

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

This document is tracked from the full turnaround of proposed ISA 600 (Revised) as distributed to the Board on December 21, 2019, except for the appendices. The appendices are tracked from draft that was discussed at the January 23, 2020 IAASB teleconference.

Introduction

Scope of this ISA

1. This ISA deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (group audits), in particular proposed ISA 220 (Revised),¹ ISA 315 (Revised 2019),² and ISA 330.³ (Ref: Para. A1–A2)
2. Groups may be organized in various ways. For example, groups may organize their activities geographically, by business units, economic units, or business activities, which are referred to as “entities or business units” in this ISA. This ISA applies when, based on the entity’s structure and the requirements of the applicable financial reporting framework, the group financial statements include the financial information of more than one entity or business unit through a consolidation process. The auditor may plan and perform an audit of group financial statements based on the entities or business units as viewed by group management. Alternatively, the group engagement team may determine that it is more effective or efficient to plan and perform the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group. This ISA uses the term “component” to refer to the manner in which the group engagement team views the group structure for purposes of planning and performing audit procedures for the group audit. (Ref: Para. A4–A6)
3. This ISA recognizes that component auditors can be, and often are, involved in the group audit to assist the group engagement team in identifying, assessing and responding to the risks of material misstatement of the group financial statements. Accordingly, this ISA requires sufficient and appropriate involvement by the group engagement team in the work of component auditors and emphasizes the importance of two-way communication between the group engagement team and component auditors. In addition, this ISA explains the matters that the group engagement team takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A7–A8)
4. When this ISA expressly intends that a requirement or responsibility be fulfilled by the group engagement partner or the group engagement team, the term “the group engagement partner

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

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

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

shall ...” or “the group engagement team shall ...” is used. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term “the group engagement partner shall take responsibility for...” or “the group engagement team shall take responsibility for...” is used. Nevertheless, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.

Effective Date

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

Objectives

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

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
- (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A9)
 - (b) Component – A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.
 - (c) Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a subset of the engagement team.⁴ (Ref: Para. A10–A11)
 - (d) Component management – Management responsible for a component.
 - (e) Component performance materiality – An amount or amounts set by the group engagement team to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.

⁴ Proposed ISA 220 (Revised), paragraph 10(d)

- (f) Group – An entity for which group financial statements are prepared.
 - (g) Group audit – The audit of group financial statements.
 - (h) Group audit opinion – The audit opinion on the group financial statements.
 - (i) Group engagement partner – The engagement partner⁵ who is responsible for the group audit.
 - (j) Group engagement team – A subset of the engagement team that includes partners (including the group engagement partner) and staff who:
 - (i) Establish the overall group audit strategy and audit plan;
 - (ii) Direct and supervise component auditors and review their work; and
 - (iii) Evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
 - (k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
 - (l) Group management – Management responsible for the preparation of the group financial statements.
 - (m) Group performance materiality – Performance materiality⁶ in relation to the group financial statements as a whole, as determined by the group engagement team.
8. Reference in this ISA to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.
9. Reference in this ISA to “the consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of: (Ref: Para. A12, A14)
- (a) Consolidation, proportionate consolidation, or the equity methods of accounting;
 - (b) The aggregation of the financial information of branches or divisions; or (Ref: Para. A13)
 - (c) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

10. In applying proposed ISA 220 (Revised),⁷ the group engagement partner shall be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the group audit engagement. (Ref: Para. A15–A16)

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

⁶ ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 11

⁷ Proposed ISA 220 (Revised), paragraph 13

Acceptance and Continuance

11. The group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for the opinion on the group financial statements. (Ref: Para. A17–A20)
12. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A21)

Terms of the Engagement

13. In applying ISA 210,⁸ the group engagement team shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A22–A23)
 - (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 management for the purpose of the group audit; and
 - (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

Restrictions on Access Outside the Control of Group Management

14. If the group engagement partner concludes that group management cannot provide the engagement team with unrestricted access to information or persons within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A24–A28)

Restrictions on Access Imposed by Group Management

15. If the group engagement partner concludes that:
 - (a) It will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
 - (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,the group engagement partner shall either:
 - (a) In the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable laws or regulations; or
 - (b) Where laws or regulations prohibit an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A29–A30)

⁸ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(b)

Considerations When Component Auditors Are Involved

16. In applying proposed ISA 220 (Revised),⁹ the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A31)
17. The group engagement team shall request the component auditor to confirm that the component auditor will cooperate with the group engagement team.

Relevant Ethical Requirements

18. In applying proposed ISA 220 (Revised),¹⁰ the group engagement partner shall take responsibility for: (Ref: Para. A32–A34, A112)
 - (a) Determining that the component auditor has been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;
 - (b) Obtaining an understanding about whether the component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement and, in particular, are independent; and
 - (c) Prior to dating the auditor's report, obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement, including those related to independence, have been fulfilled.

Engagement Resources

19. In applying proposed ISA 220 (Revised),¹¹ the group engagement partner shall: (Ref: Para. A35)
 - (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned procedures at the component; and (Ref: Para. A36–A41)
 - (b) When information can be obtained about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to, and effect on, the group audit. (Ref: Para. A42–A43)
20. If a component auditor does not meet the independence requirements that are relevant to the group audit, or the group engagement partner has serious concerns about any of the matters in paragraphs 16, 18 and 19, the group engagement team shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. (Ref: Para. A44–A45)

Engagement Performance

21. In applying proposed ISA 220 (Revised),¹² the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component

⁹ Proposed ISA 220 (Revised), paragraph 13

¹⁰ Proposed ISA 220 (Revised), paragraph 16-17, 21

¹¹ Proposed ISA 220 (Revised), paragraph 25-26

¹² Proposed ISA 220 (Revised), paragraph 29

auditors and the review of their work. In doing so, the group engagement partner takes into account areas: (Ref: Para. A46–A48)

- (a) Where the assessed risk of material misstatement of the group financial statements is higher on the spectrum of risk or where a significant risk has been identified; and
- (b) In the group financial statements that involve significant judgment.

