

# A Guide to Audits of Group Financial Statements and CAS 600

CANADIAN AUDITING STANDARDS (CAS)

SEPTEMBER 2023

## Audits of Group Financial Statements

### Standard discussed

Canadian Auditing Standard (CAS) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

### Introduction

Many audits today are audits of group financial statements (group audits). As with all audits conducted in accordance with generally accepted auditing standards, all relevant standards apply to group audits. Different challenges can arise in performing quality group audits, including, for example, dealing with component auditors. CAS 600, *Audits of Group Financial Statements (Including the Work of Component Auditors)*, deals with the special considerations that apply to a group audit, including in those circumstances when component auditors are involved. Revisions to CAS 600 were issued into the *CPA Canada Handbook – Assurance* in August 2022. CAS 600 is effective for audits of group financial statements for periods beginning on or after **December 15, 2023**.

This CAS is intended to do the following:

- Encourage proactive management of quality at the group engagement level and the component level.
- Keep the standard fit for purpose in a wide range of circumstances and in a developing environment.
- Reinforce the need for robust communication and interactions during the group audit.
- Foster an appropriately independent and challenging skeptical mindset of the auditor.

This standard takes into account the requirements of CSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and CAS 220, *Quality Management for an Audit of Financial Statements*, which are intended to strengthen and improve a firm's management of quality by focusing on the identification, assessment and response to quality risks in a broad range of engagement circumstances.

### Who Should Use This Guide, and How to Use It

We have developed this guide to assist practitioners involved in group audits – both group auditors and component auditors. Use this guide in conjunction with other non-authoritative material, including the following:

- August 2022 – CAS 600, *Basis of Conclusions (CPA Canada Guidance Collection)*
- August 2022 – [Audit & Assurance Alert CAS 600: Revised standard coming into effect](#)
- December 2022 – [FAQ: Are you sure you don't have to apply CAS 600?](#)

This guide does not address considerations specific to network firms or firms subject to network requirements.<sup>1</sup> Read the Audit & Assurance Alert to learn about the changes made to CAS 600, while the FAQ document will help you identify whether your audit engagement is a group audit engagement and whether CAS 600 is applicable.

Terminology used in this Guide is consistent with the terms contained and defined in the Glossary of Terms in the *CPA Canada Handbook – Assurance*.

Reading this guide does not replace the need to read the entire CAS 600, including the application and other explanatory material.

<sup>1</sup> CAS 600. A66 addresses considerations specific to network firms and firms subject to network requirements.

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## Scope of This CAS

[CAS 600, paras. 1-11]

This CAS deals with special considerations that apply to a group audit, including the circumstances involving component auditors. This CAS has been developed for all group audits, regardless of size or complexity, and have intended it to be scalable in the context of the nature and circumstances of each group audit.

CAS 600 refers to, or expands on, the application of other relevant CASs to a group audit.

A group may have various forms of organization — for example, as follows:

- legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method)
- geography
- other economic units (including branches or divisions)
- functions or business activities

CAS 600 refers to these different forms of organization collectively as “entities or business units.”

A single entity may or may not prepare group financial statements and may or may not be a group audit.

Consider the following:

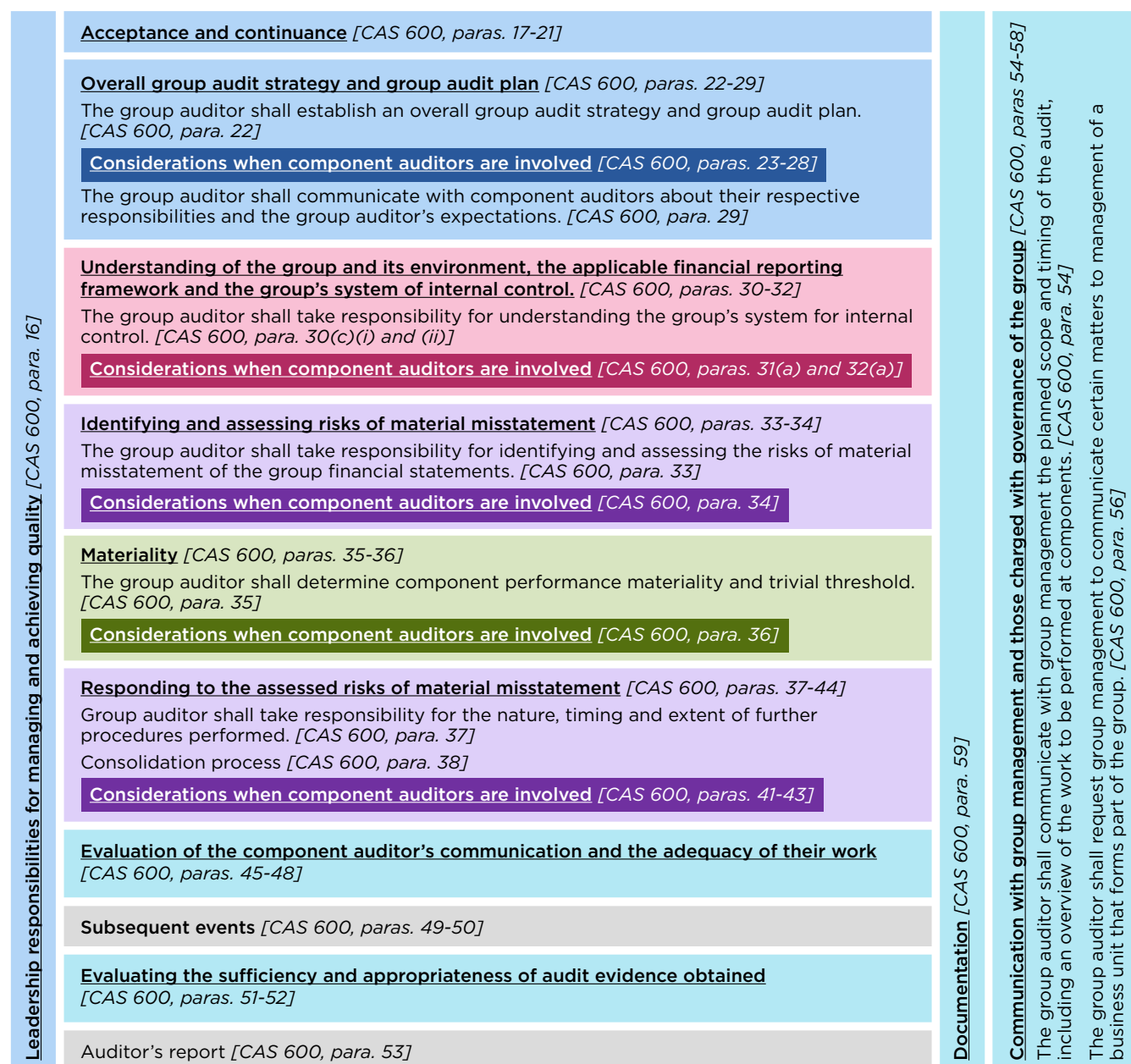
- The financial statements of a single legal entity **may** meet the definition of group financial statements if they include the financial information of more than one entity or business unit through a consolidation process.
  - This may be the case when more than one business unit exists — for example, a company with operations in multiple locations, such as a bank with multiple branches — the financial information is aggregated in preparing the single legal entity’s financial statements.
- The financial statements of a single legal entity **may not** meet the definition of group financial statements if no aggregation of the financial information of more than one entity or business unit through a consolidation process takes place.
  - This may be the case when a single legal entity configures its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of CAS 600.
  - CAS 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this CAS may be useful when involving such an individual to attend a physical inventory count; inspect property, plant and equipment or perform audit procedures at a shared service center at a remote location.

## Specific Areas Covered

This guide does not address all matters in CAS 600 and does not replace the need to read the entire CAS 600, including the application and other explanatory material. We have developed this guide to assist practitioners involved in group audits in applying the requirements of CAS 600.

The following diagram provides an overview of the sections in the standard. Items shaded in grey are requirements in CAS 600 that are not addressed in the tool. Note that items marked in the darker colour blocks are specific requirements in CAS 600 dealing with situations when component auditors are involved in the group audit engagement.

**DIAGRAM 1: OVERVIEW OF THE SECTIONS IN THE STANDARD AND THE SPECIFIC AREAS COVERED IN THE GUIDE**



## Some Key Concepts to Keep in Mind

### Role of the Group Engagement Partner

In clarifying how the requirements in CAS 220 apply to manage and achieve audit quality in a group audit, CAS 600 enhances the role of the group engagement partner throughout the group audit. This includes the following:

- taking overall responsibility for managing and achieving quality and creating the right environment for the engagement team, including the following:
  - being sufficiently and appropriately involved throughout the audit
  - taking responsibility for actions being taken that reflect the firm’s commitment to quality and the expected behaviour of the engagement team
  - being responsible for the direction and supervision of the engagement team and the review of their work
- standing back before the engagement report is dated and determining whether the engagement partner has taken overall responsibility for managing and achieving quality on the engagement

The requirements in CAS 600 distinguish between those when the group engagement partner is required to “take responsibility for” or directly perform an action versus those when the group engagement partner is permitted to assign the responsibility for the action to others, while retaining overall responsibility for the outcomes of such assigned actions.

For example, the group engagement partner is required to take overall responsibility for demonstrating leadership and the appropriate behaviour and culture. The engagement partner may achieve this by means of visiting the engagement team locations regularly. However, this may not be practical in a large, complex group audit. Similarly, speaking directly with all engagement team members and directly supervising and reviewing their work may not be practical for the group engagement partner either. Accordingly, group engagement partners may need to determine an appropriate balance between assigning the design or performance of procedures, tasks or actions to other members of the engagement team (as permitted by CAS 220) versus doing this work themselves.

In the guide, the following symbol identifies requirements for the group engagement partner to take responsibility for an action or to perform an action directly: **GEP**

### Effective Two-Way Communications

A key feature of CAS 600 is its stressing the importance of two-way communication between group auditors (GA) and component auditors (CA). Effective two-way communication involves the following:

**Group auditors’ communicating at an early stage.** Requiring the group auditor to communicate with component auditors about their respective responsibilities and the group auditor’s expectations during the development of the overall group audit strategy and audit plan sets the tone for the group auditor to be proactive in communicating at an early stage with component auditors.

