

**Exposure Draft
April 2020**

Comments due: October 2, 2020

International Standard on Auditing

**Proposed International Standard
on Auditing 600 (Revised)**

**Special Considerations—Audits
of Group Financial Statements
(Including the Work of
Component Auditors)**

and

**Proposed Conforming and
Consequential Amendments to
Other ISAs**

IAASB

**International Auditing
and Assurance
Standards Board**

About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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REQUEST FOR COMMENTS

This Exposure Draft, proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by October 2, 2020.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: www.iaasb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

CONTENTS

	Page
Introduction	5
Background	5
Coordination with Other IAASB Task Forces and IESBA	6
Section 1 Guide for Respondents	7
Section 2 Significant Matters	7
Section 2-A – Public Interest Issues Addressed in ED-600	7
Section 2-B – Linkages with Other Standards	10
Section 2-C – Separate Sections for Considerations When Component Auditors Are Involved	12
Section 2-D – Scope and Applicability of the Proposed Standard	13
Section 2-E – Acceptance and Continuance, Including Restrictions on Access to People and Information	16
Section 2-F – Planning and Performing a Group Audit Engagement	17
Section 2-G – Common Controls and Centralized Activities	23
Section 2-H – Materiality	24
Section 2-I – Documentation	26
Section 2-J – Other Matters	27
Section 3 Request for Comments	30
Exposure Draft	
Proposed International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)	33
Conforming and Consequential Amendments	88

Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600), which was approved for exposure by the IAASB in March 2020.

Background

2. In March 2009, the IAASB completed its Clarity Project, designed to improve the clarity and understandability of the ISAs and International Standard of Quality Control (ISQC). Shortly after the clarified ISAs became effective, the IAASB embarked on a post-implementation review, which was referred to as the “ISA Implementation Monitoring Project.” This project focused on obtaining input from a variety of different channels to learn about adoption and implementation issues related to the clarified ISAs. The findings from the post-implementation review are discussed in the 2013 publication, [Clarified International Standards on Auditing—Findings from the Post Implementation Review](#).
3. The findings from this review formed the basis for the [IAASB’s Strategy for 2015–2019](#) and the [IAASB Work Plan for 2015–2016](#). The IAASB agreed to focus on those areas from the ISA post-implementation review where key and important findings had indicated a need for priority consideration of changes to some aspects of the relevant ISAs. Accordingly, the IAASB included a project on ISA 600¹ and quality control in its 2015–2016 Work Plan.
4. As work commenced on the IAASB’s quality control and group audit standards, the working groups reflected on the issues identified through the post-implementation review of the clarified ISAs, inspection findings and ongoing outreach. The IAASB released the [Invitation to Comment](#) (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, in December 2015 to obtain stakeholder views on key issues regarding quality control, group audits, and professional skepticism. Respondents generally agreed that the IAASB should take action to address the issues presented in the ITC.
5. In December 2016, the IAASB approved a [project proposal](#) to revise ISA 600 and the quality control standards. The project proposal set out, as objectives for revising ISA 600, to strengthen the auditor’s approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs.
6. In September 2017, the IAASB noted that the revisions to ISA 600 are contingent upon the revisions being made to other foundational standards such as ISQC 1,² ISA 220³ and ISA 315 (Revised).⁴ As the IAASB had a number of priority projects on its agenda, coupled with finite staff resources and Board capacity, the IAASB decided that the ISA 600 Task Force would focus its efforts on further liaison with the task forces responsible for revisions to ISQC 1, ISA 220, and ISA 315 (Revised) before progressing the other

¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

³ ISA 220, *Quality Control for an Audit of Financial Statements*

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

aspects of the ISA 600 project any further (i.e., providing necessary input to assist in how revisions to those standards address foundational issues and requirements that would also have relevance to group audits).

7. In October 2017, the ISA 600 Task Force prepared a [project update](#) describing the issues under consideration in the revision of ISA 600, and the relationship of those issues to other projects that address other international standards, in particular, ISA 220 and ISQC 1.
8. Given the progress made on the quality management standards and ISA 315 (Revised), the IAASB decided to continue with the revisions to ISA 600 in January 2019.

Coordination with Other IAASB Task Forces and IESBA

9. As noted above, the revisions to ISA 600 are contingent upon the revisions being made to other foundational standards. Given that those standards were under revision at the time of developing ED-600, the ISA 600 Task Force has had ongoing liaison with the task forces responsible for the revisions of these standards. The ISA 600 Task Force also had discussions with representatives and Staff of the International Ethics Standards Board for Accountants (IESBA) on several key matters.

Quality Management Standards

10. To make sure that ED-600 is aligned with changes made in the quality management standards, the ISA 600 Task Force Chair and Staff participated in ongoing coordination calls with the Chairs and Staff of the Quality Management Task Forces. In these calls, the Chairs and Staff of the ISQM 1,⁵ ISQM 2,⁶ ISA 220 and ISA 600 Task Forces discussed matters of mutual interest. In addition, the ISA 600 Task Force coordinated with the ISQM 1 and ISQM 2 Task Forces on certain matters to align the concepts and wording in those quality management standards with the wording in some of the requirements and application material of ED-600.
11. Given the close relationship between proposed ISA 220 (Revised)⁷ and ED-600, the ISA 600 and ISA 220 Task Forces made sure there is appropriate linkage between the two standards, i.e., that the requirements and application material in ED-600 build on, and are consistent with, the principles and requirements in proposed ISA 220 (Revised). Among other matters, the Task Forces discussed the practical application and resulting effects of the revised definition of the engagement team and the responsibilities of the engagement partner (see paragraphs 18–20 below).

ISA 315 (Revised 2019)⁸

12. As a foundational standard, the ISA 600 Task Force made sure that the requirements and application material in ED-600 are consistent with the revisions in ISA 315 (Revised 2019). The Task Force focused on the special considerations relating to identifying and assessing the risks of material misstatement in an audit of group financial statements.

⁵ Proposed International Standard on Quality Management (ISQM) 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁶ Proposed ISQM 2, *Engagement Quality Reviews*

⁷ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

⁸ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

IESBA

13. The ISA 600 Task Force liaised with IESBA representatives and Staff to ensure that ED-600 is aligned with the IESBA’s *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). Matters discussed included the proposed revisions to the definition of engagement team, IESBA’s Engagement Team – Group Audits Independence project,⁹ and the paragraphs in ED-600 related to non-compliance with laws and regulations.

Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-600, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-600, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not stated.

Section 2 Significant Matters

Section 2-A – Public Interest Issues Addressed in ED-600

14. The table below sets out the key public interest issues identified by the IAASB and how they have been addressed in ED-600.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<p>Keeping the IAASB’s standard on group audits fit for purpose</p>	<p><i>Scope of the Standard</i></p> <p>Clarified the scope of the standard, through the introductory paragraphs and definitions and related application material, including whether, and how, ED-600 applies for:</p> <ul style="list-style-type: none"> • Shared service centers; • Entities with branches and divisions; and • Non-controlled entities, including equity-accounted investees and investments carried at cost. 	<p>Paragraphs 2, 3 9(b), 9(k), and 11.</p>

⁹ The objectives of IESBA’s Engagement Team – Group Audits Independence project are to (i) align the definition of the term “engagement team” in the IESBA Code with the revised definition of the same term in proposed ISA 220 (Revised) and (ii) revise the IIS so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
	<p><i>Linkages with Other Standards</i></p> <p>Clarified and reinforced in ED-600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.¹⁰</p>	<p>Paragraphs 1, 12, 15, 18, 20, 21, 23, 24, 27, 28, 29, 31, 33, 47, 49, 53, 56 and 57.</p>
	<p><i>Adaptability and Scalability</i></p> <p>Introduced a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:</p> <ul style="list-style-type: none"> • Focusing the group engagement team’s attention on identifying, assessing and responding to the risks of material misstatement; and • Including separate sections throughout ED-600 to highlight the requirements and application material for circumstances when component auditors are involved. 	<p>Paragraphs 3, 4, 9(b), 24, 31 and 33.</p> <p>Separate sections in ED-600 for circumstances when component auditors are involved.</p>
	<p><i>Documentation</i></p> <p>Enhanced the documentation requirements and included application material to emphasize the linkage to the requirements in ISA 230¹¹ and to clarify what the group engagement team may need to document in different situations, including when there are restrictions on access to component auditor documentation.</p>	<p>Paragraph 57</p>

¹⁰ ISA 330, *The Auditor’s Responses to Assessed Risks*

¹¹ ISA 230, *Audit Documentation*

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
Encouraging proactive management of quality at the engagement level	<p><i>Managing and Achieving Quality in a Group Audit</i></p> <p>Clarified how the requirements in proposed ISA 220 (Revised) apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work.</p> <p>Throughout ED-600, separate sections are included for circumstances when component auditors are involved.</p>	<p>Paragraphs 6, 12, 18, 20, 21 and 23.</p>
	<p><i>Planning and Performing a Group Audit Engagement</i></p> <p>Focused the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements, and emphasized the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.</p>	<p>Paragraphs 3, 4, 24, 31, 33, 34, 35, and 36.</p>
	<p><i>Restrictions on Access to People and Information</i></p> <p>Clarified how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.¹²</p>	<p>Paragraphs 16 and 17.</p>
	<p><i>Component Materiality</i></p> <p>Clarified how the concepts of materiality and aggregation risk apply in a group audit.</p>	<p>Paragraphs 9(a), 9(e) and 29.</p>

¹² The IAASB recognizes that ED-600 cannot enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<p>Fostering an appropriately independent and challenging skeptical mindset of the auditor</p>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasized the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> • Determining the direction, supervision and review of the component auditor’s work; and • The group engagement team’s evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for forming an opinion on the group financial statements. 	<p>Paragraphs 4, 5, 13, 23, 44, 45, 46, 49, 50 and 51.</p>
<p>Reinforcing the need for robust communication and interactions during the audit</p>	<p><i>Robust Communications and Interactions Between the Group Engagement Team / Group Engagement Partner and Component Auditors</i></p> <p>Strengthened and clarified the application of proposed ISA 220 (Revised) in a group audit, including:</p> <ul style="list-style-type: none"> • Communications between the group engagement team and component auditors, emphasizing the importance of two-way communications. • Various aspects of the group engagement team’s interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group engagement team in the work of the component auditor. <p>Throughout ED-600, separate sections are included for circumstances when component auditors are involved.</p>	<p>Paragraphs 4, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 30, 32, 37, 38, 39, 40, 41, 43, 44, 45 46 and 48.</p>

Section 2-B – Linkages with Other Standards

15. Many respondents to the ITC supported clarifying and reinforcing that all ISAs, when applicable, need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330. In its deliberations, the IAASB has focused on the unique aspects of a group audit engagement and the need to clearly articulate how the requirements in ED-600 build on requirements in the foundational standards. The IAASB was of the view that ED-600’s requirements and application material should address special

considerations related to group audits and, therefore, should not repeat the requirements and application material in other ISAs.

16. To clarify the linkages with other standards and to clarify that all ISAs apply to an audit of group financial statements, the IAASB decided to:
 - Clarify that the ISAs apply to an audit of group financial statements, that ED-600 deals with special considerations in an audit of group financial statements and that the requirements and application material in ED-600 refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (see paragraph 1 of ED-600). Application material was added clarifying the linkage with proposed ISA 220 (Revised), proposed ISQM 1 and proposed ISQM 2.¹³
 - When applicable, included a reference to the foundational standard in the requirement or application material. In such cases the following construct is used: 'In applying ISA ...'
17. Paragraph 6 of ED-600 explains that when a requirement or responsibility has to be fulfilled by the group engagement partner or the group engagement team, the term "the group engagement partner shall ..." or "the group engagement team shall ..." is used. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term "the group engagement partner shall take responsibility for..." or "the group engagement team shall take responsibility for..." is used. Paragraph 6 of ED-600 is modeled after a similar paragraph in proposed ISA 220 (Revised).

Proposed ISA 220 (Revised)

18. As noted in paragraphs 6 above, the IAASB is also revising ISA 220. Proposed ISA 220 (Revised) contains, among other matters, enhanced and revised requirements and application material to clarify the role and responsibilities of the engagement partner, particularly the sufficient and appropriate involvement of the engagement partner throughout the audit, and to retain the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level.
19. The IAASB considered the special considerations in applying ISA 220 (Revised) to audits of group financial statements and identified the following:
 - Definition of the engagement team. Proposed ISA 220 (Revised) includes a revised definition of engagement team. This revised definition includes individuals who perform audit procedures on the engagement, which would include component auditors in the case of a group audit. As noted in paragraph 11 above, the ISA 220 and ISA 600 Task Forces and IESBA's Staff and representatives have liaised on the revised definition. When ED-600 refers to the engagement team, it includes the group engagement team and all component auditors. Paragraphs 9(c) and 9(j) of ED-600 define component auditor and the group engagement team, respectively.

¹³ ED-600 is based on the versions of proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised) as presented to the IAASB in March 2020 <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-2>. The IAASB targets the planned approval of these proposed standards in its September 2020 meeting. Subsequent versions of proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised) will be posted on the projects' meeting pages: <https://www.iaasb.org/consultations-projects/work-plan>.

- Leadership responsibilities for managing and achieving quality on a group audit. To highlight the importance of sufficient and appropriate involvement of the group engagement partner throughout the group audit, the IAASB determined that it was appropriate to add a requirement early in ED-600 (see paragraph 12 of ED-600).
 - Being able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence (see paragraph 18 of ED-600);
 - With respect to relevant ethical requirements (see paragraph 20 of ED-600):
 - Determining that component auditors have been made aware of relevant ethical requirements;
 - Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement; and
 - Obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement have been fulfilled;
 - With respect to engagement resources (see paragraph 21 of ED-600):
 - Determining that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and
 - Determining the relevance to the group audit of information that has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, and the effect of such information on the group audit; and
 - With respect to engagement performance, establishing that the group engagement partner takes responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work (see paragraph 23 of ED-600).
20. The IAASB included comprehensive application material that supports the special considerations as set out in paragraph 19 above.

Section 2-C – Separate Sections for Considerations When Component Auditors Are Involved

21. In the development of ED-600, the IAASB considered the most appropriate placement for the requirements related to the involvement of component auditors. The IAASB discussed having all such requirements in a separate section or placing them throughout the proposed standard based on the nature of component auditor involvement at various phases of the group audit. In its deliberations, the IAASB noted several advantages of including a sub-section in each section of the standard that describes the requirements that apply when component auditors are involved.
22. The IAASB believes the advantages of this approach are that it:
- Helps to emphasize and clarify the interactions that are needed between the group engagement team and the component auditors throughout the different phases of the group audit.
 - Makes it clear that when component auditors are involved, they are an integral part of the engagement team.

- Provides scalability for circumstances where the group engagement team does not involve component auditors by making it easier to identify which requirements apply and which do not.