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

22. In applying ISA 315 (Revised 2019),¹³ the group engagement team shall take responsibility for obtaining an understanding of the following: (Ref: Para. A49–A51, A66–A67)

- (a) The group and its environment, including: (Ref: Para. A52–A54)
 - (i) The group’s organizational structure and its business model, including:
 - a. The locations in which the group has its operations or activities;
 - b. The nature and similarities of the group’s activities and business lines; and
 - c. The extent to which the group’s business model integrates the use of IT; and
 - (ii) The nature and extent of the measures used internally and externally to assess the entities or business units’ financial performance;
- (b) The applicable financial reporting framework, including the consistency of accounting policies and practices across the group; and
- (c) The group’s system of internal control, including:
 - (i) The nature and extent of commonality of controls; (Ref: Para. A55–A60)
 - (ii) Whether, and if so, how, the group centralizes activities; (Ref: Para. A61–A62)
 - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - (iv) How the group management communicates significant matters that support the preparation of the group financial statements and related reporting responsibilities in the information system and other components of the group’s system of internal control. (Ref: Para. A63–A65)

Considerations When Component Auditors Are Involved

- 23. When risk assessment procedures are assigned to component auditors, the group engagement team shall discuss with component auditors matters related to the financial information of components that are relevant to the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A68)
- 24. In applying ISA 550,¹⁴ the group engagement team shall discuss with component auditors related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that are relevant to the work of the component auditor. (Ref: Para. A69)

¹³ ISA 315 (Revised 2019), paragraph 19

¹⁴ ISA 550, *Related Parties*, paragraph 17

25. In applying ISA 570 (Revised),¹⁵ the group engagement team shall:
- (a) Discuss with component auditors any events or conditions identified by group management or the group engagement team, that may cast significant doubt on the component's ability to continue as a going concern; and
 - (b) Discuss with component auditors any events or conditions identified by group management or the group engagement team, that may cast significant doubt on the group's ability to continue as a going concern that is relevant to the work of the component auditor.

Materiality

26. In applying ISA 320¹⁶ and ISA 450,¹⁷ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components for purposes of planning and performing audit procedures, the group engagement team shall determine:
- (a) Component performance materiality. Such amount shall be lower than group performance materiality to address aggregation risk. (Ref: Para. A70–A73)
 - (b) The threshold above which misstatements identified in component financial information are to be communicated to the group engagement team. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A74)

Considerations When Component Auditors Are Involved

27. The group engagement team shall communicate to the component auditor:
- (a) Component performance materiality; and
 - (b) The threshold above which misstatements identified in the financial information of a component are to be communicated to the group engagement team.

Identifying and Assessing the Risks of Material Misstatement

28. In applying ISA 315 (Revised 2019),¹⁸ based on the understanding obtained in paragraph 22, the group engagement team shall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A75–A80)

Considerations When Component Auditors Are Involved

29. When risk assessment procedures related to the identification and assessment of the risks of material misstatement of the group financial statements are assigned to component auditors, the group engagement team shall consider the results of the component auditors' work and determine whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A81–A84)

¹⁵ ISA 570 (Revised), *Going Concern*

¹⁶ ISA 320, paragraph 11

¹⁷ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5

¹⁸ ISA 315 (Revised 2019), paragraph 28-29

Responding to the Assessed Risks of Material Misstatement

30. In applying ISA 330,¹⁹ the group engagement team shall take responsibility for the nature, timing and extent of further audit procedures to be performed. (Ref: Para. A85–A94)

Consolidation Process

31. The group engagement team shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include:
- (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, to perform further audit procedures on sub-consolidations; and (Ref: Para. A95)
 - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A96)
32. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.
33. If the group financial statements include the financial statements of an entity or business unit with a financial reporting period-end that differs from that of the group, the group engagement team shall take responsibility for evaluating whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

Considerations When Component Auditors Are Involved

34. When the nature, timing and extent of further audit procedures to be performed is determined by component auditors, the group engagement team shall discuss with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements. (Ref: Para. A97–A102)
35. If significant risks of material misstatement of the group financial statements have been identified in a component on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of those further audit procedures.

Consolidation Process

36. In accordance with paragraph 21, when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group engagement team shall determine the nature and extent of direction and supervision of component auditors and the review of their work. (Ref: Para. A103)
37. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 41(a)) is the financial information that is incorporated in the group financial statements.

¹⁹ ISA 330, paragraph 6-7

Related Parties

38. In applying ISA 550, the group engagement team shall request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team.

Using Audit Evidence from an Audit Performed for Another Purpose

39. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall evaluate whether: (Ref: Para. A104–A106)
- (a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;
 - (b) Performance materiality used for that audit is appropriate for the purposes of the group audit; and
 - (c) Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 18 and 19.

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

40. The group engagement team shall communicate on a timely basis with component auditors. (Ref: Para. A107–A112)
41. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include:
- (a) Identification of the financial information on which the component auditor is reporting;
 - (b) Information on instances of non-compliance with laws or regulations;
 - (c) Uncorrected misstatements of the financial information on which the component auditor performed further audit procedures (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team);
 - (d) Indicators of possible management bias;
 - (e) Description of any identified deficiencies in the group's system of internal control;
 - (f) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component;
 - (g) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and
 - (h) The component auditor's overall findings, conclusions or opinion.

Evaluating Communications with Component Auditors

42. The group engagement team shall evaluate the communications with component auditors. In doing so, the group engagement team shall:
- (a) Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and
 - (b) Determine how and the extent to which it is necessary to review parts of the component auditor's audit documentation. (Ref: Para. A113)
43. If the component auditor does not communicate the matters requested by the group engagement team, the group engagement team shall consider whether the information can be obtained through other sources. If such information cannot be obtained through other sources, the group engagement team shall consider the implications for the group audit, in accordance with paragraph 45.

Subsequent Events

44. In applying ISA 560,²⁰ the group engagement team shall take responsibility for performing procedures designed to identify events that may require adjustment to or disclosure in the group financial statements, including, as appropriate, requesting component auditors to perform procedures, for events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements. (Ref: Para. A114)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

45. In applying ISA 330,²¹ the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115–A116)

Evaluating the Effect on the Group Audit Opinion

46. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A117)

Considerations When Component Auditors Are Involved

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

Auditor's Report

48. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish

²⁰ ISA 560, *Subsequent Events*, paragraph 7

²¹ ISA 330, paragraph 26

the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A118–A119)

Communication with Group Management and Those Charged with Governance of the Group (Ref: Para. A120)

49. The group engagement team shall determine which identified deficiencies in internal control to communicate to those charged with governance of the group and group management in accordance with ISA 265.²² In making this determination, the group engagement team shall consider deficiencies in internal control that have been identified by the group engagement team or that have been communicated by component auditors.