Accordingly, this CAS requires sufficient and appropriate involvement of group engagement partners or group auditors, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, this CAS explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work.

**Component auditors' communicating on a timely basis.** CAS 600 also creates an expectation that communications between the group auditor and component auditors will take place at appropriate times throughout the group audit. This means that component auditors have a responsibility to communicate with the group auditor on a timely basis (not just when providing the final communication once the requested work has been performed). For example, communication is important when a component auditor identifies matters relating to a component not previously identified by the group auditor that may be relevant to the group auditor's conclusion with regard to the group audit.

**Component auditors' adopting a one engagement team mindset.** Audit risk is a function of the risks of material misstatement and detection risk. Detection risk in a group audit includes the risk (1) that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements and (2) that the group auditor may not detect a material misstatement. Accordingly, component auditors need to adopt a one engagement team mindset when performing procedures and communicating results to the group auditor. Component auditors are members of the group engagement team and so have a group audit role to play beyond performing the work requested.

The following symbol in this guide identifies requirements for communications between the group auditor and component auditors: **Com**

For these requirements, see Diagram 2.

Diagram 2 presents these requirements grouped by colour and as they appear in the sections of CAS 600:

**Overall Group Audit Strategy and Audit Plan**

**Understanding the Group and Its Environment**

**Materiality**

**Responding to the Assessed Risks of Material Misstatement**

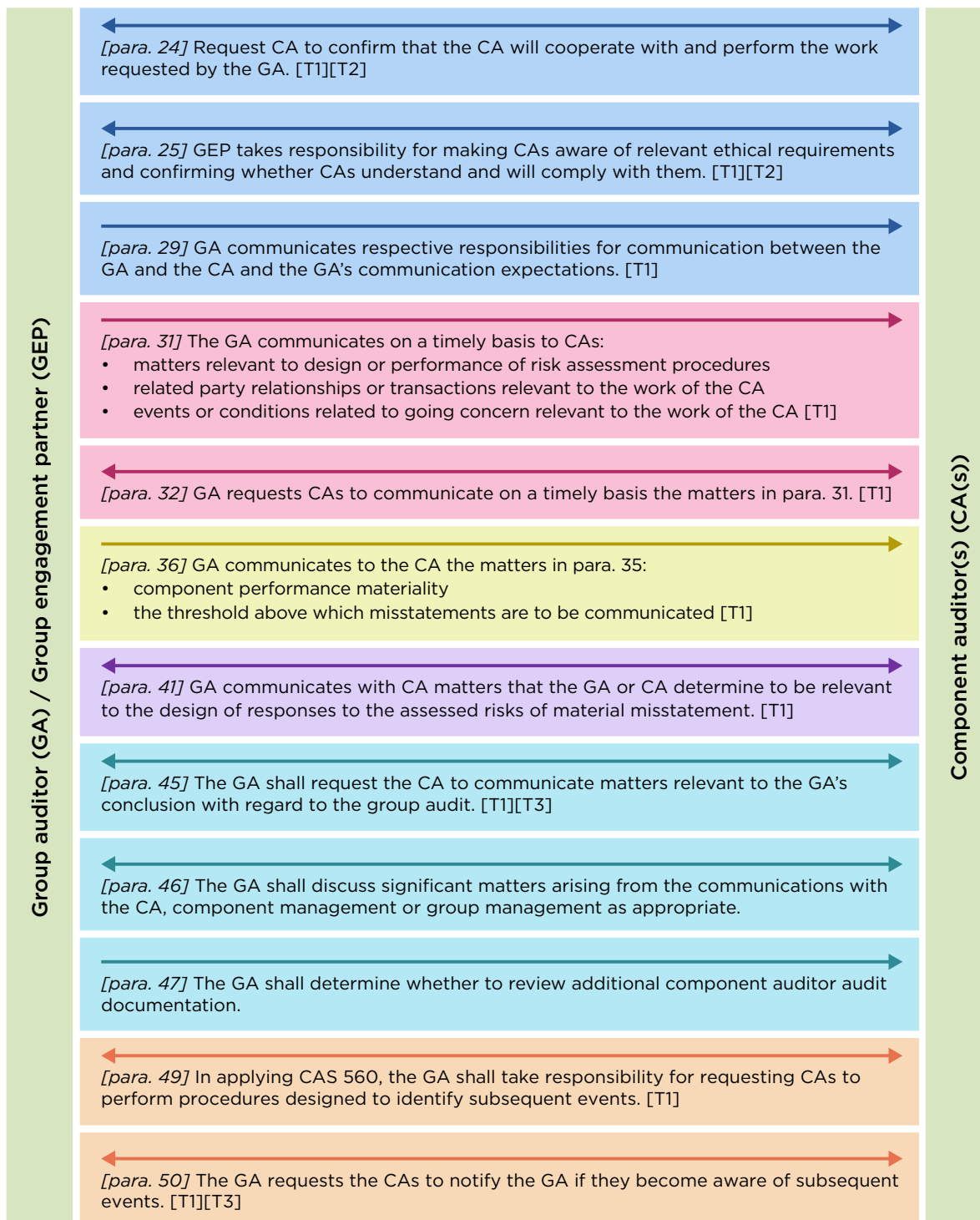
**Evaluating the Component Auditor's Communications and the Adequacy of Their Work**

**Subsequent Events**

Diagram 2 also identifies the templates ([T1](#), [T2](#) or [T3](#)) that are relevant to these communication requirements.



**DIAGRAM 2: REQUIREMENTS IN CAS 600, INVOLVING COMMUNICATIONS BETWEEN THE GROUP AUDITOR / GROUP ENGAGEMENT PARTNER WITH COMPONENT AUDITOR(S)**



### Statutory Audits at Components

In many group audits, the component auditor is also engaged to conduct a statutory audit of the component. The group auditor may wish to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for

purposes of the group audit. This would require the group auditor to be able to comply with all the requirements of CAS 600, such as being sufficiently and appropriately involved in the work of component auditors, including direction and supervision of the component auditor and reviewing their work. Accordingly, in these circumstances, effective early communication is important to ensure the statutory audit is not completed prior to the group audit. Communicating the timing of the statutory audits to those charged with governance is also important.

We address using audit evidence from an audit used for another purpose in [Responding to the Assessed Risks of Material Misstatement](#).

In the case where the statutory audit is completed before the planning for the group audit engagement begins, satisfying requirements related to planning, directing and supervising the work may be difficult; hence, the group engagement team may likely need to perform additional work to meet the requirements of the CASs.

## Documentation

CAS 600 contains requirements and application material to emphasize the linkage to the requirements in CAS 230 and other CASs. There are specific requirements to document in certain situations, such as when there are restrictions on access to component auditor audit documentation. CAS 600 also explains the group auditor's responsibility to determine whether, and the extent to which, reviewing additional component auditor audit documentation is necessary.

The following symbol in the implementation guide identifies requirements for the group auditor to include matters in the audit documentation: **D**

[Appendix](#) also includes such requirements.

## Leadership Responsibilities for Managing and Achieving Quality

### *What [CAS 600, para. 16]*

CAS 600 requires that in applying CAS 220 the group engagement partner take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner is required to do the following:

- a) Take responsibility for creating an environment for the group audit engagement that emphasizes the expected behaviour of engagement team members.
- b) 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.

GEP

**How [CAS 600, paras. A29-A31]**

As the group engagement partner, consider whether to assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the engagement partner. For example, the group engagement partner may assign direction and supervision of certain component auditors and review of their work to certain appropriately skilled individuals. These individuals may, in turn, assign review responsibilities to others within the engagement team. However, the engagement partner must continue to take overall responsibility for managing and achieving quality on the audit engagement.

Consider whether policies or procedures that are established by the firm or that are common network requirements or network services can (1) facilitate communication between the group auditor and component auditors and (2) support the group auditor's direction and supervision of those component auditors and the review of their work.

Network requirements are requirements established by the network regarding the firm's system of quality management, including requirements for the firm to implement or use resources or services designed or otherwise provided by or through the network. Network services are any services or resources provided by the network that the firm chooses to implement or use in the design, implementation or operation of the firm's system of quality management. [CSQM 1, para. 48]

Demonstrate a commitment to quality by communicating directly to other members of the engagement team (including component auditors) and reinforce this communication through personal conduct and actions (e.g., leading by example).

**Acceptance and Continuance****What [CAS 600, paras. 17-18, 20-21]**

Before accepting or continuing the group audit engagement, the group engagement partner is required to 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.

GEP

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 is required to consider the possible effects on the group audit.

GEP

If group management cannot provide the engagement team with access to information or people, the group engagement partner is required to consider the possible effects on the group audit because restrictions on access do not eliminate the requirement for the group auditor to obtain sufficient appropriate audit evidence.

GEP

D

When management imposes restrictions on access to information or people, and obtaining sufficient appropriate audit evidence is not possible due to those restrictions such that the possible effect of this limitation will result in a disclaimer of opinion on the group financial statements, the group engagement partner should withdraw from the engagement or, if this is not otherwise possible, disclaim an opinion on the group financial statements.

**How [CAS 600, paras. A32, A34-A35, A40-A41, A43-A44, A180]**

*Determining whether sufficient appropriate audit evidence can be obtained*

Obtain an understanding of the following matters:

- the group structure, including both the legal and organizational structure
- 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 centres
- the consolidation process
- whether the group auditor will have the following:
  - unrestricted access to those charged with governance of the group, group management; those charged with governance of the component, component management and component information, including of those components that are accounted for by the equity method
  - an ability to perform necessary work on the financial information of the components when applicable
- whether sufficient and appropriate resources are assigned or will be made available

Consider whether the ability to obtain sufficient appropriate audit evidence has been affected by significant changes in, for example, the following:

- the group structure (e.g., acquisitions, disposals, joint ventures, reorganizations, or changes in how the group financial reporting system is organized)
- components' activities that are significant to the group
- 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
- the group auditor's understanding of the integrity and competence of group or component management
- the applicable financial reporting framework

When components are located in jurisdictions other than the group auditor's jurisdiction, consider the complexities with obtaining sufficient appropriate audit evidence because of cultural and language differences, and different laws or regulations.