Section 2-D – Scope and Applicability of the Proposed Standard

23. Respondents to the ITC expressed various concerns about the scope and applicability of extant ISA 600, including asking for greater clarity about whether, and how, extant ISA 600 applies in certain circumstances. A number of concerns relating to group audits also were highlighted by regulators and audit oversight bodies, including concerns about interpretations as to when extant ISA 600 does or does not apply.
24. Extant ISA 600 applies to audits of group financial statements, consistent with the title of the standard. In its deliberations on ED-600, the IAASB considered the input from respondents to the ITC and concluded that ED-600 should apply when the auditor is engaged to perform an audit of group financial statements, regardless of whether component auditors are involved. In addition, the IAASB determined that a consolidation process also was fundamental to the definition of group financial statements (see paragraphs 25–31 below). The IAASB also acknowledged that an ‘entry point’ into ED-600 that focused on the definition of group financial statements would necessitate a reconsideration of the definition of a component (see paragraphs 32–36 below).

Group Financial Statements

25. The IAASB has included paragraph 2 in ED-600 to highlight that the proposed standard applies when the auditor has been engaged to audit group financial statements, which are defined in paragraph 9(k) of ED-600. This definition retains the notion that group financial statements include the financial information of more than one entity or business unit, similar to the notion in the extant ISA 600 definition of a group that a group always has more than one component.
26. The IAASB recognizes that the reference to ‘entities or business units’ in the definition of group financial statements may be viewed as somewhat broad, and that management may use other terms to describe the various economic units or business activities within the group. However, for purposes of ED-600, the IAASB believes that ‘entities or business units’ will be sufficiently understood because similar terms are used in extant ISA 600 and are commonly used in practice today (also see paragraph 28 below). Additional guidance could be provided as part of the implementation support materials (for example, in a frequently asked questions (FAQs) document) when the final standard is issued (see further discussion of implementation support activities in paragraphs 99-100 below).

Consolidation Process

27. The definition of group financial statements in ED-600 includes the term ‘consolidation process.’ Given the importance of the term to the definition of group financial statements, and therefore the scope of ED-600 as described in paragraph 24 above, the IAASB has enhanced the description of consolidation process in paragraph 11 of ED-600 to include a reference to:
 - A consolidation process being ‘in accordance with the requirements of the applicable financial reporting framework’ with respect to the recognition, measurement, presentation and disclosure, of financial information of entities or business units in the group financial statements. The IAASB determined that this reference was needed because it is the requirements of the applicable financial reporting framework that management follows in preparing the group financial statements; and

- The aggregation of the financial information of branches or divisions (see paragraphs 28–29 below).
28. As indicated in paragraph 3 of ED-600, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions) or business activities, which are collectively referred to as entities or business units in ED-600. The IAASB noted that paragraph A2 of extant ISA 600 contemplates a group for which management aggregates the financial information of branches or divisions in preparing financial statements. Therefore, as described in paragraph A17 of ED-600, when branches or divisions of a single entity are aggregated for purposes of preparing the financial statements, including the elimination of interbranch or interdivisional transactions and balances, such aggregation is nearly indistinguishable from a consolidation of other entities in accordance with the requirements of the applicable financial reporting framework. In addition, consistent with paragraph 10(b) of extant ISA 600, a combination of entities or business units under common control continues to be included in the description of a consolidation process in ED-600.
29. With respect to branches or divisions, paragraph A17 of ED-600 recognizes that, in some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, paragraph A17 of ED-600 explains that, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11 of ED-600, the financial statements do not represent group financial statements and ED-600 does not apply.
30. The IAASB has added application material (see paragraphs A16 and A18 of ED-600) to further explain the consolidation process and indicate that the requirements of the applicable financial reporting framework may affect the determination of the financial information of entities or business units to be included in the group financial statements. The IAASB believes that this application material will be helpful in determining whether ED-600 would apply in a particular situation.
31. The IAASB has proposed these changes to the description of a consolidation process and the related application material to:
- Acknowledge the many different group structures in use today, as described in paragraph 3 of ED-600, and to provide terminology and guidance that is flexible enough to apply to evolving group structures; and
 - Provide a principles-based approach to the consideration of the different circumstances in which ED-600 would apply.

Relationship Between the Definitions of Group Financial Statements and Component

32. In the ITC, the IAASB noted that some stakeholders viewed the interaction of the requirements, definitions and application material in extant ISA 600 as limiting its flexibility. The IAASB therefore discussed the need for clarity about when ED-600 would apply (i.e., the ‘entry point’) and, when the revised standard applies, how group engagement teams may consider the structure of the group for purposes of planning and performing the group audit. The IAASB determined that clarity could be provided by revising the definitions of ‘group financial statements’ and ‘component,’ and describing the relationship between them.

33. The IAASB determined that it would be helpful for the definition of group financial statements (see paragraph 9(k) of ED-600) to focus on the various entities or business units comprising the group, and that would be included in the consolidation process.
34. The IAASB also concluded that ED-600 should acknowledge that a group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how management views the entities or business units comprising the group. In this regard, the IAASB understands that in practice many group engagement teams consider the group structure as a starting point, but the approach to the group audit may or may not align with that structure due to, for example, the use of shared service centers or the processing of various aspects of a class of transactions at different locations.
35. Accordingly, the IAASB has included a revised definition of a component in paragraph 9(b) of ED-600 that reflects the 'auditor's view' for purposes of planning and performing the group audit. The use of the terms 'location, function or activity' in this definition is intended to be flexible enough to cover the many ways in which the group engagement team might view the group structure in designing the most effective and efficient approach to planning and performing the group audit. In some circumstances, the group engagement team may approach the group audit by focusing on the way the entity is structured and organized (for example, according to its legal structure). Alternatively, the group engagement team may decide to approach the group audit by focusing on a combination of locations, functions or activities (for example, because of the structure of the group's information system with respect to the processing of transactions or the design and implementation of the system of internal control). Irrespective of the approach used, the group engagement team's consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group (see paragraph A12 of ED-600).
36. The IAASB has added paragraph 3 in ED-600 to clarify in the Scope section of the proposed standard that the way in which a group is organized, and the way in which management views the entities or business units comprising the group, may be different from the way in which the group engagement team plans and performs audit procedures for the group audit. The IAASB also has included application material (see paragraphs A4-A6 of ED-600) to further clarify this point and to include an example of how this may be applied in practice. Paragraphs A4 and A12 of ED-600 indicate that the group engagement team uses professional judgment in determining the components for which audit procedures will be performed.

Scalability Considerations

37. The IAASB notes that many audit engagements are subject to extant ISA 600 given that, as currently defined, a group always has more than one component. However, some concerns may exist about the application of ED-600 to smaller, less complex groups comprised of only a small number of entities or business units.
38. The IAASB notes that such engagements are nonetheless required to apply the requirements of the key underlying ISAs, including the enhanced risk assessment in ISA 315 (Revised 2019) and the focus on direction, supervision and review in proposed ISA 220 (Revised). In addition, for some of these engagements, the group engagement team may itself be able to perform the procedures necessary to identify, assess and respond to the risks of material misstatement of the group financial statements, without the need to involve component auditors. In these situations, the use of separate

sections in ED-600 to highlight the requirements that are applicable when component auditors are involved provides inherent scalability, as such requirements would not be relevant in the circumstances.

Section 2-E – Acceptance and Continuance, Including Restrictions on Access to People and Information

Background

39. The ITC noted that some inspection findings identified situations where auditors gave inadequate consideration to certain matters that may be relevant to the decision about whether to accept or continue a group audit engagement. Examples of matters that may not be adequately considered at the acceptance and continuation phase include:
- The ability to access people or information at the components; and
 - The ability to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
40. In response to the issues identified in the ITC and the proposed revisions to ISA 220, the IAASB enhanced the Acceptance and Continuance section of ED-600. For the changes made to the Acceptance and Continuance Section to align with proposed ISA 220 (Revised), see paragraphs 18-20 above.

Sufficient Appropriate Audit Evidence

41. When the group engagement partner makes a decision to accept a new group audit engagement, or continue with an existing engagement, extant ISA 600 requires that, in applying ISA 220, the group engagement partner determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. Extant ISA 600, also notes that for this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to identify components that are likely to be significant components.
42. The IAASB is of the view that this requirement is still relevant and that it is the overarching requirement for the Acceptance and Continuance section. However, given the new approach to planning and performing a group audit engagement (see section 2-F below), the reference to significant components has been removed and the IAASB added a requirement for the group engagement partner to make a preliminary determination about whether to involve component auditors (see paragraph 13 of ED-600). The IAASB also added a requirement and application material for situations when, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained. In such cases, the group engagement partner shall consider the possible effects on the group audit (see paragraph 14 of ED-600).

Restrictions on Access to People and Information

43. In its deliberations, the IAASB noted that there are several different types of access issues that may occur in a group audit. The different types of access issues require a different approach from the group engagement team, and it is therefore important to differentiate among them. The IAASB recognized that ED-600 can help address these issues through application material describing ways

to overcome restrictions on access to people or information, but cannot enforce access to people and information.

44. Therefore, the IAASB decided to differentiate between restrictions on access to information and people that are outside the control of group management (see paragraph 16 of ED-600) and those that are imposed by group management (see paragraph 17 of ED-600).
45. Respondents to the ITC and input from outreach with other stakeholders indicated that application material was needed on how the group engagement team may be able to overcome various access issues. Matters noted included when the group has a non-controlling interest in an entity that is accounted for by the equity method and group management and the group engagement team do not have access to component management, those charged with governance of the component, or the component auditor.
46. In response to these comments, the application material in ED-600 includes application material on the following matters:
 - Paragraph A27 of ED-600 explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.
 - Paragraph A28 of ED-600 highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The IAASB purposely kept this application material at a high-level and only included a few examples to avoid the perception that all restrictions are listed in this paragraph.
 - Paragraph A29 of ED-600 explains how the group engagement team may overcome possible restrictions in various situations. Given the interest of stakeholders on this topic, the IAASB included several examples, including on access restrictions related to equity-accounted investments. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the auditor that was appointed by the component.
 - Paragraph A30 of ED-600 focuses on the effects when it is not possible to overcome restrictions on access to people and information. This paragraph highlights that, in such circumstances, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may then communicate with regulators, listing authorities or others about the restrictions.

Section 2-F – Planning and Performing a Group Audit Engagement

47. The ITC included the IAASB's initial views on how to enhance the planning and performance of a group audit engagement. It was noted that planning a group audit based on the identification of components (and identification of those components that are significant) may not always result in appropriate involvement of the group engagement team in the assessment of the risks of material misstatement at the group financial statement level, and the design and performance of appropriate responses to those

risks. The ITC included several suggestions about how to enhance extant ISA 600, which were generally supported by respondents to the ITC.

48. Given this support, the IAASB continued to develop a new approach for planning and performing a group audit engagement. The new approach is referred to as the risk-based approach, and in developing this approach the IAASB had the following objectives:
- Greater alignment with the requirements in ISA 315 (Revised 2019) and ISA 330;
 - A greater focus on the group engagement team's responsibility, with the assistance of component auditors as needed, to:
 - Identify and assess the risks of material misstatement at the group financial statement level and assertion level for the group financial statements, and
 - Design and perform further audit procedures, in accordance with ISA 330; and
 - A greater focus on planning an appropriate approach to obtaining sufficient appropriate audit evidence (i.e., not just defaulting to "an audit" of the component financial information). The group engagement team's focus should be on whether and how the assessed risks of material misstatement of the group financial statements are addressed through work performed at the group level by the group engagement team or through work performed on components, including by component auditors.

Risk-Based Approach for a Group Audit Engagement

49. ISA 315 (Revised 2019) requires the auditor to understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and to identify and assess the risks of material misstatement. ISA 330 requires the auditor to design and implement responses to address the assessed risks. In a group audit, the group engagement team may not be able to do this by itself and therefore may need to involve component auditors.
50. The risk-based approach for a group audit can be characterized as thinking about what, how and by whom and where, work is to be performed, for example:
- What – determining significant classes of transactions, account balances or disclosures in the group financial statements to identify and assess risks of material misstatement of the group financial statements at the assertion level;
 - How – determining the most appropriate audit strategy (e.g., centralized or decentralized testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and
 - By whom and where – determining whether the group engagement team or component auditors will obtain the audit evidence, and where procedures need to be performed to obtain audit evidence based on the group engagement team's view of the group structure, in response to the assessed risks of material misstatement.
51. ED-600 includes a new appendix (see Appendix 1 to ED-600) that describes the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit. This appendix highlights that the involvement of component auditors is an iterative process. For example, before accepting or continuing the engagement, the group engagement team makes a preliminary determination whether component auditors will be involved

in the group audit and the group engagement team may change that determination at a later stage based on the information obtained.

52. When component auditors are involved, the group engagement team remains responsible for the identification, assessment and responses to the risks of material misstatement of the group financial statements. The group engagement team therefore needs to direct and supervise the work performed by component auditors and review their work. The nature, timing and extent of the direction, supervision and review, including two-way communication between the group engagement team and the component auditor, depends on the facts and circumstances of the engagement.
53. Paragraphs 54 – 65 below explain how the risk-based approach is applied throughout the different phases of the group audit.

Obtaining an Understanding of the Group and Its Environment and the Group's System of Internal Control

54. The foundation of the risk-based approach is the group engagement team's understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control. Special considerations in applying ISA 315 (Revised 2019) to an audit of group financial statements (see paragraph 24 of ED-600) primarily relate to, and are focused on, the additional complexities faced by a group engagement team when auditing a group, for example:
 - With respect to the group and its environment, obtaining an understanding is often more complex due to the wide variety of group structures and businesses that may exist across multiple geographical locations or jurisdictions. The way the group is managed may also add complexities, particularly if there are multiple lines of business, which may be in different industries (e.g., a captive insurance company for a manufacturing entity).
 - With respect to the applicable financial reporting framework, there may be different accounting policies and practices across the entities or business units that comprise the group.
 - With respect to the group's system of internal control, there:
 - May be controls that operate in a common manner across multiple entities or business units – see Common Controls and Centralized Activities Section below.
 - May be centralized activities relevant to financial reporting (e.g., in a shared service center) – see Common Controls and Centralized Activities Section below.
 - Is a consolidation process, which likely requires additional audit effort when the consolidation process is more complex due to a significant amount of intercompany transactions or elimination entries, or when the group uses consolidation software that interfaces with multiple general ledger systems from different entities or business units.
55. When the group engagement team involves component auditors by assigning the design and performance of risk assessment procedures, the group engagement team considers the results of those procedures in identifying and assessing risks of material misstatement (see paragraph 25 of ED-600). The group engagement team also communicates with component auditors matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements (see paragraph 26 of ED-600).

Identifying and Assessing Risks of Material Misstatement

56. The IAASB is of the view that the risk-based approach in ED-600 better focuses the group engagement team on determining the significant classes of transactions, account balances and disclosures in the group financial statements, and on identifying and assessing the related risks of material misstatement of the group financial statements, compared to a focus on significant components in extant ISA 600. The approach also more closely aligns with the principles in ISA 315 (Revised 2019).
57. Under the risk-based approach, the group engagement team takes responsibility for the identification and the assessment of the risks of material misstatement (see paragraph 31 of ED-600). When the group engagement team involves component auditors in the risk assessment procedures or identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team is required to consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements (see paragraph 32 of ED-600).