Communication with Group Management

50. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 41 (f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A121)
51. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group engagement team shall request group management to inform management of the entity or business unit of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to component management, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A122)

Communication with Those Charged with Governance of the Group

52. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised)²³ and other ISAs: (Ref: Para. A123)
- (a) An overview of the work to be performed at components and the nature of the group engagement team's planned involvement in the work to be performed by component auditors.
 - (b) Instances where the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern.
 - (c) Any limitations on the group audit, for example, where the access to information or people may have been restricted.
 - (d) Fraud or suspected fraud involving group management, component management,

²² ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

²³ ISA 260 (Revised), *Communication with Those Charged with Governance*

employees who have significant roles in the group's system of internal control or others where the fraud resulted in a material misstatement of the group financial statements.

Documentation

53. In applying ISA 230,²⁴ the group engagement team shall include in the audit documentation: (Ref: Para A124, A129–A130)
- (a) Significant matters related to restrictions on access to people or information that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
 - (b) The determination of component performance materiality and the threshold for communicating misstatements in component financial information to the group engagement team.
 - (c) The nature, timing and extent of the group engagement team's direction and supervision of component auditors and the review of their work. (Ref: Para. A125–A128)
 - (d) Matters related to communication with component auditors, including:
 - (i) The matters required to be discussed in accordance with paragraphs 24–25 and 38.
 - (ii) Matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 41.
 - (e) The group engagement team's evaluation of, and response to, findings of the component auditors with respect to matters that could have a material effect on the group financial statements.

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Application and Other Explanatory Material

Scope (Ref: Para. 1–2)

- A1. This proposed ISA deals with the special considerations for the group engagement partner and group engagement team in applying the requirements and guidance in proposed ISA 220 (Revised), including with respect to the direction and supervision of component auditors and the review of their work.
- A2. Proposed ISQM 1²⁵ addresses the engagements for which an engagement quality review is required to be performed. Proposed ISQM 2²⁶ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.
- A3. This proposed ISA applies when the auditor has been engaged to audit group financial

²⁴ ISA 230, *Audit Documentation*, paragraphs 8–11 and A6

²⁵ Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. All References to proposed ISQM 1 are to the version presented to the IAASB in March 2020.

²⁶ Proposed ISQM 2, *Engagement Quality Reviews*. All References to proposed ISQM 2 are to the version presented to the IAASB in March 2020.

statements. Group financial statements, as defined, include the financial information of more than one entity or business unit. A key factor in determining whether financial statements are group financial statements is whether financial information is prepared through a consolidation process as described in paragraphs 9 and A12-A14.

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

Involvement of Component Auditors (Ref: Para. 3)

- A7. The involvement of component auditors may be necessary for various reasons. For example, when the group has many components across multiple jurisdictions, the group engagement team may need the assistance of component auditors to identify, assess and respond to the risks of material misstatement of the group financial statements.
- A8. The group engagement team may decide to assign certain audit procedures to, or obtain information from, component auditors to fulfill the requirements of this ISA. For example, when obtaining an understanding of the entity and its environment for a continuing group audit in accordance with paragraph 22 of this ISA, the group engagement team may discuss with a component auditor whether there are any significant changes in the business of the component that could have an effect on the risks of material misstatement of the group financial statements.

Definitions

Aggregation Risk (Ref: Para. 7(a))

- A9. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.

Component Auditor (Ref: Para. 7(c))

- A10. References in this ISA to the engagement team include members of the group engagement team and component auditors. The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider.

- A11. In some circumstances, the group engagement team may perform centralized testing on account balances, classes of transactions or disclosures, or may perform audit procedures related to a component. In these circumstances, the group engagement team is not considered a component auditor for purposes of this ISA.

Consolidation Process (Ref: Para. 9)

- A12. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise allow, the presentation of combined financial statements for entities that have no parent but are under common control.
- A13. When branches or divisions within a single entity prepare financial information, through separate branch or divisional accounting, financial reporting frameworks may require the financial information of the branches or divisions to be aggregated into the financial statements of the entity, including the elimination of interbranch or interdivisional transactions and balances. In some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 9, the financial statements do not represent group financial statements and therefore this proposed ISA does not apply.
- A14. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves certain considerations, such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 10)

- A15. It may be not possible or practical for the group engagement partner to solely deal with all requirements in proposed ISA 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, proposed ISA 220 (Revised)²⁷ allows the engagement partner to assign responsibilities for the design or performance of procedures, tasks, or other actions to appropriately skilled or suitable experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances, proposed ISA 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement.²⁸

²⁷ Proposed ISA 220 (Revised), paragraph 15

²⁸ Proposed ISA 220 (Revised), paragraph 15

- A16. Policies or procedures established by the firm, or that are common network requirements or network services, may support the group engagement partner by facilitating communication between the group engagement team and component auditors from that network and supporting the group engagement team's direction and supervision of those component auditors and the review of their work.

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected To be Obtained (Ref: Para. 11–12)

- A17. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained the group engagement team may obtain an understanding of matters such as:
- The group structure, including both the legal and organizational structure.
 - Business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
 - The use of service organizations.
 - The use of shared service centers.
 - The consolidation process.
 - Whether the group engagement team:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information; and
 - Will be able to perform necessary work on the financial information of the components.
- A18. In the case of a new engagement, the group engagement team's understanding of the matters in paragraph A17 may be obtained from:
- Information provided by group management;
 - Communication with group management;
 - Communication with those charged with governance of the group; and
 - Where applicable, communication with component management or the previous group engagement team.
- A19. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:
- Changes in the group structure (e.g., acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized).
 - Changes in components' business activities that are significant to the group.
 - Changes in the composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
 - Concerns the group engagement team has with regard to the integrity and competence of group or component management.

- Changes in the applicable financial reporting framework.
- A20. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group engagement team's jurisdiction because of cultural and translation issues and different laws or regulations (e.g., regulations restricting access to data).
- A21. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:
- The group engagement team's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group engagement team); or
 - The work to be performed on the financial information of components.

In exceptional circumstances, such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable laws or regulations. In addition, an inability to obtain sufficient appropriate audit evidence would need to be evaluated, in accordance with ISA 705 (Revised),²⁹ in forming an opinion on the group financial statements.

