

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

Grey highlighted paragraphs will NOT be discussed during the March 2021 Board meeting

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Introduction	
Scope of this ISA	
<p>1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements (a group audit). This ISA deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs to a group audit, in particular ISA 220 (Revised),¹ ISA 315 (Revised 2019),² and ISA 330.³ (Ref: Para. A1–A2)</p>	<p>Scope of this ISA (Ref: Para. 1–1B)</p> <p>A1. This ISA also deals with the special considerations for the group engagement partner and group auditor in applying the requirements and guidance in ISA 220 (Revised), including with respect to the direction and supervision of component auditors and the review of their work.</p> <p>A2. ISQM 1⁴ addresses the engagements for which an engagement quality review is required to be performed. ISQM 2⁵ 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.</p>
<p>1A. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in</p>	<p>A2A. 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. [Previously</p>

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

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

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

⁴ 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..*

⁵ ISQM 2, *Engagement Quality Reviews..*

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<p>paragraph 9(k). The term consolidation process as used in this ISA refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements when permitted, and to the aggregation of the financial information of entities or business units such as branches or divisions. (Ref: Para. A2A-A2C, A15B)</p>	<p>paragraph A3]</p> <p>A2B. In some cases, a single legal entity may configure its information system to separately account for different products or service lines. This may be done, for example, to comply with the reporting requirements of a regulatory authority (e.g., to comply with the terms of a trade or operating license) or for management purposes (e.g., to assess the performance of a product or service line). In these circumstances, the financial statements of the single legal entity are not considered to be group financial statements because there are no separate entities or business units (e.g., divisions). Although the term ‘division’ may be subject to different interpretations, divisions of a group for purposes of this ISA often have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger).</p>
<p>1B. As explained in ISA 220 (Revised),⁶ this ISA, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this ISA may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service center at a remote location. (Ref: Para. A2C)</p>	<p><i>Scalability Considerations</i></p> <p>A2C. This ISA is intended for all group audits, regardless of size or complexity. However, the requirements of this ISA are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely by the group auditor, some requirements in this ISA are not relevant because they are conditional on the involvement of component auditors. This may be the case for an audit of a less complex group when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A75A and A76 also may be helpful in applying this ISA in those circumstances.</p>
<p>2. [Concepts now included in paragraphs 1 and 1A]</p>	
<p><i>Groups and Components</i></p> <p>3. A group may be organized in various ways. For example, a group may be organized by legal or other entities (e.g., a parent and one or more subsidiaries,</p>	<p><i>Groups and Components</i> (Ref: Para. 3–3A)</p> <p>A3. [Moved to paragraph A2A]</p> <p>A3A. The group’s information system, including its financial reporting process, may or may not be aligned with the group’s organizational structure. For example, a group may be</p>

⁶ ISA 220 (Revised), paragraph A1

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<p>joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by business activities. In this ISA, these different forms of organization are collectively referred to as “entities or business units.” (Ref: Para. A3A) [Last three sentences moved to paragraph 3A]</p>	<p>organized according to its legal structure, but its information system may be organized by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes. [Moved from paragraph A54]</p>
<p>3A. The group 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 auditor uses professional judgment in determining the components at which audit procedures will be performed (see paragraph 17A(a)). [First two sentences moved from paragraph A4] This ISA provides flexibility for the group auditor to determine components based on the group auditor’s understanding of the group and its environment, and other factors such as the ability to perform audit procedures centrally, the presence of shared service centers, or common information systems and internal control. (Ref: Para. A4-A6A)</p>	<p>A4. [First two sentences moved to paragraph 3A] When this ISA applies, the auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed (by the group engagement team or component auditors on its behalf).</p> <p>A5. Based on the understanding of the group’s organizational structure and information system, the group auditor may determine that combining (whether by aggregation or disaggregation) certain entities or business units may be appropriate for purposes of performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical jurisdiction, under the same management, and using a common system of internal control, including the information system. In these circumstances, the group auditor may decide to treat these three entities as one component for purposes of planning and performing the group audit.</p> <p>A6. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group’s financial reporting process and audit procedures are performed at that location, the group auditor may determine that the shared service center is a component for purposes of the group audit.</p> <p>A6A. Another consideration that may be relevant to the group auditor’s determination of</p>

