engagement team is assuming responsibility for the events that take place through the date of the group audit opinion. Timing should be coordinated between the group auditor and the component auditor for subsequent events information. Additional procedures may be required relating to subsequent events for the component that may take place between the date of the component auditor’s report and the date of the group auditor’s report.

- If the component is accounted for under the equity method, the component auditor may not be appointed by group management, which may present additional hurdles for the group auditor in being involved with or communicating with the component auditors.

- When developing audit scope, pricing and expectations, component auditors may take into consideration the additional communication requirements and increased involvement with the group engagement team. These changes may result in additional work, thereby impacting scope and fees.

### Client Considerations

- Manage client expectations and discuss potential additional costs or scope changes that may result from compliance with this standard.
The following diagram shows how the significance of the component affects the group engagement team’s determination of the type of work to be performed on the financial information of the component.

Is the component of individual financial significance to the group?  
(Ref: par. .52)  

- YES  
  Audit of the component’s financial information*  
  (Ref: par. .52)

- NO  
  Is the component likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances?  
  (Ref: par. .53)

- NO  
  Analytical procedures performed at group level for components that are not significant components  
  (Ref: par. .54)

- YES  
  Audit of the component’s financial information;* or audit of one or more account balances, classes of transactions, or disclosures relating to the likely significant risks; or specified audit procedures relating to the likely significant risks  
  (Ref: par. .53)

- NO  
  Is the planned scope such that sufficient appropriate audit evidence on which to base the group audit opinion can be obtained?  
  (Ref: par. .55)

- NO  
  Communication with component auditors  
  (Ref: par. .40)

- YES  
  For further selected components: Audit of the component’s financial information;* or audit of one or more account balances, classes, transactions, or disclosures; or review of the component’s financial information; or specified procedures  
  (Ref: par. .55)

* Adapted as necessary to meet the needs of the group engagement team using component materiality.