Agreeing the Terms of Audit Engagements (Ref: Para. 13)

- A22. ISA 210 requires the auditor to agree the terms of engagement with management or those charged with governance.³⁰ The terms of engagement identify the applicable financial reporting framework.³¹ Additional matters may be included in the terms of a group audit engagement, such as:
- The communication between the group engagement team and component auditors should be unrestricted to the extent possible under laws or regulations;
 - Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group engagement team;
 - Important communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team; and
 - The group engagement team should be permitted to perform work or request a component auditor to perform work at the component.
- A23. If the group engagement team cannot obtain the agreement of group management that it acknowledges and understands its responsibilities in accordance with paragraph 13, the group engagement team is required to not accept the group audit engagement, unless required by laws or regulations to do so.³²

²⁹ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

³⁰ ISA 210, paragraph 9

³¹ ISA 210, paragraph 8

³² ISA 210, paragraph 8

Restrictions on Access to Information or People (Ref: Para. 14–15)

- A24. Restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.
- A25. Access to information or people can be restricted for many reasons, such as restrictions imposed by management, local laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease.
- A26. In many cases, the group engagement team may be able to overcome restrictions on access to information or people, for example:
- When laws or regulations restrict sending relevant audit documentation across borders, the group engagement team may be able to access the relevant audit documentation by:
 - Visiting the location of the component;
 - Reviewing the relevant audit documentation remotely with the use of technology, where not prohibited by laws or regulations;
 - Discussing the procedures performed by the component auditor; or
 - Discussing with management the need to communicate with regulators.
 - When the group has a non-controlling interest in an entity that is accounted for by the equity method, the group engagement team may be able to overcome restrictions by:
 - Determining whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights;
 - Considering financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements;
 - Considering publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the associate; or
 - Considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained. For example, if the group has representatives who are on the executive board or are members of those charged with governance of the associate, discussion with them regarding the associate and its operations and financial status may be a useful source of information.
 - When war, other unrest or outbreaks of disease restricts access to relevant audit documentation of a component auditor, the group engagement team may be able to meet with the component auditor in a location different from where the component auditor is located or review the relevant audit documentation remotely with the use of technology, where not prohibited by laws or regulations.
 - When access to component management or those charged with governance of the component is restricted, the group engagement team may be able to perform the work themselves by working with group management or those charged with governance of the group.

- A27. When the group engagement team cannot overcome restrictions, the group engagement team's firm may communicate with regulators, listing authorities, or others, about the restrictions (e.g., the group engagement team's firm may ask a listing authority for a different filing date) and encourage group management to communicate with regulators. This may be particularly useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.
- A28. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group engagement team may need to reconsider the reliability of group management's responses to the group engagement team's inquiries and may call into question group management's integrity.

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

- A29. When the group engagement team is unable to obtain sufficient appropriate audit evidence, the considerations in ISA 705 (Revised) apply. Appendix 1 contains an example of an auditor's report containing a qualified group audit opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

Laws or Regulations Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement

- A30. Laws or regulations may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA still apply to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is addressed in ISA 705 (Revised).

Consideration When Component Auditors Are Involved (Ref: Para. 16)

- A31. In evaluating whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary, the group engagement team may obtain an understanding of whether the engagement team will have unrestricted access to the component auditor, including relevant audit documentation sought by the group engagement team (e.g., audit evidence related to components located in a different jurisdiction may be in a foreign language and may need to be translated for use by the group engagement team).

Relevant Ethical Requirements (Ref: Para. 18)

- A32. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those relating to independence, that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.
- A33. The group engagement team may need to communicate relevant ethical requirements, including those related to independence, to all component auditors. In doing so, the group engagement team may consider whether additional information or training for component

auditors is necessary with respect to the provisions of the ethical requirements that are relevant to the group audit engagement.

- A34. Proposed ISA 220 (Revised) requires the engagement partner to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements by the engagement team.³³ Becoming aware of actual or suspected breaches of relevant ethical requirements may be more challenging for a group audit, particularly where component auditors are not subject to common network services or network requirements in respect of relevant ethical requirements. In such circumstances, the group engagement team may instruct component auditors to communicate relevant information to the group engagement partner when actual or suspected breaches by component auditors may have occurred.

Engagement Resources (Ref: Para. 19)

- A35. The determination whether sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team may be more challenging in a group audit engagement. Audit work may be conducted across different locations with different characteristics (e.g., different languages, time zones and cultures) where collaboration is more challenging, and when component auditors are from different firms that do not have common systems of quality management. For example, a component auditor may determine that the work of an auditor's expert is needed in relation to an account balance at the component that is a significant account balance to the group financial statements. In such circumstances, the group engagement team may wish to discuss the qualifications of the auditor's expert with the component auditor to evaluate whether the auditor's expert has the necessary expertise and objectivity. If the group engagement partner is unable to determine whether the auditor's expert has the necessary expertise and objectivity, the group engagement team may need to seek another expert with the appropriate expertise and objectivity or change the planned approach to the nature, timing and extent of direction and supervision of component auditors and the review of their work.

Competence and capabilities of the component auditors (Ref: Para. 19(a))

- A36. Determining whether the component auditor has the appropriate competence and capabilities influences the nature, timing and extent of the engagement partner's direction and supervision of the component auditor and the review of their work. Determining whether the component auditor has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement.
- A37. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:
- Previous experience with or knowledge of the component auditor.
 - The component auditor's specialized skills (e.g., industry specific knowledge).
 - The component auditor's understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management.

³³ Proposed ISA 220 (Revised), paragraph 19

- The degree to which the group engagement team and component auditor are subject to common systems of quality management, for example, whether the group engagement team and a component auditor:
 - Use common resources to perform the work (e.g., audit methodologies or information technology (IT) applications);
 - Share common policies or procedures affecting the engagement performance (e.g., direction and supervision and review of work or consultation);
 - Are subject to common monitoring activities; or
 - Have other commonalities, including common leadership or a common cultural environment.
 - The consistency or similarity of:
 - Laws or regulations or legal system;
 - Language and culture;
 - Education and training;
 - Professional oversight, discipline, and external quality assurance; or
 - Professional organizations and standards.
 - Information obtained through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.
- A38. The procedures to determine the component auditor's competency and capability may include, for example:
- An evaluation of the information communicated by the group engagement team's firm to the group engagement team, including:
 - The firm's ongoing communication related to monitoring and remediation, in circumstances when the group engagement team and component auditor are from the same firm.³⁴
 - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.
 - Discussing the matters in paragraph A47 with the component auditor.
 - Requesting the component auditor to confirm the matters referred to in paragraph 18 in writing.
 - Discussing the component auditor's competency and capabilities with colleagues in the group engagement partner's firm, or with a reputable third party that has knowledge of the component auditor.
 - Obtaining confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, published external inspection reports, or other third parties. In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 19(a)–(b) has changed since the previous year.