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	<p>components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework (e.g., IFRS 8).⁷</p>
<p><i>Involvement of Component Auditors</i></p> <p>3B. ISA 220 (Revised) requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner.⁸ Because the engagement team for a group audit includes component auditors, this ISA requires the group auditor to determine the nature, timing and extent of involvement of component auditors (see paragraph 17A(b)). Component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit. (Ref: Para. A7–A8, Appendix 1)</p>	<p><i>Involvement of Component Auditors</i> (Ref: Para. 3B)</p> <p>A7. The involvement of component auditors may be necessary for various reasons. For example, when there are many components across multiple jurisdictions, the group auditor may need the assistance of component auditors to identify, assess and respond to the risks of material misstatement of the group financial statements. Appendix 1 provides additional guidance about the matters that the group auditor may consider regarding the involvement of component auditors. [Last sentence moved from paragraph A8]</p> <p>A8. The group auditor may involve component auditors to provide information, or to perform audit procedures, to fulfill the requirements of this ISA. For example, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group auditor 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. [Last sentence moved to paragraph A7]</p>
<p>4. This ISA requires sufficient and appropriate involvement by the group auditor in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, this ISA explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction</p>	

⁷ IFRS 8, *Operating Segments*

⁸ ISA 220 (Revised), paragraph 25

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and supervision of component auditors and the review of their work.	
<p><i>Professional Skepticism</i></p> <p>5. In accordance with ISA 200,⁹ the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A9–A10)</p>	<p><i>Professional Skepticism</i> (Ref: Para. 5)</p> <p>A9. ISA 220 (Revised)¹⁰ provides examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level. A group audit engagement may present additional challenges to the exercise of professional skepticism by the engagement team. For example, when there are a large number of components across multiple jurisdictions, it may be important for the group auditor to remain alert for contradictory information from component auditors, component management and group management with respect to a matter of significance to the group financial statements. In addition, component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.</p> <p>A10. Requirements and relevant application material in ISA 315 (Revised 2019),¹¹ ISA 540 (Revised)¹² and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.</p>
<p><i>Responsibilities of the Group Engagement Partner and Group Auditor</i></p> <p>6. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance</p>	

⁹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 15–16 and A20–A24

¹⁰ ISA 220 (Revised), paragraphs A35–A37

¹¹ ISA 315 (Revised 2019), paragraph A238

¹² ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

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<p>with the requirements of this ISA. The term “the group engagement partner shall take responsibility for...” or “the group auditor shall take responsibility for...” is used for those requirements when the group engagement partner or group auditor, respectively, is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors. For other requirements, this ISA expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable, and the group engagement partner or group auditor may obtain information from the firm or other members of the engagement team. (Ref: Para. A19)</p>	
Effective Date	
<p>7. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20XX.</p>	
Objectives	
<p>8. The objectives of the auditor are to:</p> <ul style="list-style-type: none"> (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements; (b) Identify and assess the risks of material misstatement of the group financial statements, 	

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<p>and to plan and perform further audit procedures to appropriately respond to those assessed risks;</p> <p>(c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit engagement, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and</p> <p>(d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements.</p>	
Definitions	
<p>9. For purposes of the ISAs, the following terms have the meanings attributed below:</p> <p>(a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A11)</p> <p>(b) Component – An entity or business unit or a function or activity, (or some combination thereof), determined by the group auditor for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A12)</p> <p>(c) Component auditor – An auditor who, at the request of the group auditor, performs audit procedures related to a component for purposes</p>	<p>Aggregation Risk (Ref: Para. 9(a))</p> <p>A11. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.</p> <p>Component (Ref: Para. 9(b))</p> <p>A12. As noted in paragraph A4, the group auditor uses professional judgment in determining the components for which audit procedures will be performed. Although the group auditor may combine certain entities or business units for purposes of planning and performing the group audit, the group auditor’s consideration of the risks of material misstatement of the group financial statements encompasses all of the</p>

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<p>of the group audit. A component auditor is a part of the engagement team for a group audit.¹³ (Ref: Para. A13–A14)</p> <p>(d) Component management – Management responsible for a component. (Ref: Para. A15)</p> <p>(e) Component performance materiality – An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.</p> <p>(f) Group – A reporting entity for which group financial statements are prepared.</p> <p>(g) Group audit – The audit of group financial statements.</p> <p>(h) Group auditor – The group engagement partner and other members of the engagement team who are responsible for:</p> <ul style="list-style-type: none"> (i) Establishing the overall group audit strategy and audit plan; (ii) Directing and supervising component auditors and reviewing their work; (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements. [previously paragraph 9(j)] 	<p>entities and business units whose financial information is included in the group financial statements.</p> <p>Component Auditor (Ref: Para. 9(c))</p> <p>A13. References in this ISA to the engagement team include the group auditor and component auditors. The engagement team includes individuals from the group auditor's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider.</p> <p>A14. In some circumstances, the group auditor may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor for purposes of this ISA.</p> <p>Component Management (Ref: Para. 9(d))</p> <p>A15. Component management refers to management responsible for the financial information or other activity (for example, processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group auditor combines entities or business units into components (see paragraphs A4–A6), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component.</p> <p>Group Financial Statements (Ref: Para. 1A, 9(k))</p> <p>A16. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of</p>