- Does law or regulation restrict the component auditor from providing documentation outside of their jurisdiction?
- Has there been war, civil unrest or outbreaks of disease that may restrict access to relevant component auditor audit documentation?

*Restrictions on access to relevant component auditor documentation*

If restrictions exist in obtaining relevant component auditor documentation, consider whether overcoming such restrictions is possible by doing the following:

- visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation
- reviewing the relevant audit documentation remotely through the use of technology, when not prohibited by law or regulation
- requesting the component auditor to prepare and provide a memorandum that addresses the relevant information, and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum
- discussing with the component auditor the procedures performed, the evidence obtained and the conclusions reached by the component auditor

*Restrictions on access to component management or those charged with governance*

If access to component management or those charged with governance of the component is restricted, consider requesting group management or those charged with governance of the group to assist with removing the restriction, or otherwise request information directly from group management or those charged with governance of the group.

*Restrictions on access to information of a non-controlling interest*

If the group has a non-controlling interest in an entity that is accounted for by the equity method, do the following:

- Consider 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 request group management to exercise such rights.
- If the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, inquire whether they can provide financial and other information available to them in these roles.

- Consider whether information can be obtained that may be used as audit evidence regarding the entity's financial information – for example, the following:
  - financial information that is available from group management, as group management also needs to obtain the non-controlled entity's financial information in order to prepare the group financial statements
  - publicly available information, such as audited financial statements, public disclosure documents or quoted prices of equity instruments in the non-controlled entity

Remember that it is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.

Under paragraph 16 of IAS 28, *Investments in Associates and Joint Ventures*, an entity is required to use the equity method of accounting when the entity has significant influence over its investee. Under INVESTMENTS paragraph 3051.06,<sup>2</sup> the entity may choose to use the equity method of accounting when the entity has significant influence. If the entity has accounted for an investment by the equity method, and access to information or people at the entity is restricted, consider whether such restrictions are inconsistent with group management's assertions regarding the entity's significant influence over the investee.

#### *Effect of restrictions on access to information or people on the group audit*

When the group auditor is unable to obtain sufficient appropriate audit evidence due to restrictions on access to information or people, the group auditor may do the following:

- Communicate the restrictions to the group auditor's firm to assist the group auditor in determining an appropriate course of action. For example, the group auditor's firm may communicate with group management about the restrictions and encourage group management to communicate with regulators. This may be 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.
- Communicate – as may be required by law or regulation – with regulators, listing authorities, or others, about the restrictions.

Restrictions on access may have other implications for the group audit. For example, if group management imposes restrictions, the group auditor may need to reconsider the reliability of group management's responses to the group auditor's inquiries and whether the restrictions call into question group management's integrity.

<sup>2</sup> CPA Canada Handbook – Accounting, Part II Accounting Standards for Private Enterprises.

If restrictions are imposed after acceptance of the group audit engagement that may affect the ability to obtain sufficient appropriate audit evidence, refer to CAS 705 for guidance on how to address such situations.

### Terms of the engagement

#### *What [CAS 600, para. 19]*

In agreeing the terms of the engagement with management, the group auditor is required to obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with the following:

- 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 or component management for the purpose of the group audit
- c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence

#### *How [CAS 600, para. A37]*

Matters specific to a group audit that the terms of a group audit engagement may include:

- Communications between the group auditor 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 auditor.
- Communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit should be communicated to the group auditor.
- The group auditor should be permitted to perform work, or request a component auditor to perform work, at the component.

## Overall Group Audit Strategy and Group Audit Plan

To emphasize the risk-based approach to conducting a group audit, CAS 600 includes a section that highlights the special considerations in a group audit related to the development of the overall group audit strategy and group audit plan, which includes linkages to CAS 300.

The group audit strategy is an iterative process, and upfront consideration of what and where audit work is needed in respect of the components of an entity is important prior to accepting the engagement (see also [Acceptance and Continuance](#)).

**What [CAS 600, para. 22]**

The group auditor is required to determine the following:

- the components at which the audit work will be performed
- the resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved

D

**How [CAS 600, paras. A51-A54]**

*Determining components at which the audit work will be performed*

Consider the following matters in determining at which components to perform audit work – for example, the following:

- The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component – for example, the following:
  - newly formed or acquired entities or business units
  - entities or business units in which significant changes have taken place
  - significant transactions with related parties
  - significant transactions outside the normal course of business
  - abnormal fluctuations identified by analytical procedures performed at the group level, in accordance with CAS 315
- The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements. For example, a group may have one or two operating subsidiaries that generate all the operating revenues for the group, and the related financial reporting takes place through different IT applications and information systems using different controls. In such circumstances, the group auditor would likely determine that these subsidiaries are separate components at which audit work will be performed.
- Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.
- The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.
- The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralizes activities relevant to financial reporting. For example, a group may have one or two operating subsidiaries that generate all the revenues for the group, but group management has designed common IT applications and information systems using identical controls. In such circumstances, the group auditor may be able to treat the two subsidiaries as one component for purposes of performing the group audit.



*Resources needed and nature, timing and extent of involvement of component auditors*

Consider the following matters in determining the resources needed to perform the group audit and the nature, timing and extent to which component auditors are to be involved – for example, the following:

- The understanding of the group, the components within the group at which audit work is to be performed and whether to perform work centrally, at components or a combination thereof.
- The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. In addition, the involvement of auditor’s experts may be needed on complex matters.
- The initial expectations about the potential risks of material misstatement.
- The amount or 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.
- Access arrangements. For example, when the group auditor’s access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
- The nature of the components’ activities, including their complexity or specialization of operations.
- The group’s system of internal control, including the information system in place, and its degree of centralization. For example, the involvement of component auditors may be more likely when the system of internal control is decentralized.
- Previous experience with the component auditor.

Component auditors may be involved in different phases of an audit – for example, component auditors may design or perform the following:

- risk assessment procedures
- procedures to respond to the assessed risks of material misstatement

The nature, timing and extent to which component auditors are to be involved depend on the facts and circumstances of the group audit engagement. Consider whether component auditors will be involved in all phases of the audit or in only a certain phase.

Even when component auditors will not be involved in risk assessment procedures, consider discussing with them 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.

## Considerations When Component Auditors Are Involved

### Sufficient and appropriate involvement in the work of component auditors

#### *What [CAS 600, paras. 23-24]*

In establishing the overall group audit strategy and group audit plan, the group engagement partner is required to evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor.

GEP

The group auditor is required to request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor.

Com

#### *How [CAS 600, paras. A57-A58]*

Obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation.

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.

If the component auditor is unable to cooperate with the group auditor, consider whether the group auditor is able to do the following:

- Request the component auditor to provide its rationale.
- Take appropriate action to address the matter, including adjusting the nature of the work requested to be performed. The group auditor may need to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor.

### Relevant ethical requirements

#### *What [CAS 600, para. 25]*

In applying CAS 220, the group engagement partner shall take responsibility for the following:

- a) Component auditors' having been made aware of relevant ethical requirements that are applicable, given the nature and circumstances of the group audit engagement
- b) Confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement

GEP

Com

**How [CAS 600, paras. A59-A60]**

Consider providing a list of all entities in the group structure from which the component auditors should be independent and obtain a written confirmation that the component auditors are, in fact, independent (see [Template 2](#) for a sample letter of confirmation, which includes a statement on independence).

Consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.

Relevant ethical requirements for a group audit may be different from 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. For example, the group auditor of a European group may apply the ethical requirements of [International Ethics Standards Board for Accountants \(IESBA\)](#), while the component auditor of a Canadian subsidiary may apply the ethical requirements of the Canadian Code. In this circumstance, the component auditor will also comply with the ethical requirements of IESBA.

**Engagement resources****What [CAS 600, para. 26]**

The group engagement partner is required to do the following:

- a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component.
- b) If information about the results of the monitoring and remediation process or external inspections related to the component auditor has been provided by the group auditor's firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination of the component auditor's competence and capabilities.

D

GEP

**How [CAS 600, paras. A64-A68]**

Determining that component auditors have appropriate competence and capabilities applies not only to those outside the firm's network but also to members of the network.

Procedures for determining that component auditors have the appropriate competence and capabilities may include the following:

- an evaluation of the information communicated by the group auditor's firm to the group auditor, including the following:
  - the firm's ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm

- information from the network about the results of the monitoring activities undertaken by the network across the network firms
- information obtained from the professional body(ies) to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties
- discussing the assessed risks of material misstatement with the component auditor
- requesting the component auditor to confirm their understanding of the relevant ethical requirements that apply given the nature and circumstances of the group audit engagement in writing
- discussing the component auditor’s competence and capabilities with colleagues in the group engagement partner’s firm that have worked directly with the component auditor
- obtaining published external inspection reports

The group engagement partner should remain open to information that may corroborate or contradict preliminary conclusions, although an exhaustive search of all publicly available information about the component auditor is not required.

The extent of procedures to determine that component auditors have the appropriate competence and capabilities may vary with factors such as the following:

- the component auditor’s operating in a foreign jurisdiction;
- previous experience with the component auditors;
- a significant turnover in the component auditor’s engagement team;
- the complexity of the work to be performed on the financial information of the component;
- the component auditor’s specialized skills (e.g., industry-specific knowledge);
- the degree to which there is a common system of quality management – for example, whether the group auditor and a component auditor
  - use common resources to perform the work (e.g., audit methodologies or IT applications),
  - share common policies or procedures affecting engagement performance (e.g., direction, supervision and review of work or consultation),
  - are subject to common monitoring activities,
  - have other commonalities, including common leadership or a common cultural environment;
- the consistency or similarity of the following:
  - laws or regulations or legal system
  - language and culture
  - education and training
  - professional oversight, discipline and external quality assurance
  - professional organizations and standards;
- information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.

When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may request the component auditor or the group auditor's firm to make sufficient and appropriate resources available.

If a component auditor uses an auditor's expert, consider the need to obtain information from the component auditor about the competence and capabilities of the component auditor's expert. For example, discuss with the component auditor the component auditor's evaluation of the competence and capabilities of the auditor's expert.