³⁴ Proposed ISQM 1, paragraph 53

- A39. The engagement partner's firm and the component auditor's firm may be members of the same network and may be subject to common network requirements or use common networks services.³⁵ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with proposed ISQM 1, the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management, taking into account the nature and circumstances of the firm and the engagements it performs.
- A40. Working with component auditors that are not from the same firm may be different than working with individuals from the same firm. For example, the group engagement team and component auditors may work in different countries with different languages, culture, business and market conditions. Also, different firms may have different systems of quality management, and the skills and experience of the group engagement team with respect to the group audit may differ from those of the component auditors. These differences may pose challenges in the coordination of the overall audit strategy and audit plan between the group engagement team and component auditors. Adequate and timely involvement by the group engagement partner and group engagement team may address these challenges.

Automated tools or techniques

- A41. As described in proposed ISA 220 (Revised),³⁶ when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When component auditors use automated tools and techniques, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team's instructions. The group engagement team may also request component auditors to confirm that they have complied with the group engagement team's instructions.

Monitoring and remediation (Ref: Para. 19(b))

- A42. If the group engagement team and the component auditor are members of the same network and are subject to common monitoring activities undertaken by the network across network firms' systems of quality management, the results of the network's monitoring activities may include findings or deficiencies in relation to the component auditor's firm that may be relevant to the group engagement team's understanding of the competence and capability of the component auditor, if sufficiently detailed. The group engagement team may obtain such information through the group engagement team's firm or, if the group engagement team's firm does not provide such information, from the component auditor. This information influences the nature, timing and extent of the engagement partner's direction and supervision of the component auditor and the review of their work.
- A43. When the group engagement team cannot obtain information about the results of the monitoring and remediation process with respect to the component auditor's firm, the group engagement team may be able to obtain information through other sources, for example, the

³⁵ Proposed ISQM 1, paragraph 58 and 59

³⁶ Proposed ISA 220 (Revised), paragraph A20

group engagement team firm's network may provide aggregated information about the monitoring activities undertaken by the network for the firms within the network that includes the component auditor's firm.

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 20)

- A44. The group engagement team cannot overcome the fact that a component auditor is not independent by being involved in the work of the component auditor or by supplementing the work of component auditor by performing additional risk assessment or further audit procedures on the financial information of the component.
- A45. However, the group engagement team may be able to overcome less than serious concerns about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: Para. 21)

- A46. The group engagement partner is responsible for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work.³⁷ However, as described in paragraph A15, it may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team and these members may assign responsibilities further.
- A47. The nature timing and extent of direction and supervision and review of their work may be tailored taking into account the nature and circumstances of the engagement and, for example:
- The assessed risks of material misstatement. For example, if the group engagement team has identified a component that is likely to include significant risks, a corresponding increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's audit documentation may be appropriate.
 - The competence and capabilities of the component auditors performing the audit work. For example, if the group engagement team has no previous experience working with a component auditor, the group engagement team may communicate more detailed instructions or introduce greater in-person supervision of the component auditor as the work is performed.
 - The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used. For example, direction and supervision of individuals located at service delivery centers and the review of their work may need to be more formalized and structured than when members of the engagement team are all situated in the same location.

³⁷ Proposed ISA 220 (Revised), paragraph 29

- Access to component auditors' working papers. For example, where component auditor working papers cannot be transferred out of the jurisdiction, greater in-person supervision of the component auditor and in-person or electronic review of the component auditor's audit documentation may be appropriate (see also paragraphs A24–A29).
- A48. There are different ways in which the group engagement partner may direct and supervise component auditors and review their work, for example:
- Meetings or calls with component auditors to communicate identified and assessed risk, issues, findings and conclusions.
 - Reviews of the component auditor's documentation in person or through the use of technology or automated tools and techniques.
 - Participating in the closing and other key meetings between the component auditors and component management.

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 22)

- A49. ISA 315 (Revised 2019) contains requirements and guidance on matters the auditor may consider when obtaining an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control.³⁸ Appendix 2 of this ISA provides further explanation of the components of the group's system of internal control, including controls over the group's financial reporting process and the consolidation process.
- A50. The entity's information system and financial reporting process may be closely aligned with the organizational structure, for example, a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity method; a head office and one or more divisions or branches; or a combination of both. Some groups, however, may organize their information system by function, process, product or service (or by groups of products or services), or geographic locations. In these cases, the entity or business unit for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographic location.
- A51. The group engagement team's understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with:
- Group management or component management, including those who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
 - Component auditors; or
 - Auditors that perform an audit for statutory, regulatory or another reason on the financial statements of an entity or business unit that is part of the group.

³⁸ ISA 315 (Revised 2019), paragraphs A50-A89

The Group and Its Environment (Ref: Para. 22(a))

A52. An understanding of the group's organizational structure and its business model may enable the group engagement team to understand such matters as:

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

A53. Obtaining an understanding of the similarities of the group's activities and business lines may enable the group engagement team to identify similar risks of material misstatement across components and design an appropriate response.

A54. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The group engagement team's understanding of such performance measures may help to identify:

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

The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: Para. 22(c)(i))

- A55. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.³⁹
- A56. The understanding of the components of the group's system of internal control therefore includes understanding the commonality of the controls within those components across the group. When the group engagement team plans to test the operating effectiveness of identified controls⁴⁰ that are common across the group, the group engagement team evaluates the design and determines the implementation of those controls in accordance with ISA 315 (Revised 2019).
- A57. To determine the commonality of an identified control across the group, the group engagement team may consider whether:
- The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components;
 - The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
 - If a control uses information from IT applications, the IT applications and other aspect of the IT environment that generate the information are the same across the components or locations; or
 - If the control is automated, it is configured in the same way in each IT application across the components.
- A58. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT infrastructures or the implementation of the IT application differs across entities or business units, the group engagement team may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT infrastructures (e.g., whether the IT application is configured in the same manner across different IT infrastructures, and whether there are effective general IT controls across different IT implementations of IT applications or different IT infrastructures).