¹³ ISA 220 (Revised), paragraph 10(d)

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<p>(i) Group audit opinion – The audit opinion on the group financial statements. [previously paragraph 9(h)]</p> <p>(j) Group engagement partner – The engagement partner¹⁴ who is responsible for the group audit. [previously paragraph 9(i)]</p> <p>(k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this ISA, a consolidation process includes:</p> <ul style="list-style-type: none"> (i) Consolidation, proportionate consolidation, or an equity method of accounting; (ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or (iii) The aggregation of the financial information of entities or business units such as branches or divisions. [Subpoints (i)-(iii) moved from paragraph 11(a)-(c), with the order of the last two points reversed] (Ref: Para. A16–A16B) <p>(l) Group management – Management responsible for the preparation of the group financial statements.</p>	<p>combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that have no parent but are under common control or entities under common management.</p> <p>A16A. The term 'consolidation process' as used in this ISA is not intended to have the same meaning as 'consolidation' or 'consolidated financial statements' as defined or described in financial reporting frameworks. Rather, the term 'consolidation process' refers more broadly to the process used to prepare group financial statements. Also see paragraph 1A.</p> <p>A16B. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements. [Previously paragraph A18]</p>

¹⁴ ISA 220 (Revised), paragraph 10(a)

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(m) Group performance materiality – Performance materiality ¹⁵ in relation to the group financial statements as a whole, as determined by the group auditor.	
10. Reference in this ISA to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.	
11. [Moved to paragraph 9(k)]	A18. [Moved to paragraph A16B]
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	
12. In applying ISA 220 (Revised), ¹⁶ the group engagement partner shall be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement. (Ref: Para. A19–A20)	<p>Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 6, 12)</p> <p>A19. It may not be possible or practical for the group engagement partner to solely deal with all requirements in 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, ISA 220 (Revised)¹⁷ allows the engagement partner to assign responsibilities for the design or performance of procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances, ISA 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement.¹⁸</p> <p>A20. Policies or procedures established by the firm, or that are common network</p>

¹⁵ ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 9 and 11

¹⁶ ISA 220 (Revised), paragraph 13

¹⁷ ISA 220 (Revised), paragraph 15

¹⁸ ISA 220 (Revised), paragraph 15

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	<p>requirements or network services, may support the group engagement partner by facilitating communication between the group auditor and component auditors and supporting the group auditor’s direction and supervision of those component auditors and the review of their work.</p>
Acceptance and Continuance	
<p>13. The group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements.. (Ref: Para. A21–A24)</p>	<p><i>Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained</i> (Ref: Para. 13–14)</p> <p>A21. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:</p> <ul style="list-style-type: none"> • 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 auditor: <ul style="list-style-type: none"> ○ 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. <p>A22. In the case of a new engagement, the group auditor’s understanding of the matters in paragraph A21 may be obtained from:</p> <ul style="list-style-type: none"> • Information provided by group management; • Communication with group management;

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	<ul style="list-style-type: none"> • Communication with those charged with governance of the group; and • Where applicable, communication with component management or the previous group auditor. <p>A23. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:</p> <ul style="list-style-type: none"> • 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. • New concerns the group auditor has with regard to the integrity and competence of group or component management. • Changes in the applicable financial reporting framework. <p>A24. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group auditor's jurisdiction because of cultural and translation issues and different laws or regulations (e.g., regulations restricting access to data).</p>
<p>14. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A25)</p>	<p>A25. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:</p> <ul style="list-style-type: none"> • The group auditor'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 auditor); or • The work to be performed on the financial information of components. <p>In exceptional circumstances, such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable laws or regulations. In these circumstances, an inability to obtain sufficient appropriate audit evidence would</p>