Responding to the Assessed Risks of Material Misstatement

58. After the group engagement team has assessed the risks of material misstatement of the group financial statements, with the assistance of component auditors as needed, the group engagement team determines the most appropriate strategy to obtain sufficient appropriate audit evidence, and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement in accordance with ISA 330.
59. The group engagement team may decide to use different approaches, or a combination of approaches, to gather audit evidence about classes of transactions, account balances and disclosures, including deciding where further audit procedures need to be performed (at which components) and who will perform the further audit procedures (the group engagement team, component auditors or a combination) to address the assessed risks of material misstatement.
60. When the group engagement team assigns the design and performance of further audit procedures to component auditors, the group engagement team communicates with component auditors matters that are relevant for this purpose. The group engagement team may request the component auditor to:
 - Design and perform further audit procedures on the entire financial information of the component;
 - Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
 - Perform specific further audit procedures as identified and communicated by the group engagement team.
61. When the group engagement team requests the component auditor to perform further audit procedures on the entire financial information of the component, or design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, the group engagement team may request the component auditor to assist in determining the nature, timing and extent of further audit procedures to be performed. The group engagement team may do so because component auditors may have a more in-depth knowledge of the component or, for larger group audits, it may not be practical for the group engagement team to determine the nature, timing and

extent of further audit procedures to be performed. Furthermore, the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component (see paragraphs A98 and A100).

62. When component auditors assist the group engagement team in the design and performance of further audit procedures, the group engagement team remains responsible for the nature, timing and extent of further audit procedures to be performed (see paragraph 33 of ED-600).
63. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of the further audit procedures performed by component auditors (see paragraph 38 of ED-600).

Fraud, Going Concern and Related Parties

64. Extant ISA 600 requires the group engagement team, or a component auditor on its behalf, to perform an audit of the financial information of the component in certain circumstances. When an audit of the financial information of a component is performed by a component auditor, the component auditor is responsible for the identification, assessment and response to risks of material misstatement at the component, including with respect to fraud, going concern and related parties.
65. The IAASB added requirements and application material related to understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control and responding to the assessed risks of material misstatement (see paragraphs 27, 28, 41, A72 and A80 of ED-600) to clarify the responsibilities related to fraud, going concern and related parties under the risk-based approach when component auditors are involved.

Key Similarities and Enhancements

66. The IAASB realizes that the risk-based approach to planning and performing a group audit has a different focus than the approach in extant ISA 600 and that the changes may have a significant impact on practice. Given the wide variation in the structure of group entities, the IAASB also recognizes that many group engagement teams already focus on identifying and assessing risks at the group level and determining that the planned scope of work appropriately responds to those risks. The following table sets out some key similarities between extant ISA 600 and ED-600 and enhancements in ED-600:

Similarities	Enhancements
The objective remains to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements.	Focus on identifying and assessing risks of material misstatement of the group financial statements and determining that the planned scope of work appropriately responds to those assessed risks, rather than the current approach whereby the scope of the work is driven primarily by the identification of components and determination of their significance.

Understanding the group and its environment remains a fundamental part of the standard.	Greater focus on the group engagement team's responsibility, with the assistance of component auditors as needed, to obtain an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control, and to identify, assess and respond to the risks of material misstatement.
The involvement of component auditors remains a key aspect of group audits, recognizing that component auditors can be, and often are, involved in all phases of a group audit engagement.	Greater focus on the group engagement team's involvement in the work of component auditors and the group engagement partner's responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work.

Communications Between the Group Engagement Team and Component Auditors

67. In the ITC, it was noted that the communication requirements in extant ISA 600 are not specific enough to result in sufficient and appropriate communication between component auditors and the group engagement team during the planning and performance of the group audit. Given this and the importance of two-way communications between the group engagement team and component auditors, the IAASB determined that it was appropriate to include a requirement for the group engagement team to communicate with component auditors about the component auditor's responsibilities and the group engagement team's expectations (see paragraph 43 of ED-600). These communications need to take place at the appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. ED-600 also includes a list of matters that component auditors should communicate to the group engagement team (see paragraph 44 of ED-600)
68. The IAASB also included application material, using the application material in ISA 260 (Revised)¹⁴ as a basis, to provide further explanation about timely communications in the context of a group audit. For example:
- Paragraphs A106 and A107 of ED-600 describe factors that may contribute to effective two-way communication.
 - Paragraphs A108 and A109 of ED-600 provide guidance on the form of communications, including factors that may influence the form of communication; and
 - Paragraph A110 of ED-600 describes the appropriate timing for communications.
69. Paragraph A111 of ED-600 was added in response to the issue identified in, and comments from respondents to, the ITC with respect to communications about non-compliance or suspected non-compliance with laws and regulations.

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

Section 2-G – Common Controls and Centralized Activities

70. Extant ISA 600 includes the concept of group-wide controls, which were defined as: ‘*Controls designed, implemented and maintained by group management over group financial reporting.*’ The IAASB noted that some auditors interpret the definition as being:
- Controls over group financial reporting, including consolidation; or
 - Controls over processes that are the same across the group or a part of the group (e.g., controls that are intended to operate in a common manner across multiple entities or business units).
71. The IAASB also discussed the role that group-wide controls play in responding to assessed risks of material misstatement and noted that auditors sometimes place undue reliance on these controls, for example:
- Relying on group-wide controls without testing them.
 - Relying on group-wide controls when the extent of the testing of those controls has not resulted in sufficient appropriate audit evidence (e.g., to reduce the extent of substantive procedures). For example, the group engagement team may have tested group-wide controls without obtaining a sufficient understanding about how the controls are designed and implemented throughout the group in addressing risks of material misstatement.
 - Relying on group-wide controls that are not sufficiently precise (i.e., not designed in a way that is responsive to an assessed risk of material misstatement).
72. Given the matters noted above, the IAASB decided not to refer to group-wide controls in ED-600 and to address controls in a group audit more broadly. Even though ED-600 does not include the concept of group-wide controls, much of the related application material in extant ISA 600 has been retained. For example, Appendix 3 includes examples of controls that may be helpful in obtaining an understanding of the group’s system of internal control in a group environment and particularly focuses on controls over group financial reporting, including controls over the consolidation process.
73. In addition, the IAASB included application material on the following special considerations:
- Commonality of controls (see paragraphs A59–A63 of ED-600); and
 - Centralized activities relevant to financial reporting (see paragraphs A64–A65 of ED-600).

Commonality of Controls

74. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management that operate using the same IT system and that are implemented across all entities or business units in the group. ED-600 therefore includes application material:
- Explaining why obtaining an understanding of common controls may be important;
 - On how the group engagement team may determine the commonality of a control across the group;
 - Highlighting that judgment is often needed to determine whether a control is common or not.

Centralized Activities

75. In some group structures, centralized activities may have been established that process information or perform other activities for multiples entities or business units within the group. For example, financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units.
76. The IAASB decided to use the broader term ‘centralized activities’ to reflect comments that centralized activities may be performed at a shared service center, but also in an entity or business unit that may not be considered a shared service center. In addition, the IAASB was of the view that, given the wide variety of group structures and the continuous evolvement of these structures, it is better to use a broader term to ensure the standard remains fit for purpose.
77. In planning and performing a group audit engagement, the group engagement team may facilitate the coordination of audit procedures at a centralized location or activity that are sufficient to provide the audit evidence necessary to support both the group audit and the audits of other entities within the group. In addition, there may be circumstances when audit evidence obtained at a centralized location or activity is necessary to enable a component auditor to perform and conclude on further audit procedures assigned to the component auditor by the group engagement team. The IAASB is aware that these practical considerations are common in group audits today but notes that such considerations are not directly relevant to the group engagement team’s objective of obtaining sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. The IAASB proposes to develop FAQs to acknowledge these circumstances as part of the implementation support materials.

Section 2-H – Materiality

78. Respondents to the ITC, across a range of respondent groups, called for more guidance on applying the concepts of component materiality and component performance materiality in a group audit, in particular in relation to the concept of aggregation risk. Regulators in particular noted that the concept of aggregation risk is not clearly defined in the standards and not well understood, and therefore it will be important to address aggregation risk and provide guidance for group engagement teams on component materiality considerations in ED-600.

Aggregation Risk

79. Extant ISA 600 does not define aggregation risk. However, paragraph A43 of extant ISA 600 describes aggregation risk as follows, consistent with ISA 320:¹⁵

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 lower than materiality for the group financial statements as a whole. Different component materiality may be established for different components. Component materiality need not be an arithmetical portion of the materiality for the group financial statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed the materiality for the group financial statements as a whole.

¹⁵ ISA 320, *Materiality in Planning and Performing an Audit*

80. Given the calls for greater clarity about this concept, the IAASB has added a definition of aggregation risk in ED-600 (see paragraph 9(a) of ED-600). Paragraph A11 of ED-600 indicates that 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 that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Therefore, broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.

Component Performance Materiality

81. In accordance with ISA 320, performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole (i.e., to address aggregation risk). The group engagement team sets performance materiality at the group financial statement level (i.e., group performance materiality), but also needs to determine a materiality amount for purposes of performing procedures on disaggregated component financial information.
82. The terms 'component materiality' and 'component performance materiality' are both used in extant ISA 600. Under the risk-based approach in ED-600, there is neither a requirement for the group engagement team to identify significant components, nor a requirement for an audit of those significant components. Rather, the group engagement team determines an appropriate approach to obtain sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements, which may and often will involve audit procedures being performed at the component level.
83. Given the risk-based approach in ED-600, the IAASB determined that the materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit is most appropriately referred to as 'component performance materiality' and has included a definition of that term (see paragraph 9(e) of ED-600).
84. The group engagement team determines component performance materiality for each component at which audit procedures are to be performed and communicates that amount to component auditors when they are involved in planning and performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). The IAASB also added application material (see paragraph A75 of ED-600) to describe the factors the group engagement team may take into account in setting component performance materiality. Importantly, these factors focus on matters that affect aggregation risk, i.e., the extent of disaggregation across components, and expectations about the nature, frequency and magnitude of misstatements in component financial information.

'Clearly Trivial' Threshold

85. Paragraph 21(d) of extant ISA 600 requires the group engagement team to determine the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. ED-600 continues to require the group engagement team to determine this threshold and communicate it to component auditors when they are involved in planning or performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). In addition, to address issues identified by regulators and audit oversight bodies, this threshold cannot exceed the threshold established at the group level (see paragraph 29(b) of ED-600).

Section 2-I – Documentation

86. The IAASB noted the issues identified in the ITC with respect to documentation for group audit engagements, along with the comments and suggestions provided by respondents to the ITC. In its deliberations, the IAASB discussed the need in particular for additional guidance on:
- Documentation of significant matters related to restrictions on access to people or information, and how such matters were addressed;
 - Documentation needed to evidence the nature, timing and extent of the group engagement team's direction and supervision of the component auditors, and the review of their work; and
 - Component auditor documentation that may need to be included in the group engagement team's file.
87. Based on its discussions and input from stakeholders, the IAASB has enhanced the documentation requirements (see paragraph 57 of ED-600). Importantly, the IAASB noted that, as for any audit engagement, the audit documentation for a group audit is subject to the requirements in ISA 230. The IAASB also noted that the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.
88. Paragraph 50(a) of extant ISA 600 requires the group engagement team's audit documentation to include an analysis of components, indicating those that are significant, and the type of work to be performed on the financial information of the components. Because ED-600 no longer has a requirement to identify significant components, the extant requirement has been replaced with a requirement to document the group engagement team's determination of components for purposes of planning and performing the group audit (see paragraph 57(b) of ED-600). Also see the discussion about the group engagement team's determination of components in paragraphs 35-36 above.
89. Paragraph 50(b) of extant ISA 600 requires documentation of the nature, timing and extent of involvement in the work performed by component auditors. The IAASB has revised this requirement (see paragraph 57(d) of ED-600) to focus on the group engagement team's direction, supervision and review of component auditors, consistent with other changes throughout ED-600 to align with the principles and requirements in proposed ISA 220 (Revised).
90. In response to requests for additional guidance on documentation, the IAASB has expanded the application material. In developing the revised application material, the IAASB noted that the group engagement team has a responsibility to determine that the documentation for the group audit engagement meets the requirements of ISA 230.
91. The IAASB also discussed whether guidance could be provided regarding component auditor documentation that may need to be included in the group engagement team's audit file. Paragraph 57(e) of ED-600 requires the audit documentation to include matters related to communication with component auditors, including the matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 44 of ED-600. Beyond the matters already addressed in paragraph 57(e) of ED-600, the IAASB determined that providing examples of other matters might be viewed as incomplete in view of the many different circumstances encountered in group audits. Accordingly, paragraph A124 of ED-600 indicates that the group engagement team may determine that it is appropriate to include relevant parts of the component auditor's documentation in

the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). However, the extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

92. With respect to guidance on the documentation of the direction and supervision of component auditors and the review of their work, the application material refers to ISA 300,¹⁶ which requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members (which includes component auditors in a group audit) and the review of their work (see paragraph A125 of ED-600). The IAASB also has added examples of documentation of the group engagement team's involvement in the work of component auditors (see paragraph A126 of ED-600).
93. Additional complexities and challenges may arise with respect to audit documentation in a group audit engagement when access to component auditor documentation is restricted (see paragraph A129 of ED-600). The importance of this issue has been reaffirmed through ongoing outreach with regulators and other stakeholders. Accordingly, the IAASB has added application material to address these circumstances (see paragraph A130 of ED-600).
94. Paragraph A130 of ED-600 indicates that, when the group engagement team determines that it may be appropriate to include relevant parts of the component auditor documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.
95. The IAASB acknowledges that audit documentation for a group audit engagement is an important public interest issue. Therefore, in addition to input on the requirements and application material with respect to documentation in ED-600 (see question 11 in Section 3 below), the IAASB encourages respondents to provide input about whether additional guidance would be helpful and, if so, suggestions for such additional guidance.

Section 2-J – Other Matters

Professional Skepticism

96. In the Introduction section of ED-600, the IAASB highlights the importance of professional skepticism and professional judgment in performing a group audit engagement. Paragraph 5 of ED-600 highlights that the exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. This introductory material is further supported by application material that highlights that other ISAs, such as proposed ISA 220 (Revised), ISA 315 (Revised 2019), ISA 540 (Revised)¹⁷

¹⁶ ISA 300, *Planning an Audit of Financial Statements*

¹⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.

97. In addition to the paragraph in the Introduction, paragraphs 49–51 of ED-600 require the group engagement team to “stand back,” prior to forming a group audit opinion, and evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors. Also, paragraphs 45–46 of ED-600 require the group engagement team to “stand back” and evaluate whether the communications with component auditors are adequate for the group engagement team’s purposes. The IAASB believes that including these requirements will assist in supporting the exercise of professional skepticism by the engagement partner and other members of the group engagement team.