³⁹ ISA 315 (Revised 2019), paragraph A5

⁴⁰ ISA 315 (Revised 2019), paragraph 26(a)

- A59. ISA 315 (Revised 2019)⁴¹ recognizes that, in some cases, an entity may use common IT processes across its IT environment or across certain IT applications or IT infrastructures, in which case common risks arising from the use of IT and common general IT controls may be identified.
- A60. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). Typically, the processing of transactions and related controls at a shared service center operate in the same way for all transactions regardless of the entity or business unit (e.g., the processes, risks, and controls for all transactions, regardless of the source of the transaction, are the same). In such cases, it may be appropriate to identify the controls and evaluate the design and determine implementation of the controls, and if applicable test operating effectiveness, as a single population.

Centralized Activities (Ref: Para. 22(c)(ii))

- A61. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units in a single location (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).
- A62. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group engagement team to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at a component, but the processing may occur at the shared service center).

Communications About Significant Matters That Support the Preparation of the Group Financial Statements (Ref: Para. 22(c)(iv))

- A63. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group engagement team to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

⁴¹ ISA 315 (Revised 2019), appendix 5, paragraph 21

Instructions by Group Management to Entities or Business Units

A64. In applying ISA 315 (Revised 2019),⁴² the group engagement team is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (i.e. communicate financial reporting policies) to the entities or business units that include details about financial reporting processes. Obtaining an understanding of group management's instructions may affect the group engagement team's identification and assessment of the risks of material misstatement of the group financial statements. For example, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.

A65. The group engagement team's understanding of the instructions may include the following:

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

Engagement Team Discussion (Ref: Para. 22)

A66. The group engagement partner's determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the expected involvement of component auditors.

A67. The discussions provide an opportunity to:

- Share knowledge of the components and their environments, including which components' activities are centralized.
- Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error.
- Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting, for

⁴² ISA 315 (Revised 2019), paragraph 25(b)

example, revenue recognition practices that do not comply with the applicable financial reporting framework.

- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk that group or component management may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).
- Discuss fraud that has been identified in components, or information that indicates existence of a fraud in a component.
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Identify risks of material misstatement relevant to components where the exercise of professional skepticism may be particularly important.
- Discuss any events or conditions identified by group management, or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management, and any other related parties of which the engagement team is aware.

Considerations When Component Auditors are Involved (Ref: Para. 23)

A68. Factors that influence the group engagement team's decision about the nature and extent of risk assessment procedures assigned to component auditors include, for example:

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

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

Related Parties (Ref: Para. 24)

A69. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁴³ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

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

Planning and performing the audit with professional skepticism as required by ISA 200,⁴⁴ is therefore particularly important when these circumstances exist.

Materiality (Ref: Para. 26–27)

A70. A different component performance materiality may be established for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

A71. ISA 320 requires the auditor to determine the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures if, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.⁴⁵ However, this ISA does not require a different component performance materiality to be established for each class of transaction, account balance or disclosure for a component.

A72. Factors the group engagement may take into account in setting component performance materiality include the following:

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

⁴³ ISA 550, paragraph 2

⁴⁴ ISA 200, paragraphs A53–A54

⁴⁵ ISA 320, paragraph 10

transactions).

- The nature and extent of misstatements identified at the component in prior audits.

- A73. In some cases, the group engagement team may perform further audit procedures on accounts, classes of transactions or disclosures that are aggregated. For example, audit procedures may be performed at the group level for an entire account or class of transactions as a single population. In such cases, group performance materiality often will be used for purposes of performing these procedures.
- A74. The threshold for communicating uncorrected misstatements to the group engagement team is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA 450,⁴⁶ this threshold is the amount below which misstatements would not need to be accumulated because the group engagement team expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–29)

- A75. The group engagement team's process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic and may be more complex, particularly where the component's business activities are complex or specialized, or when there are many components across multiple locations. In applying ISA 315 (Revised 2019),⁴⁷ the group engagement team will develop initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.
- A76. For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by ISA 315 (Revised 2019). The group engagement team assesses the inherent risk by assessing the likelihood and magnitude of identified risks of material misstatement, taking into account the inherent risk factors. After identifying the risks of material misstatement, including those communicated by component auditors, the group engagement team determines the significant classes of transactions, account balances and disclosures of the group financial statements.
- A77. The group engagement team's process (or the process of component auditors to whom risk assessment procedures are assigned) of assessing the identified risks of material misstatement at the assertion level also includes the determination of significant risks. Significant risks of the group financial statements that are included in components may be where the component has, for example:
- Accounting estimates that have high estimation uncertainty or complex models.
 - A complex data collection and processing procedure (e.g., at a shared service center).
 - Changes in the entity or business unit's activities, for example, a merger or acquisitions.
- A78. If the group engagement team plans to test the operating effectiveness of controls, the auditor

⁴⁶ ISA 450, paragraph A3

⁴⁷ ISA 315 (Revised 2019), paragraph 22

shall assess control risk⁴⁸ (i.e. if the nature, timing and extent of the work to be performed on the consolidation process or the financial information of the components is based on an expectation that controls are operating effectively). The initial expectation of the operating effectiveness of controls is based on the group engagement team's or component auditor's evaluation of the design, and the determination of implementation, of the identified controls, including common controls.

Fraud (Ref: Para. 28)

A79. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.⁴⁹ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

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

Inherent Risk Factors (Ref: Para. 28)

A80. Appendix 3 sets out examples of characteristics of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error.

Considerations When Component Auditors are Involved (Ref: Para. 29)

A81. The group engagement team may assign risk assessment procedures related to the identification and the assessment of the risks of material misstatement of the group financial statements that result from inherent risk factors related to the financial information of a component, including how inherent risk factors related to the financial information of the component may affect the susceptibility of assertions to misstatement in the preparation of the group financial statements. For example, the group engagement team may work with component auditors to develop initial expectations about potential risks of material

⁴⁸ ISA 315 (Revised 2019), paragraph 34

⁴⁹ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

misstatement of the group financial statements, including significant risks, related to components. The group engagement team discusses these matters with component auditors in accordance with paragraph 23. Factors that influence the group engagement team's decision whether to involve component auditors are included in paragraph A68.