If a component auditor is required to use specific automated tools and techniques, consider whether the component auditor has appropriate expertise in the use of such automated tools and techniques.

#### **What [CAS 600, para. 27]**

The group auditor is required to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor if the following applies:

- a) The component auditor does not comply with the relevant ethical requirements; or
- b) The group engagement partner has serious concerns about the ability to meet the requirements relating to when component auditors are involved.

GEP

#### **How**

Consider whether there are concerns about the component auditor's competence and capabilities that cannot be overcome. Some concerns that are less than serious may be overcome by greater involvement by the group auditor in the work of the component auditor or by the group auditor's directly performing further audit procedures on the financial information of the component.

Do not use the work of a component auditor if there has been a breach by a component auditor of the relevant ethical requirements that apply to the group audit engagement, including those related to independence, and the breach has not been satisfactorily addressed in accordance with provisions of the relevant ethical requirements.

### **Engagement performance**

#### **What [CAS 600, para. 28]**

In applying CAS 220, 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, taking into account the following:

- Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with CAS 315
- Areas in the audit of the group financial statements that involve significant judgment

GEP

D

**How**

Ensure that the nature, timing and extent of direction, supervision and review are planned in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements.

When the engagement team includes a large number of component auditors that may be located in multiple locations, consider assigning the design or performance of procedures, tasks or actions to other members of the engagement team to assist in fulfilling the responsibility for the nature, timing and extent of the direction and supervision of component auditors and the review of their work.

If component auditors are from a different firm or network, consider whether firm policies or procedures 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, may require different actions from those applicable to members of the engagement team from the group auditor's firm or network.

Tailor the nature, timing and extent of direction and supervision of component auditors and review of their work, based on the nature and circumstances of the engagement and, for example, the following:

- The assessed risks of material misstatement. For example, if a component includes a significant risk, consider the need to increase the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's audit documentation.
- The competence and capabilities of the component auditors performing the audit work. For example, consider the need to communicate more detailed instructions for new component auditors.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including when service delivery centres are used.
- Access to component auditor audit documentation. For example, when law or regulation precludes component auditor audit documentation from being transferred out of the component auditor's jurisdiction, consider whether it will be possible to review the audit documentation at the component auditor's location or remotely.

Taking responsibility for directing and supervising component auditors and reviewing their work may be done in different ways – for example, as follows:

- Communications with component auditors throughout the course of the group audit, including communications required by CAS 600.
- Meetings or calls with component auditors to discuss identified and assessed risks, issues, findings, and conclusions.
- Reviews of the component auditors' audit documentation in person or remotely when permitted by law and regulation.
- Participating in the closing or other key meetings between the component auditors and component management.

*Communications with component auditors*

CAS 600 includes requirements to enhance the two-way communication between the group engagement team and component auditors. Diagram 2 sets out the requirements in CAS 600 involving communications between the group auditor / group engagement partner with component auditor(s) and related templates.

**What [CAS 600, para. 29]**

The group auditor shall communicate with component auditors about their respective responsibilities and the group auditor's expectations, including an expectation that communications between the group auditor and component auditors take place at appropriate times throughout the group audit.

Com

**How [CAS 600, paras. A79, A87]**

To establish the basis for effective two-way communication, create clear and timely communication with component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor.

Design effective communications that do the following:

- set expectations for component auditors and facilitate the group auditor's direction and supervision of them and the review of their work
- reinforce the need for component auditors to exercise professional skepticism in the work performed for purposes of the group audit

To promote effective two-way communication, consider the following factors:

- Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies or procedures of the group auditor's firm.
- A mutual understanding that the component auditor may discuss the audit work requested to be performed, based on the component auditor's knowledge and understanding of the component.
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.
- A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding particular matters.
- The process for the component auditor to take action and report back on matters communicated by the group auditor.

*Form of communications*

Vary the form of the communications between the group auditor and component auditors, based on factors such as the language used, the nature of the audit work that the component auditors have been requested to perform and the extent to which communication capabilities are integrated into the audit tools used for the group audit. Remember that communication between the group auditor and component auditors do not necessarily need to be in writing. However, written communication often promotes a mutual understanding about certain matters. In addition, consider meeting with the component auditor to discuss significant matters or to review relevant parts of the component auditor's audit documentation.

Remember that, regardless of the form of communication, the documentation requirements of this and other CASs apply.

*Non-compliance with laws or regulations*

If there is information about non-compliance or suspected non-compliance with laws or regulations, remember that there may be an obligation under relevant ethical requirements, laws or regulations to communicate the matter to the component auditor. This obligation may extend to auditors of the financial statements of entities or business units for which an audit is required by statute, regulation or for another reason, but for which no audit work is performed for purposes of the group audit.

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

**What [CAS 600, para. 30c(i)-(ii)]**

Among other requirements of CAS 600 for understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control, the group auditor is required to take responsibility for obtaining an understanding of the group's system of internal control, including the following:

- the nature and extent of commonality of controls
- the way in which the group centralizes activities relevant to financial reporting

**How [CAS 600, paras. A100-A102]***Common controls*

Obtain an understanding whether group management has designed controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls).



Consider that such common controls may exist in each component of the group's system of internal control and 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).

Understand whether there are common controls that are direct controls (i.e., precise enough to address risks of material misstatement at the assertion level) or indirect controls (i.e., controls that support direct controls).

In understanding the commonality of a control across the group, consider whether the following applies:

- The control is designed centrally and is 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.
- If the control is automated, it is configured in the same way in each IT application across the components.

Use judgment to determine whether a control is a common control. For example, even though all entities or business units perform the same control, if they do so using different IT applications or the implementation of the IT application differs across entities or business units, this may be an indication that a control is not a common control.

The following factors are important for understanding how information is processed and controlled:

- 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)
- the *degree of centralization and commonality*

Consider the following questions:

- Are some controls performed centrally (e.g., performed only at a single entity or business unit) but have a pervasive effect on other entities or business units (e.g., a shared service centre that processes transactions on behalf of other entities or business units within the group)?
- Are transactions processed and related controls at a shared service centre operating in the same way for all transactions being processed by the shared service centre irrespective of the source of the transaction (i.e., the entity or business unit)?

If so, consider whether it is appropriate to identify, evaluate the design and determine the implementation, and, if applicable, test operating effectiveness, of the controls as a single population.

*Centralized activities*

Consider whether group management centralizes some of its activities:

- Are financial reporting or accounting functions 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., when the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service centre)?

Obtain an understanding of the way centralized activities fit into the overall group structure, and the nature of the activities undertaken, as this may help identify and assess risks of material misstatement and appropriately respond to such risks.

Consider whether to involve component auditors in testing the operating effectiveness of common controls or controls related to centralized activities. In such circumstances, collaboration with component auditors is important, as the audit evidence obtained through testing the operating effectiveness of common controls or controls related to centralized activities supports the determination of the nature, timing and extent of substantive procedures to be performed across the group.

## Considerations When Component Auditors Are Involved

### Matters relevant to the design or performance of risk assessment procedures

#### *What [CAS 600, para. 31(a)]*

The group auditor is required to communicate to component auditors on a timely basis those matters that the group auditor determines to be relevant to the component auditor's design or performance of risk assessment procedures for purposes of the group audit.

Com

#### *How*

Consider whether it is necessary to communicate such matters to other component auditors if these matters are relevant to the work of those component auditors.

### Matters relevant to the risks of material misstatement of the group financial statements

#### *What [CAS 600, para. 32(a)]*

The group auditor is required to request component auditors to communicate on a timely basis matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error.

Com

**How**

In some cases, matters communicated by one component auditor may be relevant to other component auditors in the group audit. For example, consider whether the following matters relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error, may also be relevant to other component auditors:

- newly arising significant risks of material misstatement, including risks of fraud
- identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial statements
- significant and unusual transactions

## Identifying and Assessing the Risks of Material Misstatement

**What [CAS 600, para. 33]**

In applying CAS 315,<sup>3</sup> based on the understanding of the group audit environment, the group auditor is required to take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

For identified risks of material misstatement at the assertion level, the group auditor is required to take responsibility for assessing inherent risk.

**How [CAS 600, paras. A108-111, A113]**

In applying CAS 315, 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 an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control. In doing so, take into account the understanding of the group, including its entities or business units, and the environments and industries in which they operate.

Based on the initial expectations, consider whether to involve component auditors in risk assessment procedures, as they may have direct knowledge and experience with the entities or business units that may be helpful in understanding the 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.

<sup>3</sup> Paragraphs 30 through 34 of CAS 315, *Identifying and Assessing the Risks of Material Misstatement*, address requirements for assessing risks of material misstatement at the financial statement level and assertion level as well as control risks. CAS 200, *Overall Objectives of the Independent Auditor*, includes requirements establishing the general responsibilities of the independent auditor, applicable in all audits, including the obligation to comply with the CASs.

Assess inherent risk of identified risks of material misstatement at the assertion level, by assessing the likelihood and magnitude of misstatement, taking into account how, and the degree to which the following applies:

- Inherent risk factors affect the susceptibility of relevant assertions to misstatement.
- The risks of material misstatement at the group financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.

Consider Appendix 3 of CAS 600 for examples of events or conditions that may give rise to risks of material misstatement of group financial statements.

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

### *Fraud*

In applying CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, consider the following information to identify the risks of material misstatement of the group financial statements due to fraud:

- group management's assessment of the risk that the group financial statements may be materially misstated due to fraud
- group management's process for identifying and responding to the risks of fraud in the group financial statements, including any specific fraud risks identified by group management, or classes of transactions, account balances, or disclosures for which a risk of fraud is higher
- the fact that particular components may be more susceptible to risks of material misstatement due to fraud
- the fact that any fraud risk factors or indicators of management bias exist in the consolidation process
- the way those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group
- the way controls established by group management to mitigate these fraud risks are monitored
- responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and when appropriate, component management, the component auditors, and others) to the group auditor's inquiry about whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group

## Considerations When Component Auditors Are Involved

### What [CAS 600, para. 34]

The group auditor is required to evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements.