Appendices

98. The IAASB agreed to make the following changes to the appendices in ED-600:

- Appendix 1 of ED-600 was added to provide additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.
- Appendix 3 of ED-600 has been aligned with Appendix 3 in ISA 315 (Revised 2019). Appendix 3 in ISA 315 (Revised 2019) explains the components of internal control as well as the limitations of the entity’s system of internal control. Given this alignment, the IAASB changed the title of the appendix and the introductory wording and added, where needed, additional examples of controls that may be helpful in obtaining and an understanding of the group’s system of internal control in a group environment.
- Appendix 4 of ED-600 has been aligned with the wording in ISA 315 (Revised 2019). In addition, the events or conditions have been linked to inherent risk factors and have been presented similar to Appendix 2 of ISA 315 (Revised 2019).
- The IAASB discussed Appendices 4 and 5 of extant ISA 600 and concluded as follows:
 - Appendix 4 of extant ISA 600, which provides examples of matters that may be included in the component auditor’s conformation to the group engagement team, has not been included in ED-600. The IAASB noted that practice has evolved from the time that extant ISA 600 was issued and many firms have created their own templates for communications with component auditors.
 - The IAASB was of the view that the requirements and application material in ED-600 are organized more clearly and therefore there is no longer a need for Appendix 5, which summarizes the matters that are required by extant ISA 600 to be included in the group engagement team’s letter of instruction, and additional matters that may be included.

The IAASB did discuss, however, that the guidance in these appendices may still be considered useful and concluded that such guidance could be repurposed outside of ED-600 as part of implementation support materials when the final revised standard is issued.

Implementation Support Activities

99. Respondents to the ITC often cited matters for which additional implementation guidance or examples could be provided outside of the final revised standard. During the course of its deliberations, the IAASB also identified a number of areas for which implementation support may be helpful.
100. The IAASB is committed to undertaking activities to support awareness, understanding and effective implementation of the revised standard once finalized. This may include a first-time implementation guide, FAQs, webinars and other materials and activities as needed. The IAASB will also liaise and coordinate, as necessary, with others (including national standard-setters and IFAC) in relation to other needs for guidance to support the revised standard.

Conforming and Consequential Amendments

101. The IAASB is proposing a number of conforming and consequential amendments arising from ED-600. The proposed changes have been presented in marked text to the relevant paragraphs of the various standards. Only the paragraphs that are being proposed to be amended, or that are needed to provide context for the proposed amendments, are provided. In many cases, the changes relate to aligning the terminology or wording with ED-600.

Proposed ISA 220 (Revised) – Quality Management for an Audit of Financial Statements

102. The definition of group engagement partner in paragraph 7(h) of extant ISA 600 includes the following with respect to joint auditors:

Where 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.

103. The IAASB determined that the involvement of joint auditors can apply to any audit engagement, and therefore is best addressed in proposed ISA 220 (Revised). However, the IAASB noted that this proposed change to proposed ISA 220 (Revised) was not exposed for public comment as a part of that proposed standard. The IAASB therefore determined that including the proposed change to the application material to proposed ISA 220 (Revised) as a consequential amendment arising from ED-600 would be appropriate to solicit public comment on the matter.

ISA 300 – Planning an Audit of Financial Statements

104. Paragraph 16 of extant ISA 600 requires the group engagement partner to review the overall group audit strategy and group audit plan. In its discussions on ED-600, the IAASB believed it was inconsistent for this requirement to apply to a small, non-complex group audit engagement (such as a group with only two entities or business units that operates in a single line of business), but not for a large, complex single-location audit because there is no corresponding requirement for the engagement partner in ISA 300. Therefore, the IAASB concluded that this requirement should apply to all audit engagements, and has proposed a consequential amendment as paragraph 11A to ISA 300.

ISA 402 – Audit Considerations Relating to An Entity Using a Service Organization

105. The IAASB is proposing to change the reference to ISA 600 in paragraph A19 of ISA 402 to instead refer to proposed ISA 220 (Revised). The IAASB determined that the application material in proposed ISA 220 (Revised) is relevant for, and therefore may be useful with respect to, the user auditor's direction and supervision of another auditor, and the review of that auditor's work.

Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-600. In this regard, comments will be most helpful if they are identified with specific aspects of ED-600 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement.

Overall Questions

1. With respect to the linkages to other standards:
 - (a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?
 - (b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?
2. With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?
3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

Specific Questions

4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).
5. Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?
6. Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?
7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:
 - (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
 - (b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?
 - (c) What practical challenges may arise in implementing the risk-based approach?
9. Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?
10. Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?
11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:
 - (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
 - (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?
12. Are there any other matters you would like to raise in relation to ED-600?

Request for General Comments

13. The IAASB is also seeking comments on the matters set out below:
 - (a) **Translations**—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.
 - (b) **Effective Date**—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

Invitation for Field Testing

The IAASB recognizes that many audits today are audits of group financial statements, ranging from audits of the world's largest and most complex entities to audits of smaller groups with only a few entities or business units. Therefore, ED-600 will likely be of particular interest for the audit practices of firms of all

sizes. Accordingly, the IAASB encourages field testing¹⁸ of the proposals by firms, and welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to this ED.

¹⁸ The IAASB did not believe that a consultation paper, field testing or a roundtable was needed before approval of ED-600. However, the IAASB recognizes that some firms may choose to undertake field testing to inform their response to ED-600. Field testing may take different forms and may focus on all or certain phases of a group audit, or on specific requirements of ED-600, and may be executed at different levels. Field testing is not required in order to respond to ED-600 but is recognized in terms of the additional information and different perspectives that may be obtained in this manner.

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 600
(REVISED)**

**SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL
STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)**

(Effective for audits of financial statements for periods
beginning on or after [DATE])

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1–6
Effective Date	7
Objectives	8
Definitions	9–11
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	12
Acceptance and Continuance	13–23
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control	24–28
Materiality	241–30
Identifying and Assessing the Risks of Material Misstatement	342
Responding to the Assessed Risks of Material Misstatement	33–42
Two-Way Communication Between the Group Engagement Team and the Component Auditor	43–46
Subsequent Events	47–48
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	49–51
Auditor’s Report	52
Communication with Group Management and Those Charged with Governance of the Group	53–56
Documentation	57
Application and Other Explanatory Material	
Scope	A1–A10
Definitions	A11–A18
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	A19–A20

Acceptance and Continuance	A21–A52
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control	A53–A72
Materiality	A73–A77
Identifying and Assessing the Risks of Material Misstatement	A78–A84
Responding to the Assessed Risks of Material Misstatement	A85–A105
Two-Way Communication Between the Group Engagement Team and the Component Auditor	A106–A113
Subsequent Events	A114
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	A115–A116
Auditor’s Report	A117–A118
Communication with Group Management and Those Charged with Governance of the Group	A119–A123
Documentation.....	A124–A130
Appendix 1: Considerations Relating to the Involvement of Component Auditors in the Group Audit	
Appendix 2: Illustration of Independent Auditor’s Report Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion	
Appendix 3: Understanding the Group’s System of Internal Control	
Appendix 4: Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements	

Introduction

Scope of this ISA

1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements. This ISA deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. 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 (a group audit), in particular proposed ISA 220 (Revised),¹ ISA 315 (Revised 2019),² and ISA 330.³ (Ref: Para. A1–A2)
2. This ISA applies when the auditor has been engaged to audit group financial statements. Group financial statements, as defined, include the financial information of more than one entity or business unit. A key factor in determining whether financial statements are group financial statements is whether financial information is prepared through a consolidation process as described in paragraph 11.
3. A group may be organized in various ways. For example, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions), or business activities, which are collectively referred to as “entities or business units” in this ISA. The group engagement team may plan and perform an audit of group financial statements based on the entities or business units as viewed by group management. Alternatively, the group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group. This ISA uses the term “component” to refer to the manner in which the group engagement team views the group structure for purposes of planning and performing audit procedures for the group audit. (Ref: Para. A3–A6)
4. This ISA highlights the responsibility of the group engagement team to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. This ISA also recognizes that component auditors can be, and often are, involved in all phases of the group audit, and in particular to assist the group engagement team in identifying, assessing and responding to the risks of material misstatement of the group financial statements. Accordingly, this ISA requires sufficient and appropriate involvement by the group engagement team in the work of component auditors and emphasizes the importance of two-way communication between the group engagement team and component auditors. In addition, this ISA explains the matters that the group engagement team takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A7–A8, Appendix 1)
5. In accordance with ISA 200,⁴ the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate exercise of

¹ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*. All references to proposed ISA 220 (Revised) are to the version presented to the IAASB in March 2020.

² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

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*, paragraphs 15–16 and A20–A24

professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A9-A10)

6. When this ISA expressly intends that a requirement or responsibility be fulfilled by the group engagement partner or the group engagement team, the term “the group engagement partner shall ...” or “the group engagement team shall ...” is used. In these circumstances, the group engagement partner or group engagement team may need to obtain information from the firm or other members of the engagement team to fulfill the requirement. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term “the group engagement partner shall take responsibility for...” or “the group engagement team shall take responsibility for...” is used. Nevertheless, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.

Effective Date

7. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20XX.

Objectives

8. The objectives of the auditor are to:
 - (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;
 - (b) Identify and assess the risks of material misstatement of the group financial statements, and to plan and perform further audit procedures to appropriately respond to those assessed risks;
 - (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit engagement, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and
 - (d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements.

Definitions

9. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A11)

- (b) Component – A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A12)
 - (c) Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team.⁵ (Ref: Para. A13–A14)
 - (d) Component management – Management responsible for a component. (Ref: Para. A15)
 - (e) Component performance materiality – An amount set by the group engagement team to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
 - (f) Group – A reporting entity for which group financial statements are prepared.
 - (g) Group audit – The audit of group financial statements.
 - (h) Group audit opinion – The audit opinion on the group financial statements.
 - (i) Group engagement partner – The engagement partner⁶ who is responsible for the group audit.
 - (j) Group engagement team – The group engagement partner and other members of the engagement team who are responsible for:
 - (i) Establishing the overall group audit strategy and audit plan;
 - (ii) Directing and supervising component auditors and reviewing their work;
 - (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
 - (k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
 - (l) Group management – Management responsible for the preparation of the group financial statements.
 - (m) Group performance materiality – Performance materiality⁷ in relation to the group financial statements as a whole, as determined by the group engagement team.
10. Reference in this ISA to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.
11. Reference in this ISA to “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of: (Ref: Para. A16, A18)
- (a) Consolidation, proportionate consolidation, or the equity methods of accounting;
 - (b) The aggregation of the financial information of branches or divisions; or (Ref: Para. A17)

⁵ Proposed ISA 220 (Revised), paragraph 10(d)

⁶ Proposed ISA 220 (Revised), paragraph 10(a)

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

- (c) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

- 12. In applying proposed ISA 220 (Revised),⁸ the group engagement partner shall be sufficiently and appropriately involved throughout the group audit 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, are appropriate given the nature and circumstances of the group audit engagement. (Ref: Para. A19–A20)

Acceptance and Continuance

- 13. The group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. For this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to identify components and make a preliminary determination about whether to involve component auditors. (Ref: Para. A21–A24)
- 14. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A25)

Terms of the Engagement

- 15. In applying ISA 210,⁹ the group engagement team shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A26)
 - (a) Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
 - (b) Additional information that the engagement team may request from group management and component management for the purpose of the group audit; and
 - (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

Restrictions on Access Outside the Control of Group Management

- 16. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or 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 group audit. (Ref: Para. A27–A32)

⁸ Proposed ISA 220 (Revised), paragraph 13

⁹ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(b) and 8(b)

Restrictions on Access Imposed by Group Management

17. If the group engagement partner concludes that:
- (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
 - (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,
- the group engagement partner shall either:
- (i) 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
 - (ii) Where law or regulation prohibit 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. A31–A33)

Considerations When Component Auditors Are Involved

18. In applying proposed ISA 220 (Revised),¹⁰ the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A34)
19. As part of the evaluation in paragraph 18, the group engagement team shall request the component auditor to confirm that the component auditor will cooperate with the group engagement team. (Ref: Para. A35)

Relevant Ethical Requirements, Including Those Related to Independence

20. In applying proposed ISA 220 (Revised),¹¹ the group engagement partner shall take responsibility for: (Ref: Para. A36–A39, A111)
- (a) Determining that component auditors have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;
 - (b) Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement and, in particular, are independent; and
 - (c) Prior to dating the auditor's report, obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement, including those related to independence, have been fulfilled.

¹⁰ Proposed ISA 220 (Revised), paragraph 13

¹¹ Proposed ISA 220 (Revised), paragraphs 16–17 and 21

Engagement Resources

21. In applying proposed ISA 220 (Revised),¹² the group engagement partner shall: (Ref: Para. A40)
- (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)
 - (b) When information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to the group audit and determine its effect on the group audit. (Ref: Para. A46)
22. If the group engagement partner has serious concerns about any of the matters in paragraphs 18–21, including if a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. (Ref: Para. A47–A48)

Engagement Performance

23. In applying proposed ISA 220 (Revised),¹³ the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work. In doing so, the group engagement partner takes into account: (Ref: Para. A49–A52)
- (a) Areas of higher assessed risks of material misstatement of the group financial statements, or where a significant risk has been identified; and
 - (b) Areas in the group financial statements that involve significant judgment.

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

24. In applying ISA 315 (Revised 2019),¹⁴ the group engagement team shall take responsibility for obtaining an understanding of the following: (Ref: Para. A53–A55, A69–A70)
- (a) The group and its environment, including: (Ref: Para. A56–A58)
 - (i) The group's organizational structure and its business model, including:
 - a. The locations in which the group has its operations or activities;
 - b. The nature of the group's activities and business lines and the extent to which they are similar; and
 - c. The extent to which the group's business model integrates the use of IT; and
 - (ii) The nature and extent of the measures used internally and externally to assess the entities or business units' financial performance;

¹² Proposed ISA 220 (Revised), paragraphs 25–26

¹³ Proposed ISA 220 (Revised), paragraph 29

¹⁴ ISA 315 (Revised 2019), paragraph 19

- (b) The applicable financial reporting framework, including the consistency of accounting policies and practices across the group; and
- (c) The group's system of internal control, including:
 - (i) The nature and extent of commonality of controls; (Ref: Para. A59–A63)
 - (ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A64–A65)
 - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - (iv) How the group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the system of internal control. (Ref: Para. A66–A68)

Considerations When Component Auditors Are Involved

- 25. When the group engagement team assigns the design and performance of risk assessment procedures to component auditors, the group engagement team shall consider the results of those procedures in fulfilling the requirement in paragraph 32. (Ref: Para. A71)
- 26. When paragraph 25 applies, the group engagement team shall communicate with component auditors matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements.
- 27. In applying ISA 550,¹⁵ the group engagement team shall communicate with the component auditor related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that are relevant to the work of the component auditor. (Ref: Para. A72)
- 28. In applying ISA 570 (Revised),¹⁶ the group engagement team shall:
 - (a) Communicate with component auditors any events or conditions identified by group management or the group engagement team, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.
 - (b) Communicate with component auditors any events or conditions identified by the component auditor that may cast significant doubt on the group entity's ability to continue as a going concern.