- A82. The identification and assessment of inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when risk assessment procedures have been assigned to component auditors, the group engagement team may need to discuss its preferred approach with component auditors, or provide instructions, particularly where the group engagement team does not share common audit techniques, methodologies or training with component auditors.
- A83. In accordance with ISA 315 (Revised 2019),⁵⁰ the auditor is required to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement. Accordingly, when risk assessment procedures related to the identification and assessment of the risks of material misstatement of the group financial statements are assigned to component auditors, the group engagement team considers the results of the component auditor's work and, in applying ISA 315 (Revised 2019), determines whether the component auditor's work together with the work of the group engagement team, provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements.
- A84. Based on the risk assessment procedures performed, the group engagement team may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction..

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 30)

- A85. In responding to the assessed risks of material misstatement of the group financial statements, different approaches are available to the group engagement team to obtain audit evidence on classes of transactions, account balances and disclosures across the various components. Paragraphs A86 to A94 provide guidance to assist the group engagement team in determining an appropriate approach, or combination of approaches, for the engagement team to obtain audit evidence. Paragraphs A97 to A102 provide guidance on the options available to the group engagement team for assigning further audit procedures to component auditors to obtain audit evidence on the financial information of components for the purpose of the group financial statements.

Scoping a Group Audit

- A86. The group engagement team may design and perform further audit procedures centrally if the audit evidence to be obtained from performing further audit procedures on one or more classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally for the group (e.g., at a shared service center), the group engagement team may perform, or request a component

⁵⁰ ISA 315 (Revised 2019), paragraph 35

auditor to perform, further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures.

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

Element of Unpredictability

- A91. Including an element of unpredictability in the type of work to be performed, the components at which procedures are performed and the extent to which the group engagement team is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement due to fraud of the group financial statements.⁵²

Operating Effectiveness of Controls that Are Common Across the Group

- A92. If the group engagement team intends to rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components, the group engagement team, in accordance with ISA 330, is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls

⁵¹ ISA 520, *Analytical Procedures*

⁵² ISA 240, paragraph 30(c)

are operating at the components as designed. The group engagement team may request the component auditor to assist the group engagement team in performing these procedures.

A93. If more deviations than expected are detected, the group engagement team may need to revise the audit plan. Possible revisions to the audit plan may include:

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

A94. Audit evidence obtained in determining whether common controls have been implemented and testing their operating effectiveness at selected components (including when component auditors perform such testing), may corroborate or contradict the conclusion that such controls have been implemented and are operating effectively commonly across a group.

Consolidation Process

Consolidation Procedures (Ref: Para. 31(a))

A95. The further audit procedures on the consolidation, including sub-consolidations, may include:

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

Consolidation Adjustments and Reclassifications (Ref: Para. 31(b))

A96. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

- 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 and valued in the consolidation process as required by the financial reporting framework;
- Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Checking the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.

Considerations when Component Auditors Are Involved (Ref: Para. 33)

A97. Component auditors may have a more in-depth knowledge of the components than the group engagement team, and therefore the group engagement team may need the assistance of the component auditor to determine the nature, timing and extent of further audit procedures

to be performed on the financial information of the component auditor.

A98. Circumstances in which the group engagement team may determine it is more effective to request that the component auditor design and perform further audit procedures related to a component may include situations in which there is a risk of material misstatement of the group financial statements due to the existence of events or conditions at the component:

- That may be relevant to group management's assessment of the group's ability to continue as a going concern; or
- That may affect the group auditor's response to risks of material misstatement relating to the valuation of the assets and liabilities of a component included in the group financial statements (i.e., circumstances in which the going concern basis of accounting may no longer be appropriate for the assets and liabilities of the component).

A99. In assigning further audit procedures to component auditors, the group engagement team may request component auditors to perform one or more of the following:

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

A100. The group engagement team may determine that audit evidence needs to be obtained on all or a significant proportion of a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team may determine that it is more effective to request that the component auditor design and perform further audit procedures on the entire financial information of the component. In such circumstances, the component auditor may need to evaluate whether sufficient appropriate audit evidence has been obtained with respect to the financial information of the component.

A101. The group engagement team may determine that audit evidence needs to be obtained on one or more classes of transactions, account balances, or disclosures of the financial information of a component. In such circumstances, the group engagement team may request that the component auditor performs further audit procedures on the classes of transactions, account balances or disclosures and may assign the design and performance of further audit procedures to the component auditor. The component auditor may also evaluate whether sufficient, appropriate audit evidence has been obtained.

A102. The group engagement team may request a component auditor to perform specific further audit procedures on the financial information of a component to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team determines the overall nature, timing and extent of procedures to be performed and appropriateness of those procedures for obtaining the audit evidence needed to respond to the assessed risks of material misstatement of the group financial statements.

Consolidation Process(Ref: Para. 36)

A103. The appropriate level of the group engagement team's involvement may depend on the circumstances and the structure of the group and other factors, such as the group engagement team's previous experience with the component auditors that perform procedures on the consolidation and sub-consolidations (also see paragraph A47) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

Using Audit Evidence from an Audit Performed for Another Purpose (Ref: Para. 39)

A104. In limited circumstances, an audit may be performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons. This may be the case, for example, when an entity or business unit has been acquired close to year-end. If an audit has been performed and an auditor's report has been issued for statutory, regulatory or other reasons, the group engagement team may use audit evidence from that audit if the group engagement team is satisfied that the work is appropriate for the group engagement team's purposes. If the audit procedures performed are not an appropriate response to the assessed risks of material misstatement of the group financial statements, the group engagement team may decide not to use the audit evidence from that audit. Alternatively, the group engagement team may plan to have additional audit procedures performed on the component, to address the assessed risks of material misstatement of the group financial statements.

A105. Factors that may affect the group engagement team's decision whether to use the audit evidence from an audit that has already been performed due to statutory, regulatory or other reasons to provide audit evidence for the group audit may include the following:

- Differences in the financial reporting framework applied in preparing the financial statements of the entity or business unit and that applied in preparing the group financial statements.
- Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements.
- Differences in the financial reporting period-end between the financial statements of the entity or business unit and the financial statements of the group.

A106. Other relevant requirements in this ISA with respect to the use of the work of a component auditor as described in paragraph 39(c), may include the requirements in the sections on understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control, materiality, identifying and assessing the risks of material misstatement, responding to the assessed risks of material misstatement and two-way communication between the group engagement team and the component auditor.