### How [CAS 600, paras. A114-A115]

Remember that this requirement for the group auditor to stand back at the risk assessment stage (in applying CAS 315) assists the group auditor in meeting their responsibility for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

When the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement, perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

## Materiality

### What [CAS 600, para. 35]

In applying CAS 320, *Materiality in Planning and Performing an Audit*, and CAS 450, *Evaluation of Misstatements Identified During the Audit*, 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 auditor is required to determine the following:

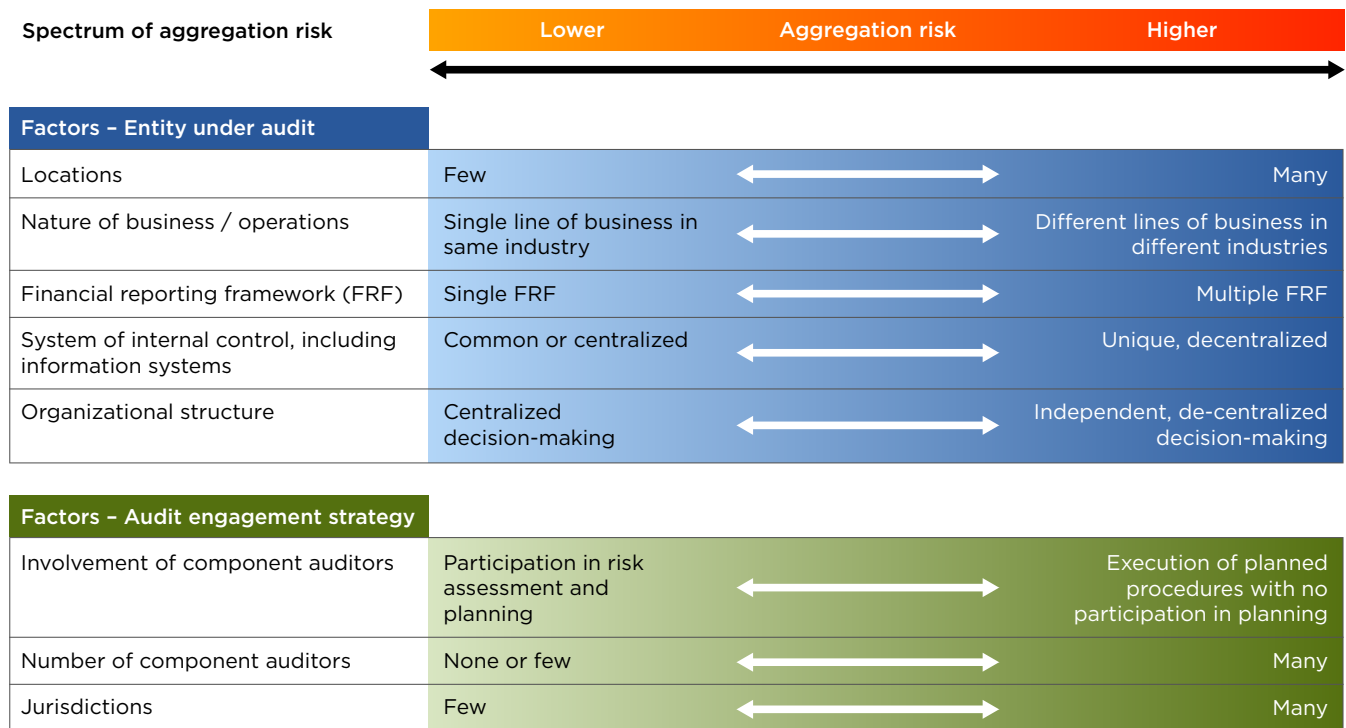
- a) Component performance materiality. To address aggregation risk, such amount is required to be lower than group performance materiality.
- b) The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements.

D

### How [CAS 600, para. A118]

Diagram 3 illustrates how different aspects of a group audit – the number of locations (including jurisdictions), the nature of the business or the group's operations, and the system of internal control, including the information system – affect aggregation risk in a group audit. Such complexities may affect the nature and extent to which the group auditor involves component auditors in the group audit. The combination of these different aspects of a group audit, including the involvement of group auditors, affect aggregation risk. Component performance materiality is designed to address aggregation risk.

**DIAGRAM 3: AUDITS OF GROUP FINANCIAL STATEMENTS AND THEIR IMPLICATIONS FOR AGGREGATION RISK**



Determine component performance materiality for each of the components where audit procedures are performed on financial information that is disaggregated. In doing so, consider the following:

- The component performance materiality amount may be different for each component.
- The component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality.
- The aggregate of component performance materiality amounts may exceed group performance materiality.

Component performance materiality does not need to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, consider whether for one or more particular classes of transactions, account balances or disclosures, misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements. If so, determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. For example, a component entity may be involved in a lawsuit that has a significant public profile. In such a case, it may be appropriate to set component performance materiality at an amount that is close to group performance materiality because less aggregation risk is present. Also,

consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.<sup>4</sup>

Factors to 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 ordinarily 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, less disaggregation across components may likely be present).
- Expectations about the nature, frequency and magnitude of misstatements in the component financial information – for example, as follows:
  - the fact that some risks can be 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

Consider that as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. However, for example, when the financial information for one component represents a substantial portion of the group financial statements, consider whether it is appropriate for component performance materiality to be set at an amount closer to group performance materiality because less aggregation risk is present. This could be the case, for example, when one component is the only operating subsidiary in a group.

When determining component performance materiality for a non-controlling interest in an entity that is accounted for by the equity method, take into account the group's ownership percentage and the share of the investee's profits and losses.

In some cases, consider whether further audit procedures should be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., not disaggregated across components). If so, consider whether group performance materiality should be used for purposes of performing these procedures.

Set the threshold for communicating misstatements to the group auditor at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. Remember that this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

<sup>4</sup> CAS 320, para. A13.

## Considerations When Component Auditors Are Involved

### What [CAS 600, para. 36]

The group auditor is required to communicate to the component auditor component performance materiality and the threshold above which misstatements identified in the component financial information are to be communicated to the group auditor.

Com

### How

Consider whether it is appropriate to involve the component auditor in determining the component performance materiality amount, in view of the component auditor's knowledge of the component and potential sources of misstatement of the component financial information.

Establish ongoing communication with the component auditor to be informed if the number and magnitude of misstatements identified by the component auditor are higher than expected.

## Responding to the Assessed Risks of Material Misstatement

### What [CAS 600, para. 37]

In applying CAS 330, *The Auditor's Responses to Assessed Risks*, the group auditor is required to take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components.

### How [CAS 600, paras. A124-A125, A128-A129, A131, A133-A135]

#### *Performing further audit procedures centrally*

Consider factors that may be relevant to determining whether to perform further audit procedures centrally – for example, the following:

- the level of centralization of activities relevant to financial reporting
- the nature and extent of commonality of controls
- the similarity of the group's activities and business lines

Consider whether the financial information of several components can be considered as one population for the purpose of performing further audit procedures:

- Are transactions homogeneous because they share the same characteristics?
- Are the related risks of material misstatement the same?
- Are controls designed and operating in a consistent way?

When further audit procedures are performed centrally, consider whether component auditors should be involved.



*Nature and extent of further audit procedures*

Consider which scope of work is appropriate at a component to respond to the assessed risks of material misstatement (with the involvement of component auditors, as applicable):

1. Design and perform further audit procedures on the entire financial information of the component.
2. Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures.
3. Perform specific further audit procedures.

Consider the following questions in determining which scope of work is appropriate at a component:

Scope of work	Possible questions to ask
1. Design and perform further audit procedures on the entire financial information of the component.	<p>Does audit evidence need 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?</p> <p>Is there a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to the group auditor's evaluation of group management's assessment of the group's ability to continue as a going concern?</p>
2. Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures.	<p>Does audit evidence need to be obtained for only some of a component's financial information – that is, for one or more classes of transactions, account balances or disclosures – to address the RMM at the group financial statements?</p> <p>For example, does a component have limited operations but hold a significant portion of the land and buildings of the group or has significant tax balances?</p>
3. Perform specific further audit procedures.	<p>Does audit evidence need to be obtained for only one or more relevant assertions?</p> <p>Can the group auditor centrally test the class of transaction, account balance or disclosure and require the component auditor to perform specific further audit procedures at the component?</p>

Consider whether component auditors should be involved in the design and performance of further audit procedures.

*Large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements*

Consider whether the group may comprise a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements.

If so, consider whether it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances or disclosures.

- Are transactions homogeneous?
- Are they subject to common controls?
- Can access to appropriate information be obtained?

It may be possible for further audit procedures to include substantive analytical procedures in accordance with CAS 520, *Analytical Procedures* – for example, if it is possible to develop expectations and determine the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures.

If it is not possible to perform further audit procedures centrally, consider whether it may be necessary to perform further audit procedures at selected components to address the risks of material misstatement of the group financial statements.

## Consolidation process

### **What [CAS 600, para. 38]**

The group auditor is required to 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 the following:

- 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
- b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications
- c) Evaluating whether management's judgments made in the consolidation process give rise to indicators of possible management bias
- d) Responding to assessed risks of material misstatement due to fraud arising from the consolidation process

### **How [CAS 600, paras. A140-A141]**

Consider including the following audit procedures on the consolidation process including sub-consolidations:

- determining that the necessary journal entries are reflected in the consolidation

- evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective

Evaluate the appropriateness, completeness and accuracy of the adjustments and reclassifications by procedures that may include the following:

- 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, when applicable, by component management
- determining whether significant adjustments are properly supported and sufficiently documented
- evaluating the reconciliation and elimination of intra-group transactions, unrealized profits and intra-group account balances

## Considerations When Component Auditors Are Involved

### *What [CAS 600, paras. 41-43]*

When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with the component auditor about matters that the group auditor or component auditor determine to be relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.

Com

For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with CAS 315, on which a component auditor is determining the further audit procedures to be performed, the group auditor shall evaluate the appropriateness of the design and performance of those further audit procedures.

When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group auditor shall determine the nature and extent of direction and supervision of component auditors and the review of their work.