Materiality

- 29. In applying ISA 320¹⁷ and ISA 450,¹⁸ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group engagement team shall determine:

¹⁵ ISA 550, *Related Parties*, paragraph 17

¹⁶ ISA 570 (Revised), *Going Concern*

¹⁷ ISA 320, paragraph 11

¹⁸ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5

- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A73–A76)
- (b) 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 regarded as clearly trivial to the group financial statements. (Ref: Para. A77)

Considerations When Component Auditors Are Involved

- 30. The group engagement team shall communicate to the component auditor the amounts determined in accordance with paragraph 29.

Identifying and Assessing the Risks of Material Misstatement

- 31. In applying ISA 315 (Revised 2019),¹⁹ based on the understanding obtained in paragraph 24, the group engagement team shall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A78–A81)

Considerations When Component Auditors Are Involved

- 32. When the group engagement team involves component auditors in the risk assessment procedures as described in paragraph 25 or in the identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team shall consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A82–A84)

Responding to the Assessed Risks of Material Misstatement

- 33. In applying ISA 330,²⁰ the group engagement team shall take responsibility for the nature, timing and extent of further audit procedures to be performed. (Ref: Para. A85–A93)

Consolidation Process

- 34. The group engagement team shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include:
 - (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations; and (Ref: Para. A94)
 - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A95)
- 35. If the financial information of an entity or business unit 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 has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

¹⁹ ISA 315 (Revised 2019), paragraphs 28–29

²⁰ ISA 330, paragraphs 6–7

36. If the group financial statements include the financial statements of an entity or business unit with a financial reporting period-end that differs from that of the group, the group engagement team shall take responsibility for evaluating whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

Considerations When Component Auditors Are Involved

37. When the group engagement team assigns the design and performance of further audit procedures to component auditors, the group engagement team shall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements. (Ref: Para. A96–A101)
38. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of those further audit procedures.
39. In accordance with paragraph 23, the group engagement team shall determine the nature and extent of direction and supervision of component auditors and the review of their work when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations. (Ref: Para. A102)
40. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 44(a)) is the financial information that is incorporated in the group financial statements.
41. The group engagement team shall request the component auditor to communicate on a timely basis:
- (a) Related parties not previously identified by group management or the group engagement team.
 - (b) Any events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern.

Using Audit Evidence from an Audit Performed for Another Purpose

42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall evaluate whether: (Ref: Para. A103–A104)
- (a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;
 - (b) Performance materiality used for that audit is appropriate for the purposes of the group audit; and
 - (c) 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 20–22. (Ref: Para. A105)

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

43. The group engagement team shall communicate with component auditors about their responsibilities and the group engagement team's expectations. These communications shall take place at the

appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. (Ref: Para. A106–A111)

44. 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:
- (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures;
 - (b) Information on instances of non-compliance with laws or regulations;
 - (c) Uncorrected misstatements of the financial information on which the component auditor performed further audit procedures and that are above the threshold communicated by the group engagement team in accordance with paragraph 30;
 - (d) Indicators of possible management bias;
 - (e) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
 - (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 the group's system of internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (Ref: Para. A112)
 - (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
 - (h) The component auditor's overall findings, conclusions or opinion.
45. The group engagement team shall:
- (a) Discuss significant matters arising from the communications with the component auditor, component management or group management, as appropriate;
 - (b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor's audit documentation; and (Ref: Para. A113)
 - (c) Evaluate whether the communications with component auditors are adequate for the group engagement team's purposes.
46. If the group engagement team determines that the component auditors' communications are not adequate for the group engagement team's purposes, the group engagement team shall consider whether further information can be obtained from component auditors or other sources. If such information cannot be obtained through other sources, the group engagement team shall consider the implications for the group audit, in accordance with paragraph 49.

Subsequent Events

47. In applying ISA 560,²¹ the group engagement team shall take responsibility for performing procedures designed to identify events that may require adjustment to or disclosure in the group financial statements, including, as appropriate, requesting component auditors to perform procedures, for 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. (Ref: Para. A114)

Considerations When Component Auditors Are Involved

48. 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. (Ref: Para. A114)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

49. In applying ISA 330,²² the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115)

Evaluating the Effect on the Group Audit Opinion

50. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether 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. A116)

Considerations When Component Auditors Are Involved

51. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group engagement team.

Auditor's Report

52. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, 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. A117–A118)

Communication with Group Management and Those Charged with Governance of the Group

53. The group engagement team shall determine which identified deficiencies in the group's system of internal control to communicate to those charged with governance of the group and group management in accordance with ISA 265.²³ In making this determination, the group engagement

²¹ ISA 560, *Subsequent Events*, paragraph 7

²² ISA 330, paragraph 26

²³ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors. (Ref: Para. A119)

Communication with Group Management

54. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 44 (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. A120)
55. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group engagement team shall request group management to inform management of the entity or business unit of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, 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 entity or business unit until the matter is resolved. (Ref: Para. A121)

Communication with Those Charged with Governance of the Group

56. 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)²⁴ and other ISAs: (Ref: Para. A122)
- (a) An overview of the work to be performed at the entities and business units comprising the group and the nature of the group engagement team's planned involvement in the work to be performed by component auditors. (Ref: Para. A123)
 - (b) Instances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern.
 - (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
 - (d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others where the fraud resulted in a material misstatement of the group financial statements.

²⁴ ISA 260 (Revised), *Communication with Those Charged with Governance*

Documentation

57. In applying ISA 230,²⁵ the group engagement team shall include in the audit documentation: (Ref: Para. A124, A129–A130)
- (a) Significant matters related to restrictions on 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.
 - (b) The group engagement team's determination of components for purposes of planning and performing the group audit.
 - (c) The determination of component performance materiality and the threshold for communicating misstatements in component financial information to the group engagement team.
 - (d) The nature, timing and extent of the group engagement team's direction and supervision of component auditors and the review of their work. (Ref: Para. A125–A128)
 - (e) Matters related to communication with component auditors, including:
 - (i) The matters required to be communicated in accordance with paragraphs 27–28 and 41.
 - (ii) Matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 44, including how the group engagement team has addressed significant matters discussed with component auditors, component management or group management.
 - (f) 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.

* * *

Application and Other Explanatory Material

Scope (Ref: Para. 1, 3)

- A1. This ISA deals with the special considerations for the group engagement partner and group engagement team in applying the requirements and guidance in proposed ISA 220 (Revised), including with respect to the direction and supervision of component auditors and the review of their work.
- A2. Proposed ISQM 1²⁶ addresses the engagements for which an engagement quality review is required to be performed. Proposed ISQM 2²⁷ 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, including for a group audit.

²⁵ ISA 230, *Audit Documentation*, paragraphs 8–11 and A6

²⁶ Proposed 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*. All references to proposed ISQM 1 are to the version presented to the IAASB in March 2020.

²⁷ Proposed ISQM 2, *Engagement Quality Reviews*. All references to proposed ISQM 2 are to the version presented to the IAASB in March 2020.

- A3. An entity or business unit of a group may also prepare group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a subgroup). This ISA therefore applies to such subgroups.
- A4. When this ISA applies, the auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed (by the group engagement team or component auditors on its behalf). The manner in which components are viewed for purposes of planning and performing a group audit may be influenced by the group structure, but may or may not be aligned with the way in which the group is organized, which could be, for example, by legal entities, geographic locations, or lines of business.
- A5. For example, for a group comprised of 15 legal entities that are required to be consolidated under the provisions of the applicable financial reporting framework (i.e., group financial statements), the auditor may plan and perform the group audit by combining these 15 entities into three components based on the commonality of information systems and systems of internal control.
- A6. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group's financial reporting process and audit procedures are performed at that location, the group engagement team may determine that the shared service center is a component for purposes of the group audit.

Involvement of Component Auditors (Ref: Para. 4)

- A7. The involvement of component auditors may be necessary for various reasons. For example, when there are many components across multiple jurisdictions, the group engagement team may need the assistance of component auditors to identify, assess and respond to the risks of material misstatement of the group financial statements.
- A8. The group engagement team may decide to assign certain audit procedures to, or obtain information from, component auditors to fulfill the requirements of this ISA. For example, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group engagement team may discuss with a component auditor whether there are any significant changes in the business of the component that could have an effect on the risks of material misstatement of the group financial statements. Appendix 1 provides additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.

Professional Skepticism (Ref: Para. 5)

- A9. Proposed ISA 220 (Revised)²⁸ provides examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level. A group audit engagement may present additional challenges to the exercise of professional skepticism by the

²⁸ Proposed ISA 220 (Revised), paragraphs A35–A37

engagement team. For example, when there are a large number of components across multiple jurisdictions, it may be important for the group engagement team to remain alert for contradictory information from component auditors, component management and group management with respect to a matter of significance to the group financial statements. In addition, component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.

- A10. Requirements and relevant application material in ISA 315 (Revised 2019),²⁹ ISA 540 (Revised)³⁰ and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.

Definitions

Aggregation Risk (Ref: Para. 9(a))

- A11. 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 that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.

Component (Ref: Para. 9(b))

- A12. As noted in paragraph A4, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed. Although the group engagement team may combine certain entities or business units for purposes of planning and performing the group audit, the group engagement team's consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group. In other words, the group engagement team's view of components for the group audit and how entities or business units may be combined to facilitate the performance of the group audit considers all of the entities and business units that are included in the consolidation process.

Component Auditor (Ref: Para. 9(c))

- A13. References in this ISA to the engagement team include members of the group engagement team and component auditors. The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider.
- A14. In some circumstances, the group engagement team may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group engagement team is not considered a component auditor for purposes of this ISA.

²⁹ ISA 315 (Revised 2019), paragraph A238

³⁰ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

Component Management (Ref: Para. 9(d))

A15. Component management refers to management responsible for the financial information or other activity (for example, processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group engagement team combines entities or business units into components (see paragraphs A4–A6), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component.

Consolidation Process (Ref: Para. 11)

A16. 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 financial information of entities or business units 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.

A17. When branches or divisions within a single entity prepare financial information, through separate branch or divisional accounting, financial reporting frameworks may 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. In some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore this ISA does not apply.

A18. 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 considerations such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 12)

A19. It may not be possible or practical for the group engagement partner to solely deal with all requirements in proposed ISA 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, proposed ISA 220 (Revised)³¹ allows the engagement partner to assign responsibilities for the design or performance of procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances,

³¹ Proposed ISA 220 (Revised), paragraph 15

proposed ISA 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement.³²

A20. Policies or procedures established by the firm, or that are common network requirements or network services, may support the group engagement partner by facilitating communication between the group engagement team and component auditors and supporting the group engagement team's direction and supervision of those component auditors and the review of their work.

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected To Be Obtained (Ref: Para. 13–14)

A21. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:

- The group structure, including both the legal and organizational structure.
- 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 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
 - Will be able to perform necessary work on the financial information of the components.

A22. In the case of a new engagement, the group engagement team's understanding of the matters in paragraph A21 may be obtained from:

- Information provided by group management;
- Communication with group management;
- Communication with those charged with governance of the group; and
- Where applicable, communication with component management or the previous group engagement team.

A23. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:

- Changes in the group structure (e.g., 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.

³² Proposed ISA 220 (Revised), paragraph 15

- Changes in the composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
- New 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.

A24. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group engagement team's jurisdiction because of cultural and translation issues and different laws or regulations (e.g., regulations restricting access to data).

A25. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

- The group engagement team's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group engagement team); or
- The work to be performed on the financial information of components.

In exceptional circumstances, such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable laws or regulations. In these circumstances, an inability to obtain sufficient appropriate audit evidence would need to be evaluated, in accordance with ISA 705 (Revised),³³ in forming an opinion on the group financial statements.

Agreeing the Terms of Audit Engagements (Ref: Para. 15)

A26. ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.³⁴ The terms of engagement identify the applicable financial reporting framework.³⁵ Additional matters may be included in the terms of a group audit engagement, such as:

- Communications between the group engagement team and component auditors should be unrestricted to the extent possible under laws or regulations;
- Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group engagement team;
- Communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team; and
- The group engagement team should be permitted to perform work or request a component auditor to perform work at the component.

³³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

³⁴ ISA 210, paragraph 9

³⁵ ISA 210, paragraph 10

Restrictions on Access to Information or People (Ref: Para. 16–17)

- A27. Restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.
- A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease.
- A29. In many cases, the group engagement team may be able to overcome restrictions on access to information or people, for example:
- When laws or regulations restrict sending relevant audit documentation across borders, the group engagement team may be able to access the relevant audit documentation by one or more of the following:
 - Visiting the location of the component;
 - Reviewing the relevant audit documentation remotely, where not prohibited by laws or regulations;
 - Requesting the component auditor to prepare a memorandum that addresses the relevant information and discuss it with the component auditor; or
 - Discussing the procedures performed with the component auditor.
 - 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 restrictions by:
 - Determining whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights;
 - Considering financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements;
 - Considering publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity; or
 - Considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained. For example, if the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, discussion with them regarding the non-controlled entity and its operations and financial status may be a useful source of information.
 - When war, civil unrest or outbreaks of 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 location different from where the component auditor is located or review the relevant audit documentation remotely, where not prohibited by laws or regulations.

- When access to component management or those charged with governance of the component is restricted, the group engagement team may be able to perform the work themselves by working with group management or those charged with governance of the group.

A30. When the group engagement team cannot overcome restrictions, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may communicate with regulators, listing authorities, or others, about the restrictions and may encourage group management to communicate with regulators. This may be particularly useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.

A31. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group engagement team 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 integrity.

Effect of Restrictions on the Auditor's Report on Group Financial Statements

A32. ISA 705 (Revised) contains requirements and guidance about how to address situations where the group engagement team is unable to obtain sufficient appropriate audit evidence. Appendix 2 to this ISA contains an example of an auditor's report containing a qualified group audit opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement

A33. 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, the requirements in this ISA still apply to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is addressed in ISA 705 (Revised).

Consideration When Component Auditors Are Involved (Ref: Para. 18–19)

A34. In evaluating whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary, the group engagement team may obtain an understanding of whether the group engagement team will have unrestricted access to the component auditor, including relevant audit documentation sought by the group engagement team. The group engagement team may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group engagement team.

A35. When requesting the component auditor to confirm that the component auditor will cooperate with the group engagement team, the group engagement team may also request the component auditor to confirm that it will conduct its work as directed by the group engagement team.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 20)

- A36. When performing work at a component for a group audit engagement, 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 an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.
- A37. In communicating relevant ethical requirements, the group engagement team may consider whether additional information or training for component auditors is necessary with respect to the provisions of the ethical requirements that are relevant to the group audit engagement.
- A38. Proposed ISA 220 (Revised) requires the engagement partner to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements by the engagement team.³⁶ Becoming aware of actual or suspected breaches of relevant ethical requirements may be more challenging in a group audit, particularly where component auditors do not use common network services. In such circumstances, the group engagement team may also instruct component auditors to communicate relevant information to the group engagement partner.
- A39. As described in ISQM 1, there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement and where such insufficiency may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a more important consideration by the firm in respect to group audit engagements where, for example, there are multiple components at which audit procedures are performed. The International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out requirements and application material addressing threats to compliance with the fundamental principles and to independence that might be created by fees and other remuneration arrangements.