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

Effective Two-Way Communication (Ref: Para. 40)

A107. Clear communication of the group engagement team's and the component auditor's responsibilities, the timing of the group audit and the expected general content of the communications helps establish the basis for effective two-way communication. If effective two-way communication between the group engagement team and the component auditors

does not exist, there is a risk that the group engagement team may not obtain sufficient appropriate audit evidence on which to base the group audit opinion.

A108. Factors that may also contribute to effective two-way communication include:

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

Form of Communication (Ref: Para. 40)

A109. The group engagement team's requirements are often communicated in a letter of instruction. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply.

A110. The form of communication may be affected by such factors as:

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

Timing of Communications (Ref: Para. 40)

A111. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.

Non-Compliance with Laws or Regulations (Ref: Para. 18, 40)

A112. The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁵³

⁵³ See, for example, Section 360.17 and Section 360.18 of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*

Reviewing the Component Auditor's Audit Documentation (Ref: Para. 42(b))

A113. The audit documentation of the component auditor that will be relevant to the group audit may vary depending on the circumstances. The nature, timing and extent of the review may be affected by:

- (a) The identified risks of material misstatement of the group financial statements, including the degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of those risks;
- (b) The group engagement team's understanding of the component auditor, including the competence and capabilities of the component auditor; and
- (c) The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's review procedures.

Subsequent Events (Ref: Para. 44)

A114. The group engagement team may:

- (a) Request a component auditor to perform subsequent events procedures to assist the group engagement team to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- (b) Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

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

A115. The evaluation required by paragraph 45 assists the group engagement team in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330⁵⁴ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

A116. If the group engagement team concludes that sufficient appropriate audit evidence on which to base the group audit opinion has not been obtained, the group engagement team may request the component auditor to perform additional procedures or may perform its own procedures in relation to the component.

Evaluating the Effect on the Group Audit Opinion (Ref: Para. 46)

A117. The group engagement partner's evaluation also may include a consideration of whether misstatements communicated by component auditors indicate a systemic issue (e.g., with respect to transactions subject to common accounting policies or common controls) that may affect other components.

⁵⁴ ISA 330, paragraph 18

Auditor's Report (Ref: Para. 48)

A118. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A119. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.⁵⁵

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

Engagement Partner's Review (Ref: Para. 49)

A120. The group engagement partner is not expected to review, prior to their issuance, all communications between a component auditor and component management unless the communications are of significance to the audit of the group financial statements. The group engagement partner may inform component auditors of their responsibilities in identifying communications that may be significant to the group audit engagement.

Communication with Group Management (Ref: Para. 50–51)

A121. ISA 240 contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.⁵⁶

A122. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

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

Communication with Those Charged with Governance of the Group (Ref: Para. 52)

A123. The matters the group engagement team communicates to those charged with governance of the group may include those brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group takes place at various times during the group audit. For example, the matter referred to in paragraph 52(a) may be communicated after the group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 52(b) may be communicated at the end of the audit, and the matters referred to in paragraph 52(c)–(d) may

⁵⁵ ISA 705 (Revised), paragraphs 20 and 24

⁵⁶ ISA 240, paragraphs 41–43

be communicated when they occur.

Documentation (Ref: Para. 53)

A124. In accordance with ISA 230,⁵⁷ the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. The audit documentation for the group audit includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file. The extent to which component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work (Ref: Para. 53(c))

A125. ISA 300⁵⁸ requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

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

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

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

A128. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group engagement team in documenting the direction and supervision of component auditors and the review of their work. For example, the firm may have developed an electronic audit tool that may be used to facilitate communications between the group engagement team and component auditors, and such tool also is used for audit documentation.

⁵⁷ ISA 230, paragraphs 8 and 9

⁵⁸ ISA 300, *Planning an Audit of Financial Statements*, paragraph 9(a).

Other Documentation Considerations When Access to Component Auditor Documentation is Restricted (Ref: Para. 53)

- A129. Audit documentation for an audit of group financial statements may present some additional complexities or challenges depending the structure of the group. This may be the case, for example, when the group has entities or business units in a number of different jurisdictions with varying laws or regulations that may limit the ability of the group engagement team to include relevant parts of the component auditor documentation in the group engagement team's audit file.
- A130. When access to component auditors or component auditor documentation is restricted, the group engagement team is nonetheless required to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. In addition, when relevant parts of the component auditor documentation are unable to be included in the group engagement team's audit file, the group engagement team may need to prepare documentation that reflects the procedures performed, evidence obtained and conclusions reached by the component auditor on matters relevant to the group financial statements. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.

Appendix 1

(Ref: Para. A29)

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

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

- **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.**
- **The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.**
- **The group engagement team has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.**
- **In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.⁵⁹**
- **The International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.⁶⁰**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from**

⁵⁹ If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

⁶⁰ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Consolidated Financial Statements⁶¹

Qualified Opinion

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

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

Basis for Qualified Opinion

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

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

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

[Reporting in accordance with the reporting requirements in ISA 720 (Revised)⁶² – see Illustration

⁶¹ The sub-title, “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title, “Report on Other Legal and Regulatory Requirements” is not applicable.

⁶² ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁶³

[Reporting in accordance with ISA 700 (Revised)⁶⁴ – see Illustration 2 in ISA 700 (Revised).]

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

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

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

⁶³ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶⁴ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Appendix 2

(Ref: Para. A49)

Understanding the Group's System of Internal Control

1. This appendix provides examples of controls that may be helpful in obtaining an understanding of the system of internal control in a group environment, and expands on how ISA 315 (Revised 2019) is to be applied in relation to an audit of group financial statements.⁶⁵ The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

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

The Group's Risk Assessment Process

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

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

4. The group engagement team's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, where relevant, activities of the internal audit function across the group. The group's internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. ISA 610 (Revised 2013)⁶⁶ deals with the group engagement team's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

⁶⁵ ISA 315 (Revised 2019), Appendix 3

⁶⁶ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

The Information System and Communication

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

Consolidation Process

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

Matters relating to the applicable financial reporting framework:

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

Matters relating to the consolidation process:

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

by the entities or business units in the group for the consolidation.

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

Matters relating to consolidation adjustments and reclassifications:

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

Control Activities

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

Appendix 3

(Ref: Para. A80)

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

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

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

	fluctuations in exchange rates.
Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions. • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.

Indicators that the control environment, the group's risk assessment process or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

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