### *How [CAS 600, para. A142]*

When component auditors are involved in the design or performance of further audit procedures, the component auditor may determine that the use of the work of an auditor's expert is appropriate and communicate this to the group auditor. In such circumstances, when determining whether the component auditor's design and performance of further audit procedures is appropriate, consider discussing the following with the component auditor:

- the nature, scope and objectives of the auditor's expert's work
- the component auditor's evaluation of the adequacy of the work of the auditor's expert for the group auditor's purposes

Take into account the following in determining the appropriate level of the group auditor's involvement in the design or performance of further audit procedures:

- the structure of the group
- the previous experience with the component auditors that perform procedures on the consolidation process, including sub consolidations
- the circumstances of the group audit engagement

*Using audit evidence from an audit used for another purpose*

When a component auditor is also performing or has completed an audit of the component financial statements, consider whether it is possible to use audit work performed on the component financial statements.

- How has the audit performed for another purpose been structured and coordinated?
- Is the component auditor willing to cooperate with the group auditor?
- Is such work appropriate for purposes of the group audit?
- Can component auditors adapt the work performed on the audit of the component financial statements to also meet the needs of the group auditor?

Remember that the requirements of CAS 600 apply, including those relating to the direction and supervision of component auditors and the review of their work.

Determine an approach to direction, supervision and review that is responsive to the nature and circumstances of the audit engagement. For example, consider the following:

- communications with component auditors throughout the course of the group audit, including communications required by CAS 600
- meetings or calls with component auditors to discuss identified and assessed risks, issues, findings and conclusions
- reviews of the component auditor's audit documentation in person or remotely when permitted by law and regulation
- participating in the closing or other key meetings between the component auditors and component management

## Evaluating the Component Auditor's Communications and the Adequacy of Their Work

### Communicating about matters relevant to the group auditor's conclusion

#### *What [CAS 600, para. 45]*

The group auditor is required to request the component auditor to communicate specific matters relevant to the group auditor's conclusion with regard to the group audit.

Com

D

#### *How*

Templates 1 and 3 provide samples of communications between the group auditor and the component auditor, reflecting the specific matters to be communicated.

### Evaluating whether communications from the component auditor are adequate

#### *What [CAS 600, para. 46]*

The group auditor is required to do the following:

- a) Discuss significant matters arising from communications with the component auditor, including those in Template 3, with the component auditor, component management or group management, as appropriate.
- b) Evaluate whether communications with the component auditor are adequate for the group auditor's purposes. If such communications are not adequate for the group auditor's purposes, the group auditor shall consider the implications for the group audit.

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#### *How [CAS 600, para. A147]*

Communications from component auditors take place throughout the engagement and also when the component auditor provides the memorandum of work performed:

- Evaluate the component auditor's communications on an ongoing basis as communications take place throughout the engagement.
- When the work on the financial information of the component is completed, and the component auditors communicate the matters requested, evaluate this communication to assess whether further action is needed by considering the following:
  - Have all the requested matters relevant for your group audit been addressed?
  - Have they been addressed appropriately so that you can understand the matter, the work performed, the evidence obtained and the conclusions reached?
  - Are the component auditor's conclusions consistent with their findings?

GEP

If the component auditor's communications are determined not to be adequate for the group auditor's purposes, consider whether the following applies:

- Further information can be obtained from the component auditor (e.g., through further discussions or meetings).

- It is necessary to review additional component auditor audit documentation (see below).
- Additional audit procedures may need to be performed (see below).
- Any concerns about the component auditor's competence or capabilities are present.

### Reviewing additional component auditor audit documentation

#### *What [CAS 600, para. 47]*

The group auditor is required to determine whether, and the extent to which, it is necessary to review additional component auditor documentation. In making this determination, the group auditor is required to consider the following:

- a) The nature, timing and extent of the work performed by the component auditor
- b) The competence and capabilities of the component auditor as determined (see [Engagement Resources](#) above)
- c) The direction and supervision of the component auditor and review of their work

#### *How [CAS 600, paras. A148-A149]*

Consider the following matters relevant to the ongoing involvement in the work of the component auditor:

- communications from the component auditor, including those in accordance with Template 1
- the review of component auditor audit documentation by the group auditor during the course of the group audit (e.g., to fulfill other requirements of CAS 600) or by the group engagement partner to meet the requirements of CAS 220 to review audit documentation at appropriate times during the audit engagement, including documentation relating to the following:
  - significant matters
  - significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached
  - other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities

Consider the following factors in determining whether, and the extent to which, it is necessary to review additional component auditor audit documentation in the circumstances:

- the degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements
- the significant judgments made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements
- the competence and capabilities of those more experienced members of the component auditor's engagement team, who are responsible for reviewing the work of less experienced individuals
- the fact that the component auditor and group auditor may be subject to common policies or procedures for review of audit documentation

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## When the work of the component auditor is not adequate for the group auditor's purposes

### *What [CAS 600, para. 48]*

If the group auditor concludes that the work of the component auditor is not adequate for the group auditor's purposes, the group auditor is required to determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.

### *How*

The evaluation of the component auditor's communications and the adequacy of their work, including reviewing additional component auditor audit documentation, may indicate that further audit procedures are necessary to obtain sufficient appropriate audit evidence.

## Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

### Sufficiency and appropriateness of audit evidence

#### *What [CAS 600, para. 51]*

In applying CAS 330, the group auditor is required to evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including the work performed by component auditors, on which to base the group audit opinion.

#### *How [CAS 600, paras. A151, A153, A155]*

Consider whether audit evidence obtained from performing planned audit procedures make it necessary to modify the nature, timing or extent of other planned audit procedures because information obtained differs significantly from the information on which the risk assessment was based – for example, the following:

- The misstatements identified at a component may need to be considered in relation to other components.
- The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

In such circumstances, consider whether to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the significant classes of transactions, account balances, or disclosures and related assertions.

Consider the engagement team's exercise of professional skepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, consider whether matters that may adversely affect professional skepticism have inappropriately led the engagement team to do the following:

- obtain audit evidence that is easier to access without giving appropriate consideration to its relevance and reliability
- obtain less persuasive evidence than is necessary in the circumstances
- design and perform audit procedures in a manner that is biased toward obtaining evidence that is corroborative or excluding evidence that is contradictory

Consider whether there is information that may be relevant to the evaluation of the audit evidence obtained from the work performed by component auditors such as the following:

- the communications from the component auditors (see [Template 3](#) for a sample), including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit
- other communications from the component auditors throughout the group audit, including those requested to be communicated by the component auditor on a timely basis
- the direction and supervision of the component auditors, and review of their work, including, as applicable, the review of additional component auditor audit documentation that may have been considered necessary

Consider whether the firm policies or procedures address the form or specific wording of an overall conclusion from the component auditor on the audit work performed for purposes of the group audit. In some cases, local law or regulation may specify the form of conclusion (e.g., an opinion) to be provided by the component auditor.

Consider whether an overall summary memorandum describing the work performed and the results thereof (such as set out in [Template 3](#)) may provide a basis on its own to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.

### Evaluating the effect on the group audit opinion

#### *What [CAS 600, para. 52]*

The group engagement partner is required to evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances when there has been an inability to obtain sufficient appropriate audit evidence.

GEP

#### *How [CAS 600, para. A156]*

Consider whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to common accounting policies or common controls) that may affect other components.



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

### Communication with group management

#### *What [CAS 600, para. 54]*

The group auditor is required to communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group.

#### *How*

Use the discussion with group management of an overview of the planned scope and timing to help coordinate the work performed at components and identify component management.

### Matters significant to the financial statements of the entity or business unit that forms part of the group

#### *What [CAS 600, para. 56]*

A component auditor may be required by statute, regulation or other reasons 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 auditor is required to request group management to inform management of the entity or business unit of any matter of which the group auditor 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 auditor is required to discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, is required to 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.

#### *How [CAS 600, para. A161]*

Consider whether the following matters may be significant to the financial statements of the component, of which component management may be unaware:

- potential litigation
- plans for abandonment of material operating assets
- subsequent events
- significant legal agreements
- non-compliance or suspected non-compliance with laws or regulations in entities or business units within the group

## Documentation

Among other documentation requirements in CAS 600 as set out in [Appendix](#), the following table addresses examples for some documentation requirements [CAS 600, para. 59].

What is required to be documented	How
<p>The basis for the group auditor's determination of components for purposes of planning and performing the group audit.</p>	<p>This may be done by documenting how the group auditor fulfilled the requirements to do the following:</p> <ul style="list-style-type: none"> <li>• establish an overall group audit strategy and group audit plan</li> <li>• identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process</li> <li>• communicate with those charged with governance of the group an overview of the work to be performed at the components of the group and the nature of the group auditor's involvement in the work to be performed by component auditors</li> </ul>
<p>The basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at components.</p>	<p>Comply with the firm's policies or procedures that describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors.</p> <p>The confirmation obtained from the component auditor that they will cooperate with the group auditor (see <a href="#">Template 2</a> for a sample confirmation) may include information about the component auditor's relevant industry experience.</p> <p>Request in the letter of instruction for confirmation that the component auditor has sufficient time to perform the assigned audit procedures (see <a href="#">Template 1</a> for a sample letter of instruction).</p>

**What is required to be documented****How**

The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation.

Make sure that the audit plan includes a description of the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. When component auditors are involved, consider varying the extent of such descriptions by component, recognizing that the planned nature, timing and extent of direction and supervision of component auditors, and review of their work, may vary.

Documentation of the direction and supervision of component auditors and the review of their work may include the following:

- required communications with component auditors, including instructions issued and other confirmations required by CAS 600
- the rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed
- matters discussed in meetings with component auditors or component management
- the rationale for the group auditor's determination of component auditor audit documentation selected for review
- changes in the planned nature and extent of involvement in the work of component auditors, and the reasons why (e.g., assigning more experienced engagement team members in areas of the audit that are more complex or subjective than initially anticipated) [CAS 600, para. A174]

Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. However, consider whether to summarize, replicate or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this CAS. Examples of such component auditor documentation may include the following:

- a listing or summary of the significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit
- matters that may need to be communicated to those charged with governance of the group
- matters that may be determined to be key audit matters to be communicated in the auditor's report on the group financial statements [CAS 600, para. A176]

Consider whether there are requirements in law or regulation for certain component auditor documentation to be included in the group auditor's audit file, for example, to respond to the request of a regulatory authority to review documentation related to work performed by a component auditor. [CAS 600, para. A177]

## About This Publication

The Research, Guidance and Support group of the Chartered Professional Accountants of Canada (CPA Canada) undertakes initiatives to support practitioners and businesses in the implementation of standards.