Engagement Resources (Ref: Para. 21)

- A40. The determination whether sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team may be more challenging in a group audit engagement. This may be because audit work is conducted across different locations with different characteristics (e.g., different languages, time zones or cultures) where collaboration is more challenging. Also, working with component auditors that are not from the same firm may be different than working with individuals from the same firm, particularly when component auditors have different systems of quality management. These differences may pose challenges in the coordination of the overall audit strategy and audit plan between the group engagement team and component auditors. Adequate and timely involvement by the group engagement partner and group engagement team may address these challenges.

³⁶ Proposed ISA 220 (Revised), paragraph 19

Competence and capabilities of the component auditors (Ref: Para. 21(a))

A41. Determining whether the component auditor has the appropriate competence and capabilities influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work. Determining whether the component auditor has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement.

A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:

- Previous experience with or knowledge of the component auditor.
- The component auditor's specialized skills (e.g., 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.
- The degree to which the group engagement team and component auditor are subject to common systems of quality management, for example, whether the group engagement team and a component auditor:
 - Use common resources to perform the work (e.g., audit methodologies or information technology (IT) applications);
 - Share common policies or procedures affecting the engagement performance (e.g., direction and supervision and review of work or consultation);
 - Are subject to common monitoring activities; or
 - Have other commonalities, including common leadership or a common cultural environment.
- The consistency or similarity of:
 - Laws or regulations or legal system;
 - Language and culture;
 - Education and training;
 - 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 personnel, such as internal auditors.

A43. The procedures to determine the component auditor's competency and capability may include, for example:

- An evaluation of the information communicated by the group engagement team's firm to the group engagement team, including:

- The firm's ongoing communication related to monitoring and remediation, in circumstances when the group engagement team and component auditor are from the same firm.³⁷
 - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.
- Discussing the matters in paragraph A51 with the component auditor.
 - Requesting the component auditor to confirm the matters referred to in paragraph 20 in writing.
 - Discussing the component auditor's competency and capabilities with colleagues in the group engagement partner's firm.
 - 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 21(a)–(b) has changed since the previous year.
 - Obtaining published external inspection reports.
- A44. The group engagement partner's firm and the component auditor's firm may be members of the same network and may be subject to common network requirements or use common networks services.³⁸ 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 depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with proposed ISQM 1, the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management, taking into account the nature and circumstances of the firm and the engagements it performs.

Automated tools or techniques (Ref: Para. 21(a))

- A45. As described in proposed ISA 220 (Revised),³⁹ when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group engagement team requires component auditors to use specific automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team's instructions.

Monitoring and remediation (Ref: Para. 21(b))

- A46. The group engagement team may be provided with information about deficiencies in relation to the component auditor's firm from external monitoring reports, or from the component auditor, that may be relevant to the group engagement team's understanding of the competence and capability of the

³⁷ Proposed ISQM 1, paragraph 53

³⁸ Proposed ISQM 1, paragraphs 58–59

³⁹ Proposed ISA 220 (Revised), paragraph A20

component auditor. If the group engagement team and the component auditor are members of the same network and are subject to common monitoring activities undertaken by the network across network firms' systems of quality management, the results of the network's monitoring activities may also include such information. This information influences the nature, timing and extent of the engagement partner's direction and supervision of the component auditor and the review of their work.

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 22)

- A47. If a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team cannot overcome this by being involved in the work of the component auditor or by supplementing the work of component auditor by performing additional risk assessment or further audit procedures on the financial information of the component.
- A48. However, the group engagement team may be able to overcome concerns that are not determined to be serious about the component auditor's professional competency (e.g., 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.

Engagement Performance (Ref: Para. 23)

- A49. 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 locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team.
- A50. If component auditors are from a firm other than the group engagement team's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network, for example, in relation to the form, content and timing of communications with component auditors, including the use of group engagement team instructions to component auditors. Proposed ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.⁴⁰
- A51. In addition, the nature timing and extent of direction and supervision and review of the component auditor's work may be tailored 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 includes a significant risk, a corresponding increase in the extent of direction and supervision of the component auditor and a detailed review of the component auditor's audit documentation may be appropriate.

⁴⁰ Proposed ISA 220 (Revised), paragraph A24

- 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 a component auditor, 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 the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used.
- Access to component auditors' audit documentation. For example, where component auditor working papers cannot be transferred out of the jurisdiction, greater in-person supervision of the component auditor and in-person or electronic review of the component auditor's audit documentation may be appropriate (see also paragraphs A27–A32).

A52. There are different ways in which the group engagement partner may direct and supervise component auditors and review their work, for example:

- Meetings or calls with component auditors to communicate identified and assessed risks, issues, findings and conclusions.
- Reviews of the component auditor's documentation in person or remotely when permitted by law and regulation.
- Participating in the closing and other key meetings between the component auditors and component management.

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 24)

A53. ISA 315 (Revised 2019) contains guidance on matters the auditor may consider when obtaining an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control.⁴¹ Appendix 3 of this ISA provides further explanation of the components of the group's system of internal control, including controls over the group's financial reporting process and the consolidation process.

A54. The group's information system and financial reporting process may be closely aligned with the organizational structure, for example, a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method; a head office and one or more divisions or branches; or 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.

A55. The group engagement team's understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with:

⁴¹ ISA 315 (Revised 2019), paragraphs A50–A89

- Group management or component management, including those who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
- Component auditors; or
- Auditors that perform an audit for statutory, regulatory or another reason on the financial statements of an entity or business unit that is part of the group.

The Group and Its Environment (Ref: Para. 24(a))

A56. An understanding of the group's organizational structure and its business model may enable the group engagement team to understand such matters as:

- The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special purpose entities are accounted for appropriately and whether adequate disclosures have been made.
- The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices.
- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates over multiple jurisdictions and when there are changes in ownership through formation, acquisition or joint ventures. These factors may give rise to increased susceptibility to material misstatements.

A57. Obtaining an understanding of the degree to which the group's activities and business lines are similar may enable the group engagement team to identify similar risks of material misstatement across components and design an appropriate response.

A58. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The group engagement team's understanding of such performance measures may help to identify:

- Areas where there is increased susceptibility to the risk of material misstatement (e.g., due to pressures on component management to meet certain performance measures).
- Controls over the group's financial reporting process.

The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: Para. 24(c)(i))

A59. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁴²

A60. The understanding of the components of the group's system of internal control therefore includes understanding the commonality of the controls within those components across the group. When the group engagement team plans to test the operating effectiveness of identified controls⁴³ that are common across the group, the group engagement team evaluates the design and determines the implementation of those controls in accordance with ISA 315 (Revised 2019).

A61. To determine the commonality of an identified 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 applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations;
or
- If the control is automated, it is configured in the same way in each IT application across the components.

A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly

⁴² ISA 315 (Revised 2019), paragraph A5

⁴³ ISA 315 (Revised 2019), paragraph 26(a)

evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT infrastructures or the implementation of the IT application differs across entities or business units, the group engagement team may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT infrastructures (e.g., whether the IT application is configured in the same manner across different IT infrastructures, and whether there are effective general IT controls across different IT implementations of IT applications or different IT infrastructures).

- A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). Typically, the processing of transactions and related controls at a shared service center operate in the same way for all transactions regardless of the entity or business unit (e.g., the processes, risks, and controls for all transactions, regardless of the source of the transaction, are the same). In such cases, it may be appropriate to identify the controls and evaluate the design and determine implementation of the controls, and if applicable test operating effectiveness, as a single population.

Centralized Activities (Ref: Para. 24(c)(ii))

- A64. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).
- A65. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group engagement team to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at a component, but the processing may occur at the shared service center).

Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 24(c)(iv))

- A66. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group engagement team to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Instructions by group management to entities or business units

- A67. In applying ISA 315 (Revised 2019),⁴⁴ the group engagement team is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g. communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the group engagement team's identification and assessment of the risks of material misstatement of the group financial statements. For example, in certain circumstances, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.
- A68. The group engagement team's understanding of the instructions or policies 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;
 - Address information necessary to prepare 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 consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and
 - Include a reporting timetable.

Engagement Team Discussion (Ref: Para. 24)

- A69. The group engagement partner's determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the expected involvement of component auditors.
- A70. The discussions provide an opportunity to:
- Share knowledge of the components and their environments, including which components' activities are centralized.
 - Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
 - Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error.
 - Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.

⁴⁴ ISA 315 (Revised 2019), paragraph 25(b)

- 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, or information that indicates existence of a fraud.
- 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 of material misstatement relevant to components where the exercise of professional skepticism may be particularly important.
- Discuss any events or conditions identified by group management, or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management, and any other related parties of which the engagement team is aware.

Considerations When Component Auditors Are Involved (Ref: Para. 25)

A71. Factors that influence the group engagement team's decision about the nature and extent of risk assessment procedures assigned to component auditors include, for example:

- The number and geographical location of components;
- The nature of the components' business activities, including their complexity or specialization of operations; and
- The group's system of internal control, including the information system in place at the component.

Previous experience with the component auditor may also influence the group engagement team's decision whether to involve them in performing risk assessment procedures. When risk assessment procedures are assigned to component auditors, the group engagement team remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

Related Parties (Ref: Para. 27)

A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated

parties.⁴⁵ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

- The group structure is complex;
- The group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- There are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional skepticism as required by ISA 200,⁴⁶ is therefore particularly important when these circumstances exist.

Materiality (Ref: Para. 29)

A73. A different component performance materiality may be established for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality. However, this ISA does not require a different component performance materiality to be established for each class of transactions, account balance or disclosure for a component.

A74. ISA 320 requires the auditor to determine the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures if, in the specific circumstances of the entity, there is one or more 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.⁴⁷ In these circumstances, the group engagement team may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for that particular class of transactions, account balance or disclosure.

A75. Factors the group engagement team may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality generally would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion 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:

⁴⁵ ISA 550, paragraph 2

⁴⁶ ISA 200, paragraphs 17 and A53–A54

⁴⁷ ISA 320, paragraph 10

- 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.

A76. In some cases, the group engagement team may perform further audit procedures on classes of transactions, account balances or disclosures that are aggregated. For example, audit procedures may be performed at the group level for an entire class of transactions or account balance as a single population. In such cases, group performance materiality often will be used for purposes of performing these procedures.

A77. The threshold for communicating uncorrected misstatements to the group engagement team is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA 450,⁴⁸ this threshold is the amount below which misstatements would not need to be accumulated because the group engagement team expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 31)

A78. The group engagement team's process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic and may be challenging, particularly where the component's business activities are complex or specialized, or when there are many components across multiple locations. In applying ISA 315 (Revised 2019),⁴⁹ the group engagement team will develop initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

A79. The initial expectations about the potential risks of material misstatement take into account the group engagement team's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group engagement team may involve component auditors in risk assessment procedures as their direct knowledge and experience with the entities or business units may be helpful in understanding the business activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

Fraud

A80. 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.⁵⁰ 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 are materially misstated as a result of fraud.

⁴⁸ ISA 450, paragraph A3

⁴⁹ ISA 315 (Revised 2019), paragraph 22

⁵⁰ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- 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 classes of transactions, account balances, or for which a risk of fraud is higher.
- Whether there are particular components for which the risks of material misstatement due to fraud is higher.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- 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.

Inherent Risk Factors

A81. Appendix 4 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error.

Considerations When Component Auditors Are Involved (Ref: Para. 32)

A82. The group engagement team may involve component auditors in the identification and the assessment of the risks of material misstatement of the group financial statements that result from inherent risk factors related to the financial information of a component. For example, the group engagement team may work with component auditors to develop initial expectations about potential risks of material misstatement of the group financial statements, including significant risks, related to components. Factors that influence the group engagement team's decision whether to involve component auditors are included in paragraph A71 (also see Appendix 1).

A83. The identification and assessment of inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when risk assessment procedures have been assigned to component auditors, the group engagement team may need to communicate its preferred approach with component auditors, or provide instructions.

A84. Based on the risk assessment procedures performed, the group engagement team may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction.

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 33)

A85. In responding to the assessed risks of material misstatement of the group financial statements, different approaches are available to the group engagement team to obtain audit evidence on one or more classes of transactions, account balances or disclosures across the various components.

Paragraphs A86 to A93 provide guidance to assist the group engagement team in determining an appropriate approach, or combination of approaches, for the engagement team to obtain audit evidence. Paragraphs A96 to A101 provide guidance on the options available to the group engagement team for assigning further audit procedures to component auditors to obtain audit evidence on the financial information of components for the purpose of the group financial statements.

Scoping a Group Audit

- A86. 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.
- A87. As the complexity and the diversity of the group increases (e.g., if the group has many different revenue streams, multiple lines of business, operates across multiple locations or has de-centralized systems of internal control), the group engagement team may find it more difficult to perform further audit procedures centrally. In such circumstances, procedures to respond to the risks of material misstatement at the group financial statement level that are related to the financial information of a component may be more effectively performed at the component level.
- A88. The group engagement team may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogenous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.
- A89. The group engagement team may have identified a significant class of transactions, account balance or disclosure in the group financial statements that comprises classes of transactions, account balances or disclosures at many entities and business units, none of which individually result in a risk of 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, subject to common controls and access to appropriate information can be obtained. If this is not the case, the engagement team may need to perform audit procedures at selected components.
- A90. The group engagement team may perform substantive analytical procedures in accordance with ISA 520⁵¹ to address the risks of material misstatement at the assertion level for 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 group engagement team at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures.

⁵¹ ISA 520, *Analytical Procedures*

Element of Unpredictability

A91. Including an element of unpredictability in the type of work to be performed, the entities or business units 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 due to fraud of the group financial statements.⁵²

Operating Effectiveness of Controls that Are Common Across the Group

A92. 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 330,⁵³ 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.

A93. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group engagement team may need to revise the audit plan. Possible revisions to the audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

Consolidation Process

Consolidation Procedures (Ref: Para. 34(a))

A94. The further audit procedures on the consolidation, including sub-consolidations, may include:

- Determining that the journal entries necessary are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

Consolidation Adjustments and Reclassifications (Ref: Para. 34(b))

A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

⁵² ISA 240, paragraph 30(c)

⁵³ ISA 330, paragraph 8

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- 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.

Considerations When Component Auditors Are Involved (Ref: Para. 37)

A96. Component auditors may have a more in-depth knowledge of the components than the group engagement team, and therefore the group engagement team may need the assistance of the component auditor to determine the nature, timing and extent of further audit procedures to be performed on the financial information of the component.

A97. In assigning further audit procedures to component auditors, the group engagement team may request component auditors to perform one or more of the following:

- Design and perform further audit procedures on the entire financial information of the component;
- Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
- Perform specific further audit procedures as identified and communicated by the group engagement team.

A98. The group engagement team may determine that audit evidence needs to be obtained 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 that the component auditor design and perform further audit procedures on the entire financial information of the component. In such circumstances, the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A99. In certain circumstances, the group engagement team may determine that it is more effective to request that the component auditor designs and performs further audit procedures related to the entire financial information of a component. This may particularly be the case when there is a risk of material misstatement of the group financial statements due to the existence of events or conditions at the component:

- That may affect the group auditor's response to risks of material misstatement relating to the valuation of the assets and liabilities of a component included in the group financial statements; or

- That may be relevant to group management's assessment of the group's ability to continue as a going concern.

A100. The group engagement team may determine that audit evidence needs to be obtained on one or more classes of transactions, account balances, or disclosures of the financial information of a component. In such circumstances, the group engagement team may request that the component auditor performs further audit procedures on 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 need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A101. The group engagement team may request a component auditor to perform specific further audit procedures on the financial information of a component to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team determines the overall nature, timing and extent of procedures to be performed and appropriateness of those procedures for obtaining the audit evidence needed to respond to the assessed risks of material misstatement of the group financial statements.

Consolidation Process (Ref: Para. 39)

A102. 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 the consolidation and sub-consolidations (also see paragraph A51) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

Using Audit Evidence from an Audit Performed for Another Purpose (Ref: Para. 42)

A103. An audit may be performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons. For example, when an entity or business unit has been acquired close to year-end. If an audit has been performed and an auditor's report has been issued for statutory, regulatory or other reasons, the group engagement team may use audit evidence from that audit if the group engagement team is satisfied that the work is appropriate for the group engagement team's purposes. If the audit procedures performed are not an appropriate response to the assessed risks of material misstatement of the group financial statements, the group engagement team may decide not to use the audit evidence from that audit. Alternatively, the group engagement team may plan to have additional audit procedures performed on the component, to address the assessed risks of material misstatement of the group financial statements.

A104. In addition to the factors in paragraph 42, factors that may affect the group engagement team's decision whether to use the audit evidence from an audit that has already been performed due to statutory, regulatory or other reasons to provide audit evidence for the group audit may include the following:

- Differences in the financial reporting framework applied in preparing the financial statements of the entity or business unit 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.
- Differences in the financial reporting period-end between the financial statements of the entity or business unit and the financial statements of the group.

A105. Other relevant requirements in this ISA with respect to the use of the work of a component auditor as described in paragraph 42(c), may include the requirements in the sections on understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control, materiality, identifying and assessing the risks of material misstatement, responding to the assessed risks of material misstatement and two-way communication between the group engagement team and the component auditor.

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

Effective Two-Way Communication (Ref: Para. 43)

A106. Clear and timely communication of the group engagement team's and the component auditor's responsibilities, the timing of procedures to be performed by the component auditors and results of those procedures to be provided to the group engagement team, along with the expected general content of such communications, helps establish the basis for effective two-way communication. Effective two-way communication between the group engagement team and the component auditors also helps to set expectations for component auditors, and facilitates the group engagement team's direction and supervision of them and the review of their work.

A107. Factors that may also contribute to effective two-way communication include:

- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The manner in which communications will be made. For example, it may be better to discuss certain matters in person or by telephone or videoconference rather than by exchanging emails.
- The person(s) in the group engagement team who will communicate regarding particular matters.
- The group engagement team's expectations that communication will be two-way, and that the component auditor is expected to communicate timely with the group engagement team matters they consider relevant to the group audit.
- The process for taking action and reporting back on matters communicated by the group engagement team.

Form of Communication (Ref: Para. 43)

A108. The group engagement team's requirements are often communicated in a set of instructions and may be supplemented by direct communication with the component auditor, for example, through a telephone call or videoconference. 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 arrange a meeting, in person

or remotely, with 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.

A109. The form of communication may be affected by such factors as:

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

Timing of Communications (Ref: Para. 43)

A110. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and 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 a new engagement, may be made as part of agreeing the terms of the engagement.

Non-Compliance with Laws or Regulations (Ref: Para. 20, 43)

A111. The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. 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.⁵⁴ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the 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).

Communications with Those Charged with Governance of the Component (Ref: Para. 44(f))

A112. In certain circumstances, the group engagement team may combine certain entities or business units into components for purposes of planning and performing the group audit (see paragraphs A4-A6). In these circumstances, the group engagement team may need to use professional judgment to determine, in accordance with ISA 260 (Revised),⁵⁵ the appropriate person(s) in the governance structure of those entities or business units with whom to communicate, in view of the nature of the matters to be communicated.

Reviewing the Component Auditor's Audit Documentation (Ref: Para. 45(b))

A113. The nature, timing and extent of the review of the component auditor's audit documentation may vary depending on the circumstances and may be affected by:

- (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;

⁵⁴ See, for example, Section 360.17 and Section 360.18 of the IESBA Code

⁵⁵ ISA 260 (Revised), paragraph 11

- (b) The group engagement team's understanding of the component auditor, including the competence and capabilities of the component auditor;
- (c) The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's policies or procedures for review of audit documentation; and
- (d) Limitations on the group engagement team's ability to access the component auditor's audit documentation.

Subsequent Events (Ref: Para. 47–48)

A114. The group engagement team may:

- (a) 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.
- (b) 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.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 49)

A115. The evaluation required by paragraph 49 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 330⁵⁶ 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 also may be helpful for purposes of this evaluation in the context of the group financial statements.

Evaluating the Effect on the Group Audit Opinion (Ref: Para. 50)

A116. The group engagement partner's evaluation may include a consideration of whether misstatements communicated by component auditors indicate a systemic issue (e.g., with respect to transactions subject to common accounting policies or common controls) that may affect other components.

Auditor's Report (Ref: Para. 52)

A117. 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.

A118. 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 Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to

⁵⁶ ISA 330, paragraph 18

the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.⁵⁷

Communication with Group Management and Those Charged with Governance of the Group

Group Engagement Partner's Review of Component Auditor Communications (Ref: Para. 53)

A119. The group engagement partner is not expected to review, prior to their issuance, all communications between a component auditor and component management. The group engagement partner may inform component auditors of their responsibilities in identifying communications that may be significant to the group audit engagement.

Communication with Group Management (Ref: Para. 54–55)

A120. 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.⁵⁸

A121. 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. 56)

A122. 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 may take place at various times during the group audit. For example, the matter referred to in paragraph 56(a) 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 56(b) may be communicated at the end of the audit, and the matters referred to in paragraph 56(c)–(d) may be communicated when they occur.

A123. ISA 260 (Revised)⁵⁹ requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. With respect to a group audit, the group engagement team's determination of the planned scope and approach is based on the understanding of the group and its environment in accordance with paragraph 24 of this ISA. This understanding helps the group engagement team to make preliminary judgments about components, including how the group's entities or business units may be combined for purposes of planning and performing the group audit, and where component auditors may need to be involved.

⁵⁷ ISA 705 (Revised), paragraphs 20 and 24

⁵⁸ ISA 240, paragraphs 41–43

⁵⁹ ISA 260 (Revised), paragraph 15

Documentation (Ref: Para. 57)

A124. In accordance with ISA 230,⁶⁰ the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. The audit documentation for the group audit includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file. However, the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). The extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work

A125. ISA 300⁶¹ requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

A126. When component auditors are involved in the group audit, the group engagement team's documentation of its involvement in the work of component auditors may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA.
- The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed.
- Matters discussed in teleconferences or videoconferences with component auditors or component management.
- The rationale for the group engagement team's determination of component auditor audit documentation selected for review.
- Changes in the planned nature and extent of involvement with component auditors, and the reasons why.

A127. The determination of the nature and extent of the review of component auditor documentation by the group engagement team is also a matter of professional judgment. Paragraph A113 includes factors that may affect the determination of the extent of the review of audit documentation of component auditors.

A128. 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 and supervision of component auditors and the review of their work. For example, the firm may have developed an electronic audit tool that may be used to facilitate

⁶⁰ ISA 230, paragraphs 8–9

⁶¹ ISA 300, *Planning an Audit of Financial Statements*, paragraph 9(a).

communications between the group engagement team and component auditors, and such tool also may also be used for audit documentation.

Other Documentation Considerations When Access to Component Auditor Documentation is Restricted

A129. Audit documentation for an audit of group financial statements may present some additional complexities or challenges depending on the structure of the group. This may be the case, for example, when the group has entities or business units in a number of different jurisdictions with varying laws or regulations that may limit the ability of the group engagement team to access the component auditor documentation or restrict the component auditor from providing documentation outside of its jurisdiction.

A130. In these circumstances, the group engagement team is nonetheless required to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. In addition, when the group engagement team determines that it may be appropriate to include relevant parts of the component auditor documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.

Appendix 1

(Ref: Para. 4, A8, A82)

Considerations Relating to the Involvement of Component Auditors in the Group Audit

1. This appendix provides additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit. When component auditors are involved, this ISA includes additional requirements and guidance relating to the group engagement team's direction and supervision of component auditors, and the review of their work in accordance with proposed ISA 220 (Revised). However, as indicated in paragraph 6, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.
2. Component auditors can be, and often are, involved in all phases of the group audit. The determination of whether, and the extent to which, component auditors are to be involved in the group audit engagement is a matter of professional judgment for the group engagement team and begins with the acceptance and continuance of the group audit engagement (see paragraph 13). A preliminary understanding of the group and its environment, including the matters described in paragraph 24 and expectations of the locations, functions or activities within the group at which audit evidence is to be obtained, provides a foundation for the group engagement partner's determination that sufficient and appropriate resources to perform the group audit engagement can be assigned. This determination relates to, for example:
 - The nature of resources, such as the use of appropriately experienced engagement team members. For example, component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including language, culture, business practices, and local laws and regulations) than the group engagement team;
 - The amount and location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations; or
 - Access arrangements. For example, when the group engagement team's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
3. The determination of the involvement of component auditors is an iterative process. When the group engagement team makes a preliminary determination that component auditors will be involved in the group audit, the group engagement team obtains an understanding of component auditors to determine that they have the appropriate competence and capabilities (see paragraph 21). Paragraphs A41-A46 address the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the competence and capabilities of component auditors. Such procedures are affected by factors described in paragraph A42, for example, previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures.
4. The nature, timing and extent of the involvement of component auditors will vary depending on the circumstances of the engagement. The group engagement team may determine that it is appropriate

to involve component auditors to assist the group engagement team in fulfilling its responsibilities with respect to the requirements in this ISA, including relating to some or all of the following:

- Understanding the group and its environment by designing and performing risk assessment procedures (see paragraph 25);
 - Identifying and assessing the risks of material misstatement of the group financial statements (see paragraph 32); and
 - Designing and performing further audit procedures (see paragraph 37).
5. For certain components, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group engagement team may decide that it has sufficient resources and experience and therefore does not need to assign the design and performance of risk assessment procedures in relation to a component to the component auditor. However, the group engagement team may still discuss with the component auditor whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements when the group engagement team intends to assign the design and performance of further audit procedures to the component auditor.
6. For some components, the group engagement team may determine that it is appropriate for the component auditor to be involved in all phases of the group audit regarding the work to be performed in relation to that component. (e.g., for a component for which the group engagement team does not have the same in-depth knowledge or experience as the component auditor with respect to the component's business activities). The component auditor's involvement may include:
- Designing and performing risk assessment procedures to provide information relating to the component for purposes of identifying and assessing the risks of material misstatement of the group financial statements; and
 - Designing and performing further audit procedures in response to the assessed risks of material misstatement of the group financial statements.
7. For example, as described in paragraph A98, the group engagement team may determine that audit evidence needs to be obtained 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, a component auditor's greater experience and knowledge of the component's business may mean that the component auditor is better placed to design and perform the further audit procedures.

Appendix 2

(Ref: Para. A32)

Illustration of Independent Auditor's Report Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.**
- **The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.**
- **The group engagement team has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.**
- **In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.⁶²**
- **The IESBA Code comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.⁶³**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

⁶² If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

⁶³ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁶⁴

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects (or give a true and fair view of), the consolidated financial position of the Group as at December 31, 20X1, and (of) their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised)⁶⁵ – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

⁶⁴ The sub-title, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.

⁶⁵ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁶⁶

[Reporting in accordance with ISA 700 (Revised)⁶⁷ – see Illustration 2 in ISA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

If, in the group engagement partner’s judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

⁶⁶ Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Appendix 3

(Ref: Para. A53)

Understanding the Group's System of Internal Control

1. This appendix provides examples of controls that may be helpful in obtaining an understanding of the group's system of internal control in a group environment, and expands on how ISA 315 (Revised 2019) is to be applied in relation to an audit of group financial statements.⁸⁶ The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group engagement team's understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management's oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
 - How oversight over the group's system of internal control by, those charged with governance is structured and organized.
 - How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g., group-wide programs, such as codes of conduct and fraud prevention programs).
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group's Risk Assessment Process

3. The group engagement team's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.

The Group's Process to Monitor the System of Internal Control

4. The group engagement team's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, where relevant, activities of the internal audit function across the group. The group's internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. ISA 610 (Revised 2013)⁸⁷ deals with the group engagement team's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

⁸⁶ ISA 315 (Revised 2019), Appendix 3

⁸⁷ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

The Information System and Communication

5. The group engagement team's understanding of the group's information system and communication may include matters such as the following:
- Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group engagement team's understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters relating to the consolidation process:

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted where required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group's IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments and reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

Control Activities

7. The group engagement team's understanding of the control activities component may include matters such as the following:
 - The extent of centralization in the group's IT environment and the commonality of IT applications, IT processes and IT infrastructure.
 - The commonality of information processing controls and general IT controls for all or part of the group.
 - The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
 - The extent to which commonly designed controls have been implemented consistently for all or part of the group.

Appendix 4

(Ref: Para. A81)

Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the group financial statements, at the financial statement level or the assertion level. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see ISA 315 (Revised 2019), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> • The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	<ul style="list-style-type: none"> • Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.
Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals or reorganizations.
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unusual government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.

<p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p>	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions. • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
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Indicators that the control environment, the group’s risk assessment process or the group’s process to monitor the group’s system of internal control are not appropriate to the group’s circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group’s system of internal control, include:

- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective controls over the group’s financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.

CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 600 (REVISED) – MARKED FROM EXTANT PROPOSED ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Given that ISA 220 is being revised, the conforming and consequential amendments are tracked against the exposure draft of proposed ISA 220 (Revised).¹

...

Application and Other Explanatory Material

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Definitions

Engagement Partner (Ref: Para. 10(a))

A15A. When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for the purposes of the ISAs. 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.

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ISA 230 – AUDIT DOCUMENTATION

...