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CPA Canada's AGICAS provides advice on the identification of issues related to the implementation of Canadian Auditing Standards (CAS) and supports the development of non-authoritative implementation guidance related to these issues. The advisory group includes volunteers from the following Canadian firms: BDO, Deloitte, EY, Grant Thornton, KPMG, MNP and PwC.

## Consultation and Feedback

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## Appendix: What the Group Auditor Is Required to Include in the Audit Documentation

[CAS 600, para. 59]

In accordance with CAS 230,<sup>5</sup> 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 nature, timing and extent of audit procedures performed, the evidence obtained and the conclusions reached with respect to significant matters arising during the group audit. In applying CAS 230,<sup>6</sup> the group auditor shall include the following in the audit documentation:

- a) Significant matters related to restrictions on access to people or information within the group 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 basis for the group auditor's determination of components for purposes of planning and performing the group audit
- c) The basis for the determination of component performance materiality, and the threshold for communicating misstatements in the component financial information to the group auditor
- d) The basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components
- e) Key elements of the understanding of the group's system of internal control
- f) The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation
- g) Matters related to communications with component auditors, including the following:
  - i) Matters, if any, related to fraud, related parties or going concern communicated by component auditors
  - ii) Matters relevant to the group auditor's conclusion with regard to the group audit, communicated by component auditors, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management
- h) The group auditor's evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements

<sup>5</sup> CAS 230, *Audit Documentation*, para. 8.

<sup>6</sup> CAS 230, *Audit Documentation*, paras. 1-3, 9-10, A6-A7 and Appendix.

## Template 1: Sample Letter of Instruction from Group Auditors to Component Auditors

You shall communicate your requirements to the component auditors on a timely basis. This communication often takes the form of a letter of instruction sent before the work on the component financial information begins. CAS 600 does not mandate how the component auditors are to report; it is up to you to specify the form and content of that reporting.

Clear and timely communication of your requirements forms the basis of effective two-way communication between group auditors and component auditors.

The following letter of instruction is based on CAS 600; you may, however, have specific requirements to communicate to the component auditors in your group situation that are not covered in this template.

For the purposes of this Letter of Instruction, you will also need to use [Template 2](#) – Letter of Confirmation and [Template 3](#) – Memorandum of Work Performed.

[Group Auditor Letterhead]

[Date]

[To Component Auditor Partner]

We, the group engagement team, have been engaged to express an audit opinion on the group financial statements of [name of parent company] for the year ended [insert year end], in accordance with [identify applicable financial reporting framework (e.g., IFRS)]. This Letter of Instruction sets out the procedures that we require you, the component auditor, to perform on the financial information of the component. We intend to evaluate and, if considered appropriate, use your work for the audit of the group financial statements of [name of parent].

These instructions are designed to inform you, as the component auditor of [enter name of component], of the work we require you to perform for the purpose of the group audit. The instructions outline, among other areas, audit procedure requirements, key reporting deadlines and audit deliverables to be submitted to us as the group auditor. Accordingly, we ask that the appropriate members of the engagement team in your office read these instructions carefully.

Please be aware that the group engagement team may also communicate with those charged with governance of the group, group management, those charged with governance of the component and component management.

Any concerns that you may have regarding these instructions should be addressed to the group audit engagement team. Also, please inform the group engagement team/manager/partner [enter name] immediately if you believe any items in the instructions are incorrect.

### Our instructions (the group engagement team) to you (the component auditor)

Cooperation	You are requested to confirm that you will cooperate with us, knowing the context in which we will use your work, including whether you will perform the work requested of you by us – see details below. This confirmation from you is included in the Letter of Confirmation [insert Appendix], which you should complete and return to us by [insert date].
Timetable	The timetable for completing the audit is as follows: [Insert timetable.]
Planned visits	Dates of planned visits by group management and us, and dates of planned meetings with component management and you are as follows: [Insert timetable.]
Key contacts	A list of key contacts is as follows: [Insert list of key contacts.]
Nature of work to be performed	<p>For the purposes of the group audit, we have determined the work you are to perform, the use to be made of that work, and arrangements for coordinating efforts at the initial stage of and during the audit, including our planned involvement in your work, as detailed in the following:</p> <p>[Insert schedule of work to be performed by the component auditor, the use to be made of that work and planned involvement of the group auditor in the component auditor's work.]</p> <p>We have determined the following matters that are relevant to the design or performance of your risk assessment procedures for purposes of the group audit:</p> <p>[Insert matters the group auditor determines to be relevant to the component auditor's design or performance of risk assessment procedures for purposes of the group audit.]</p> <p>You are requested to communicate on a timely basis matters related to the financial information of the component that you determine to be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error.</p> <p>We have determined the following matters that we (or other component auditors) have determined are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements:</p> <p>[Insert matters the group auditor determines to be relevant to the component auditor's design of responses to the assessed risks of material misstatement of the group financial statements.]</p>

## Our instructions (the group engagement team) to you (the component auditor)

Ethical requirements	<p>The ethical requirements that are relevant to the group audit and, in particular, the independence requirements are described below.</p> <p>[Insert ethical and independence requirements.]</p> <p>You are requested to confirm that you understand these requirements to fulfill your responsibilities in the audit of the group financial statements, and that you will comply therewith. Your confirmation is included in the Letter of Confirmation [insert Appendix], which you should complete and return to us by [insert date].</p>
Materiality levels (if a component is not subject to audit by statute, regulation or for some other reason)	<p>For the purposes of the group audit, we have determined that you should use the following component materiality levels to perform work on the financial information of the component.</p> <p>[Insert component materiality schedule. Include if applicable, the component materiality level or levels to be applied for particular classes of transactions, account balances or disclosures, and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.]</p>
Materiality levels (if a component is subject to audit by statute, regulation or for some other reason)	<p>We shall determine whether your materiality for the component financial statements as a whole and performance materiality at the component level meet our requirements for purposes of the group audit.</p> <p>Please advise us of your materiality and performance materiality by [insert date].</p>
Related parties	<p>You are requested to communicate to us, on a timely basis, information about related party relationships not included in the following list of those previously identified by us or group management.</p> <p>[Insert list of related party relationships prepared by group management and any other related parties that the group engagement team is aware of.]</p>
Intra-group transactions	<p>You are requested to perform the following work on intra-group transactions and unrealized profits and intra-group account balances.</p> <p>[Insert schedule of work to be performed.]</p>
Other reporting responsibilities	<p>[Insert instructions for other reporting responsibilities.</p> <p>(Guidance on other statutory reporting responsibilities – for example, reporting on group management’s assertion on the effectiveness of internal control.)]</p>
Subsequent events	<p>You are requested to perform the following subsequent events review:</p> <p>[Insert instructions for the subsequent events review when it is likely that there will be a time lag between completion of the work on the financial information of the components and the group engagement team’s conclusion on the group financial statements.]</p>



## Our instructions (the group engagement team) to you (the component auditor)

Test of controls	<p>Our findings from testing the control activities of a processing system common to all or some components and of centralized activities are as follows:</p> <p>[Insert findings of testing control activities.]</p> <p>You are requested to perform the following tests of controls:</p> <p>[Insert tests of controls to be performed by the component auditor.]</p>
Higher assessed risks and significant risks	<p>We have identified the following higher assessed risks and significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to your work:</p> <p>[Insert list of identified higher assessed and significant risks.]</p> <p>[When the component auditor is determining the further audit procedures to be performed, you are requested to communicate with us the planned design and performance of those further audit procedures. Further, should you determine that the use of the work of an auditor's expert is appropriate, you are requested to communicate with us.]</p> <p>You are requested to communicate to us on a timely basis any other significant risks of material misstatement of the group financial statements, due to fraud or error, identified in the component and your response to such risks.</p>
Internal audit function	<p>Our findings of the internal audit function, based on work performed on controls at or relevant to components, are as follows:</p> <p>[Insert findings of the internal audit function.]</p>
Inconsistencies in audit evidence	<p>You are requested to communicate to us on a timely basis audit evidence obtained from performing work on the financial information of the component that contradicts the audit evidence on which we originally based the risk assessment performed at group level.</p>
Written representation	<p>[Insert written representation that you require the component auditor to obtain from component management.]</p>
Documentation	<p>Matters you are to document</p> <p>[Insert documentation instructions.]</p>
Critical judgments	<p>You are requested to report to us on a timely basis significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.</p>
Going concern	<p>You are requested to report to us on a timely basis matters relating to the going concern status of the component.</p> <p>The following events or conditions have been identified by group management or by us that may cast significant doubt on the group's ability to continue as a going concern that are relevant to your work as component auditor:</p> <p>[List the identified events or conditions.]</p>

**Our instructions (the group engagement team) to you (the component auditor)**

Litigation and claims	You are requested to report to us on a timely basis matters relating to litigation and claims.
Deficiencies in internal control	You are requested to report to us on a timely basis any significant deficiencies in internal control identified during your performance of the work on the financial information of the component and information that indicates the existence of fraud.
Unusual events	You are requested to notify us as early as possible of any significant or unusual events.
Communications	You are requested to communicate with us throughout the group audit at the following times: [Insert communication timing points and expected communications.]
Communicating results	<p>You are requested to communicate the following matters to us when the work on the financial information of the component is completed:</p> <ul style="list-style-type: none"> <li>a) your having complied with the relevant ethical requirements that apply to the group audit engagement, including those related to independence;</li> <li>b) your having performed the work requested;</li> <li>c) identification of the financial information of the component on which you are reporting;</li> <li>d) information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements;</li> <li>e) a list of corrected and uncorrected misstatements of the component financial information (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by us);</li> <li>f) indicators of possible management bias;</li> <li>g) description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;</li> <li>h) fraud or suspected fraud involving component management, employees who have significant roles in group's system of internal control at the component or others where the fraud resulted in a material misstatement of the component financial information;</li> <li>i) other significant matters that you have already communicated or expect to communicate to component management or those charged with governance of the component;</li> <li>j) any other matters that may be relevant to the group audit, or that you determine are appropriate to draw to our attention, including exceptions noted in the written representations that you requested from component management; and</li> <li>k) your overall findings or conclusions.</li> </ul> <p>At the completion of your work on the financial information of the component, but not later than [insert date], we request that you submit to us a Memorandum of Work Performed in [English]. The template in [insert Appendix] should be used for this communication.</p>

Upon receiving these instructions, please do the following:

- acknowledge receipt
- seek clarification on any items of uncertainty
- advise us if you anticipate that you will not be able to comply with the instructions
- inform us of any events, transactions or recent or proposed legislative changes that may have a significant impact on either the component or the group

Please complete the template of the Letter of Confirmation [insert Appendix] attached to this Letter of Instruction and return it by [insert date].