Appendix

(Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs

This appendix identifies paragraphs in other ISAs that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- ISA 220, *Quality Control for an Audit of Financial Statements* – paragraphs 24–25
- ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 45–48
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph 30
- ISA 260 (Revised), *Communication with Those Charged with Governance* – paragraph 23
- ISA 300, *Planning an Audit of Financial Statements* – paragraph 12

¹ <https://www.ifac.org/system/files/publications/files/IAASB-Proposed-ISA-220-Revised-Explanatory-Memorandum.pdf>

- ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* – paragraph 32
- ISA 320, *Materiality in Planning and Performing an Audit* – paragraph 14
- ISA 330, *The Auditor’s Responses to Assessed Risks* – paragraphs 28–30
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraph 15
- ISA 540, *Auditing Accounting Estimates and Related Disclosures* – paragraph 39
- ISA 550, *Related Parties* – paragraph 28
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 57~~9~~
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraph 36–37
- ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* – paragraph 25

ISA 240 – THE AUDITOR’S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

Introduction

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Responsibility for the Prevention and Detection of Fraud

...

Responsibilities of the Auditor

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9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other ISAs, such as: (Ref: Para. A6)
 - (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
 - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g.,-in an audit of group financial statements); and
 - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor’s work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

...

Application and Other Explanatory Material

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Responsibility for the Prevention and Detection of Fraud

Responsibilities of the Auditor (Ref: Para. 9)

- A6. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within the engagement team a group, including a group engagement partner, component auditors, or other auditors performing work at ~~components~~ entities or business units of a group for purposes other than the audit of the group financial statements.²

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ISA 250 (REVISED) – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

Introduction

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Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A8)

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Responsibility of the Auditor

...

9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this ISA, such as: (Ref: Para. A8)
- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
 - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
 - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

² See, for example, Sections ~~225.24R360.16–225.22R360.18~~ of the IESBA Code.

...

Application and Other Explanatory Material

Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–9)

...

Responsibility of the Auditor

...

Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

- A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within the engagement team ~~a group, including a group engagement partner, component auditors,~~ or other auditors performing work at components entities or business units of a group for purposes other than the audit of the group financial statements.³

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ISA 260 (REVISED) – COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

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- A4. ISA 600 (Revised) includes specific matters to be communicated by the group engagement team ~~auditors~~ with those charged with governance.⁴ When the entity or business unit ~~is a component part~~ of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of ~~components~~ entities or business units may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those ~~components~~ entities or business units are the same (e.g., common board of directors), duplication may be avoided by dealing with these ~~components~~ entities or business units concurrently for the purpose of communication.

³ See, for example, Sections ~~225.24R360.16–225.22R360.18~~ of the IESBA Code.

⁴ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~5649~~

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

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Communication with Third Parties

A43. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
- (b) That no responsibility is assumed by the auditor to third parties; and
- (c) Any restrictions on disclosure or distribution to third parties

...

Appendix 1

(Ref: Para. 3)

Specific Requirements in ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ISQC 1⁵ and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 22, 39(c)(i) and 41–43
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 15, 20 and 23–25
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA 505, *External Confirmations* – paragraph 9
- ISA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7

⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- ISA 550, *Related Parties* – paragraph 27
- ISA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA 570 (Revised), *Going Concern* – paragraph 25
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph ~~5649~~
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report* – paragraph 17
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report* – paragraphs 12, 14, 23 and 30
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report* – paragraph 12
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* – paragraphs 17—19

...

ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS

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Requirements

...

Planning Activities

7. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
8. In establishing the overall audit strategy, the auditor shall:
 - (a) Identify the characteristics of the engagement that define its scope;
 - (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
 - (c) Consider the factors that, in the auditor’s professional judgment, are significant in directing the engagement team’s efforts;
 - (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
 - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.
(Ref: Para. A8–A11)
9. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised).⁶
 - (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330.⁷
 - (c) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A12-A14)
10. The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A15)
11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)
- 11A. The engagement partner shall review the overall audit strategy and audit plan.

...

Application and Other Explanatory Material

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Planning Activities

The Overall Audit Strategy and Audit Plan (Ref: Para. 7–89)

- A8. The process of establishing the overall audit strategy and audit plan assists the auditor to determine, subject to the completion of the auditor’s risk assessment procedures, such matters as:
- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;
 - The amount of resources to be allocated to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the nature and extent of direction, supervision and review of component ~~other~~ auditors’ work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
 - When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
 - How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.
- A9. The Appendix lists examples of considerations in establishing the overall audit strategy.

...

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

⁷ ISA 330, *The Auditor’s Responses to Assessed Risks*

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor's detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit coverage scope, including the number and locations of components to be included at which audit procedures are expected to be performed for purposes of a group audit, and the extent to which component auditors will be involved.
- The nature of the control relationships between a parent and its ~~components~~ entities or business units that determine how the group is to be consolidated.
- ~~• The extent to which components are audited by other auditors.~~
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The requirement need for an audit of financial statements for statutory, regulatory or other reasons, audit of standalone financial statements in addition to an audit procedures performed for consolidation purposes of a group audit.

...

Reporting Objectives, Timing of the Audit, and Nature of Communications

- The entity's timetable for reporting, such as at interim and final stages.
- The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
- Communication with component auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit procedures performed for purposes of the group audit of components.

- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- The determination of materiality in accordance with ISA 320⁸ and, where applicable:
 - The determination of component performance materiality ~~for components~~ and communication thereof to component auditors in accordance with ISA 600 (Revised).⁹
 - The preliminary identification of ~~significant components and~~ material classes of transactions, account balances and disclosures.

...

ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

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Application and Other Explanatory Material

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

...

Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity (Ref: Para. 12)

...

A18. In some circumstances, a user entity may outsource one or more significant business units or functions, such as its entire tax planning and compliance functions, or finance and accounting or the controllership function to one or more service organizations. As a report on controls at the service organization may not be available in these circumstances, visiting the service organization may be the most effective procedure for the user auditor to gain an understanding of controls at the service organization, as there is likely to be direct interaction of management of the user entity with management at the service organization.

A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant controls at the service organization. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find

⁸ ISA 320, *Materiality in Planning and Performing an Audit*

⁹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs ~~21–23 and 40(e)~~29–30

the guidance in proposed ISA 220600 (Revised)¹⁰ useful as it relates to determining the competence and capabilities of the other understanding another auditor (including that auditor's independence and professional competence), the direction and supervision involvement in the work of the other another auditor, in planning and the nature, timing and extent of such the work assigned to the other auditor, and ~~in~~ evaluating the sufficiency and appropriateness of the audit evidence obtained.

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ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

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Application and Other Explanatory Material

Inventory

Attendance at Physical Inventory Counting (Ref: Para. 4(a))

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A3. Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs 4–8 of this ISA) include, for example:

- The risks of material misstatement related to inventory.
- The nature of the internal control related to inventory.
- Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.
- The timing of physical inventory counting.
- Whether the entity maintains a perpetual inventory system.
- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate. ~~ISA 600⁴⁴ deals with the involvement of other auditors and accordingly may be relevant if such involvement is with regard to attendance of physical inventory counting at a remote location.~~
- Whether the assistance of an auditor's expert is needed. ISA 620¹² deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

...

¹⁰ Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 2, states: "An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements ..." See also paragraph 19 of ISA 600.

⁴⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹² ISA 620, *Using the Work of an Auditor's Expert*

ISA 550 – RELATED PARTIES

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Application and Other Explanatory Material

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Risk Assessment Procedures and Related Activities

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Understanding the Entity's Related Party Relationships and Transactions

...

The Identity of the Entity's Related Parties (Ref: Para. 13(a))

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A13. In the context of a group audit, ISA 600 (Revised) requires the group engagement team to request component auditors to communicate on a timely basis related parties not previously identified by group management or the group engagement team provide each component auditor with a list of related parties prepared by group management and any other related parties of which the group engagement team is aware.¹³ ~~Where the entity is a component within a group, this~~ Such information provides a useful basis for the ~~auditor~~ auditor group engagement team's inquiries of management regarding the identity of ~~the entity's~~ related parties.

A14. The auditor may also obtain some information regarding the identity of the entity's related parties through inquiries of management during the engagement acceptance or continuance process.

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

...

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the ISA 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls,¹⁴ the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

¹³ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 41(a),40(e)

¹⁴ ISA 330, paragraph 8(b)

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

Evaluating the Business Rationale of Significant Related Party Transactions (Ref: Para. 23)

A38. In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction:
 - Is overly complex (for example, it may involve multiple related parties within a ~~consolidated~~ group).
 - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
 - Lacks an apparent logical business reason for its occurrence.
 - Involves previously unidentified related parties.
 - Is processed in an unusual manner.
- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance.
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with ISA 500,¹⁵ to consider the reliability of management's explanations and representations on other significant matters.

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ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS

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Application and Other Explanatory Material

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

...

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

A15. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall audit strategy and audit plan that the external auditor has established in accordance with ISA 300.¹⁶

¹⁵ ISA 500, *Audit Evidence*, paragraph 11

¹⁶ ISA 300, *Planning an Audit of Financial Statements*

A16. Examples of work of the internal audit function that can be used by the external auditor include the following:

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- In some circumstances, the work performed on the financial information of entities or business units of a group audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of ISA 600).⁴⁷

...

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit (Ref: Para. 5, 26–28)

A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant ~~for~~ in the circumstances of a the group audit auditors for the group engagement team to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.¹⁸

...

ISA 700 (REVISED) – FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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Requirements

...

Auditor's Report

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Responsibilities for the Financial Statements

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)

⁴⁷ ~~ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

¹⁸ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 2040(b)

- (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and
- (b) Describe an audit by stating that the auditor’s responsibilities are:
 - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.
 - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - (iv) To conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause an entity to cease to continue as a going concern.
 - (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (c) When ISA 600 (Revised)¹⁹ applies, further describe the auditor’s responsibilities in a group audit engagement by stating that:
 - (i) The auditor’s responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence ~~regarding the financial information of the entities or business activities within the group to~~ as a basis for ~~expressing an~~ opinion on the group financial statements
 - (ii) The auditor is responsible for the direction, supervision and review performance ~~of the~~ group audit; and

¹⁹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (iii) The auditor remains solely responsible for the auditor's opinion.²⁰

...

Application and Other Explanatory Material

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Auditor's Report (Ref: Para. 20)

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

...

Basis for Opinion (Ref: Para. 28)

...

Considerations specific to group audits

- A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.²¹
- A39. The ISAs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group engagement team is subject, nor do the ISAs require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA 600 (Revised)²² provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

...

1. **Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**
2. **For purposes of this illustrative auditor's report, the following circumstances are assumed:**
 - **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**
 - **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**

²⁰ ISA 600 (Revised), paragraph 52

²¹ ISA 600 (Revised), paragraph A36A37

²² ISA 600 (Revised), paragraphs 20–2249–20

- **The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.**
- **The International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements²³

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

²³ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA 701.]

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements²⁴

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs,²⁵ and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

²⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

²⁵ Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ...”

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.²⁶
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to as a basis for expressing an opinion on the group consolidated financial statements. We are responsible for the direction, supervision and review performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a

²⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

...

ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

...

Application and Other Explanatory Material

Determining Key Audit Matters (Ref: Para. 9–10)

...

Matters that Required Significant Auditor Attention (Ref: Para. 9)

...

A15. Various ISAs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.²⁷ The ISAs acknowledge potential difficulties in relation to, for example:
 - Related party transactions,²⁸ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.

²⁷ ISA 260 (Revised), paragraphs 16(b) and A21

²⁸ ISA 550, *Related Parties*, paragraph A42

- Limitations on the group audit, for example, where ~~the group engagement team's~~ access to information or people may have been restricted.²⁹
- ISA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.³⁰ For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit

...

ISA 705 (REVISED) – MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

...

Application and Other Explanatory Material

...

Circumstances When a Modification to the Auditor's Opinion Is Required

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

- A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
- (a) Circumstances beyond the control of the entity;
 - (b) Circumstances relating to the nature or timing of the auditor's work; or
 - (c) Limitations imposed by management.
- A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.
- A10. Examples of circumstances beyond the control of the entity include when:
- The entity's accounting records have been destroyed.
 - The accounting records of a ~~significant~~ component for which further audit procedures are determined to be necessary for the purposes of the group audit have been seized indefinitely by governmental authorities.

...

²⁹ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 5649(d)

³⁰ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

ISA 720 (REVISED) THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

...

Application and Other Explanatory Material

...

Reading and Considering the Other Information (Ref: Para. 14–15)

...

A24. In accordance with ISA 220,³¹ the engagement partner is required to take responsibility for the direction, supervision and ~~review performance~~ of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this ISA, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgment involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

...

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

A35. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team, ~~including~~ ~~or~~ relevant component auditors, is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor's recollection.

³¹ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make inquiries of relevant members of the engagement team, including ~~or~~ relevant component auditors, about any matter included in the other information.

...

ISA 805 (REVISED) – SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

Introduction

Scope of this ISA

1. The International Standards on Auditing (ISAs) in the 100–700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This ISA deals with special considerations in the application of those ISAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA 800 (Revised)³² also applies to the audit. (Ref: Para. A1–A4)
2. This ISA does not apply to circumstances in which the report ~~audit procedures are performed by~~ of a component auditor, ~~issued as a result of work performed~~ on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see ISA 600 (Revised)).³³
3. This ISA does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

...

ISRE 2400 (REVISED) – ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS

...

Application and Other Explanatory Material

Scope of this ISRE (Ref: Para. 1-2)

...

~~*Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities*~~

³² ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

³³ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

~~A2. Review engagements in accordance with this ISRE may be requested for component entities by the auditor of the financial statements of a group of entities. Such a review engagement performed in accordance with this ISRE may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.~~

...

Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 29)

...

Agreeing the Terms of Engagement

...

Review of components of groups of entities

~~A54. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this ISRE. The group auditor may also specify additional procedures to supplement the work done for the review performed under this ISRE. Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this ISRE.~~

...

Performing the Engagement

...

The Practitioner's Understanding (Ref: Para. 45–46)

...

A78. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:

- Whether the entity is a ~~component of part of~~ a group of entities, or an associated entity of another entity.
- The complexity of the financial reporting framework.
- The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
- Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements. Smaller entities often have fewer

employees, which may influence how management exercises oversight. For example, segregation of duties may not be practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

- The “tone at the top” and the entity’s control environment through which the entity addresses risks relating to financial reporting and compliance with the entity’s financial reporting obligations.
- The level of development and complexity of the entity’s financial accounting and reporting systems and related controls through which the entity’s accounting records and related information are maintained.
- The entity’s procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- The types of matters that required accounting adjustments in the entity’s financial statements in prior periods.

...

Designing and Performing Procedures (Ref: Para. 47, 55)

...

~~A80. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner’s objectives for the review engagement stated in this ISRE, but in the context of the group financial statements.~~

...

Inquiry (Ref: Para. 46–48)

...

A88. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ISRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner; and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner’s work in accordance with this ISRE (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

...

Analytical Procedures (Ref: Para. 46–47, 49)

A90. In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner’s understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across business units ~~profit centers, branches or other components~~ of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements

...

ISRE 2410 – REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY

...

Procedures for a Review of Interim Financial Information

Understanding the Entity and its Environment, Including its Internal Control

...

16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim component financial information ~~of components~~, and the auditor’s understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.

...

Inquiries, Analytical and Other Review Procedures

...

21. The auditor ordinarily performs the following procedures:
- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.

CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 600 (REVISED)

- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim component financial information of the reporting entity's ~~significant components~~.
- ...

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