At the completion of your procedures on the financial information of your component, but no later than [insert date], we request that you submit to us a Memorandum of Work Performed, in [English]. The template in [insert Appendix] should be used for this communication.

[Group Auditor's signature]

[Date]

[Group Auditor's address]

## Template 2: Sample Letter of Confirmation from Component Auditors to Group Auditors

CAS 600 does not mandate the form of communication from component auditors to group auditors. It may vary from one component auditor to another and from one period to the next. In your group situation, you may have specific matters that need to be confirmed by the component auditors that are not covered in this template. This letter of confirmation from the component auditor is often obtained before work on the financial information of the component commences.

[Component Auditor Letterhead]

[Date]

[To Group engagement Partner]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects, the financial position of the group as at [date] and its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework (e.g., IFRS)].

We acknowledge receipt of your instructions dated [date], requesting us to perform the specified work on the financial information of [name of component] for the year ended [date].

We confirm the following:

1. We will be able to perform the work requested by you and comply with the instructions. / We advise you that we will not be able to comply with the following instructions [specify instructions] for the following reasons [specify reasons].
2. The instructions are clear and we understand them. / We would appreciate it if you could clarify the following instructions [specify instructions].
3. We will cooperate with you and provide you with access to relevant audit documentation.

We acknowledge the following:

1. The financial information of [name of component] will be included in the group financial statements of [name of parent].
2. You may consider it necessary to be sufficiently and appropriately involved in the work you have requested us to perform on the financial information of [name of component] for the year ended [date].
3. You intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of [name of parent].

4. You intend to determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation.

In connection with the work that we will perform on the financial information of [name of component], a [describe component - for example, wholly owned subsidiary, subsidiary, joint venture, investee accounted for by the equity or cost methods of accounting] of [name of parent], we confirm the following:

1. We are aware of [indicate relevant ethical requirements] that are applicable given the nature and circumstances of the group audit engagement. And understand and will comply therewith. In particular, and with respect to [name of parent] and the other components in the group, we are independent within the meaning of [indicate relevant ethical requirements] and comply with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].
2. We have an understanding of Canadian generally accepted auditing standards and [indicate other national standards applicable to the audit of the group financial statements] that is sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of [name of component] for the year ended [date] in accordance with those standards.
3. We possess the special skills (for example, industry-specific knowledge) necessary to perform the work on the financial information of the particular component. [When an auditor's expert will be used, communicate this to the group auditor, including the nature, scope and objectives of the auditor's expert's work.]
4. We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual] that is sufficient to fulfill our responsibilities in the audit of the group financial statements.

We will inform you of any changes in the above representations during the course of our work on the financial information of [name of component].

We will inform you of any events, transactions or recent or proposed legislative changes that may have a significant impact on the risks of material misstatement of the group financial statements.

[Component Auditor's signature]

[Date]

[Component Auditor's address]

## Template 3: Sample Memorandum of Work Performed from Component Auditors to Group Auditor

The standard does not mandate the form of reporting from component auditors to group auditors. This is influenced by the nature and extent of the audit work the component auditor has been requested to perform. The group auditor's firm policies or procedures may address the form or specific wording of an overall conclusion from the component auditor on the work performed for purposes of the group audit. When the work on the financial information of the component is completed, the component auditor communicates to the group auditor about all matters requested. This communication may take the form of a memorandum or report of work performed.

The following sample memorandum is based on CAS 600, para. 45. It may vary from one component auditor to another and from one period to the next. In your group situation, you may have specific matters that the component auditors need to communicate that are not covered in this template.

[Component Auditor Letterhead]

[Date]

[To Group engagement Partner]

This memorandum of work performed is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects, the financial position of the group as at [date] and its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework (e.g., IFRS)].

This memorandum is intended solely for the use of the group engagement team in connection with the audit of the group financial statements of [name of parent company] and should not be used for any other purpose. We acknowledge that you intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of [name of parent]. The matters raised in this memorandum are those that have come to our attention in our work on the financial information of [name of component], which was performed in accordance with your instructions, and other matters that we have brought to your attention that we deemed relevant to the group audit. We confirm that we have complied with ethical requirements relevant to the group audit, including independence and professional competence. We also confirm that we have complied with all your requirements, as set out in your Letter of Instruction dated [insert date].

**Our scope of work performed**

The scope of the work we have performed on the financial information of [insert name of component] was in accordance with your Letter of Instruction dated [insert date]. [Specify any deviations from instructed scope or any limitations in performing the requested scope.]

**Relevant ethical requirements**

[We have complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement, as set out in your Letter of Instruction.]

[We have notified you of the following breaches of relevant ethical requirements.]

**Identification of the financial information of the component on which we are reporting**

[Insert financial information.]

**Summary of significant risks of material misstatement of the group financial statements, due to fraud or error, in the component and our responses to such risks**

[Description of significant risk(s)]

[Impacted accounts and assertions]

[Management controls in place to address the risk]

[Procedures performed by us]

[Results]

**Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements**

[Insert list of instances or No instances of non-compliance were noted.]

**Information on indicators of possible management bias**

[Insert list of indicators or No indicators of management bias were detected.]

**Summary of corrected and uncorrected misstatements of the component financial information (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team)**

[No corrected or uncorrected misstatements were noted. Or We discussed the following corrected and uncorrected misstatements with component management. We requested management to correct uncorrected misstatements. [Insert a Summary of corrected and uncorrected Misstatements and provide the reasons management has not adjusted the uncorrected amounts.]

[For the misstatements identified, we determined whether adjustments are indicative of internal control deficiencies.]

[The following unadjusted disclosure misstatements were identified during the course of our audit.]

**Summary of adjusted misstatements of the financial information of the component**

[No adjusted misstatements were noted. Or Please refer to the attached Summary of Adjustments [insert the Summary]. All items have been discussed and agreed with component management.]

**Summary of identified deficiencies in internal control at the component**

[Insert summary of deficiencies or No deficiencies in internal control at the component were noted.]

**Summary of fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component or others where the fraud resulted in a material misstatement of the component financial information**

(These matters may include fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component.)

**Summary of other significant matters communicated (or expected to be communicated) to component management or those charged with governance of the component**

[Insert summary of matters or No items requiring your attention were noted.]

**Information on litigation and claims**

[Insert summary of matters or No items requiring your attention were noted.]

**Information on going concern status of component**

[The following events or conditions were identified in your Letter of Instruction or during work on the component financial information that may cast doubt on the group's ability to continue as a going concern: Or no items requiring your attention were noted.]

**List of related party relationships not previously identified by the group engagement team**

[Insert listing or No items requiring your attention were noted.]

**Written representation**

[We have obtained a written representation on component management's compliance with the applicable financial reporting framework. Or We have obtained a statement that differences between the accounting policies applied to the financial information of the component and those applied to the group financial statements have been disclosed.]

**Summary of significant or unusual events**

[Insert summary of events or No items requiring your attention were noted.]



### **Summary of significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments**

(These matters may include the following:

- Appropriate selection, application and consistency of principles and disclosures – for example, the following:
  - accounting conclusions or reporting presentations that depend primarily on management intent or representations (including estimates)
  - complex or unusual transactions
  - revenue recognition issues
  - significant or unusual capitalization or deferred cost issues
  - significant new or changes in accounting policies
  - unusual or unique accounting policies
- Results of audit procedures – for example, the following:
  - significant changes to the audit strategy, including changes to risk assessments
  - identified or suspected fraud
  - illegal acts or non-compliance with laws and regulations
  - non-routine transactions
  - errors
  - significant deficiencies in internal control
  - estimates that require significant judgement)

[Insert summary of matters or No items requiring your attention were noted.]

#### **Description of the matter 1**

[Provide a brief description of the matter.]

#### **Background**

[Describe the facts and circumstances underlying the matter. Be concise and use plain English, taking care to include only information that is relevant to the matter.]

#### **Evidence obtained**

[Describe the audit procedures performed by the team and summarize all evidence obtained on the matter, including supporting and opposing evidence.]

#### **Technical reference and analysis, including implication(s) of the matter**

[Present possible alternative views, along with arguments that support such alternatives, the impact that the alternatives might have on current and future financial statements and the rationale for accepting or rejecting the alternatives.]

**Results of consultations, if applicable**

[Summarize results of consultations, which should be agreed on with those consulted, with evidence of that agreement (if applicable, including alternative views or positions that were discussed and the rationale for rejecting them).]

**Record of discussion**

[Summarize discussion with management and others on the issue, including when and with whom the matter was discussed.]

**Inconsistent information**

[If the engagement team has identified any information that contradicts or is inconsistent with the team's final conclusion, document how the contradiction or inconsistency was addressed in forming the final conclusion.]

**Final conclusions**

[State final conclusions reached and basis thereof.]

**Subsequent events review**

We performed the procedures as requested. [Insert summary of matters or No items requiring your attention were noted.]

**Summary of any other matters relevant to the group**

(These matters may include exceptions noted in the written representations that the component auditor requested from component management.)

[We confirm that, apart from the matters noted above, we have not become aware of any other matters relating to the financial information of [insert name of component] or the group financial statements of [insert name of parent company] that we should report to you. Or We wish to draw your attention to the following matters not included above: <insert as appropriate>]

**Our overall findings or conclusions**

[Insert agreed-upon report.]

[Component Auditor's signature]

[Date]

[Component Auditor's address]