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	need to be evaluated, in accordance with ISA 705 (Revised), ¹⁹ in forming an opinion on the group financial statements.
<p><i>Terms of the Engagement</i></p> <p>15. In applying ISA 210,²⁰ the group auditor shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A26)</p> <p>(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;</p> <p>(b) Additional information that the engagement team may request from group management and component management for the purpose of the group audit; and</p> <p>(c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.</p>	<p><i>Agreeing the Terms of Audit Engagements</i> (Ref: Para. 15)</p> <p>A26. ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.²¹ The terms of engagement identify the applicable financial reporting framework.²² Additional matters may be included in the terms of a group audit engagement, such as:</p> <ul style="list-style-type: none"> • Communications between the group auditor and component auditors should be unrestricted to the extent possible under laws or regulations; • Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group auditor; • Communications between regulatory authorities and components related to financial reporting matters should be communicated to the group auditor; and • The group auditor should be permitted to perform work or request a component auditor to perform work at the component.
<p><i>Restrictions on Access Outside the Control of Group Management</i></p> <p>16. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons</p>	<p><i>Restrictions on Access to Information or People</i> (Ref: Para. 16–17)</p> <p>A27. Restrictions on access to information or people do not alleviate the requirement for the group auditor to obtain sufficient appropriate audit evidence.</p> <p>A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other</p>

¹⁹ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

²⁰ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(b) and 8(b)

²¹ ISA 210, paragraph 9

²² ISA 210, paragraph 10

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<p>within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A27–A32)</p>	<p>conditions, for example, war, civil unrest or outbreaks of disease.</p> <p>A29. In many cases, the group auditor may be able to overcome restrictions on access to information or people, for example:</p> <ul style="list-style-type: none"> • When laws or regulations restrict sending relevant audit documentation across borders, the group auditor may be able to access the relevant audit documentation by one or more of the following: <ul style="list-style-type: none"> ○ Visiting the location of the component; ○ Reviewing the relevant audit documentation remotely, where not prohibited by laws or regulations; ○ Requesting the component auditor to prepare a memorandum that addresses the relevant information and discuss it with the component auditor; or ○ Discussing the procedures performed with the component auditor. • When the group has a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may be able to overcome restrictions by: <ul style="list-style-type: none"> ○ Determining whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights; ○ Considering financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements; ○ Considering publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity; or ○ Considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained. For example, if the group has representatives who are on the executive board or are members of

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	<p>those charged with governance of the non-controlled entity, discussion with them regarding the non-controlled entity and its operations and financial status may be a useful source of information.</p> <ul style="list-style-type: none"> • When war, civil unrest or outbreaks of disease restricts access to relevant audit documentation of a component auditor, the group auditor may be able to meet with the component auditor in a location different from where the component auditor is located or review the relevant audit documentation remotely, where not prohibited by laws or regulations. • When access to component management or those charged with governance of the component is restricted, the group auditor may be able to perform the work themselves by working with group management or those charged with governance of the group. <p>A30. When the group auditor cannot overcome restrictions, the group auditor may communicate about the restrictions to the group auditor’s firm. The group auditor’s firm may communicate with regulators, listing authorities, or others, about the restrictions and may encourage group management to communicate with regulators. This may be particularly useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.</p>
<p><i>Restrictions on Access Imposed by Group Management</i></p> <p>17. If the group engagement partner concludes that:</p> <p>(a) It will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and</p> <p>(b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,</p> <p>the group engagement partner shall either:</p> <p>(i) In the case of a new engagement, not accept the</p>	<p>A31. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management’s responses to the group auditor’s inquiries and may call into question group management’s integrity.</p> <p>Effect of Restrictions on the Auditor’s Report on Group Financial Statements</p> <p>A32. ISA 705 (Revised) contains requirements and guidance about how to address situations where the group auditor is unable to obtain sufficient appropriate audit evidence. Appendix 2 to this ISA contains an example of an auditor’s report containing a qualified group audit opinion based on the group auditor’s inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the</p>

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<p>engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or</p> <p>(ii) Where law or regulation prohibit an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A31–A33)</p>	<p>equity method.</p> <p>Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement</p> <p>A33. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA still apply to the group audit, and the effect of the group auditor's inability to obtain sufficient appropriate audit evidence is addressed in ISA 705 (Revised).</p>
Overall Group Audit Strategy	
<p>17A. In applying ISA 300,²³ the group auditor shall establish an overall group audit strategy that includes a determination of: (Ref: Para. A33A–A33D)</p> <p>(a) The components at which audit work will be performed; and (Ref: Para. A33E)</p> <p>(b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved. (Ref: Para. A33F–A33J)</p>	<p><i>The Continual and Iterative Nature of Planning and Performing a Group Audit</i> (Ref: Para. 17A)</p> <p>A33A. As explained in ISA 300,²⁴ planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. In a continuing engagement the group auditor may have an initial understanding of the group and its environment, the applicable financial reporting framework and the entity's system of internal control obtained through the prior year's audit and through the engagement acceptance and continuance process. In the case of an initial group audit engagement, the group auditor may establish the overall group audit strategy based on information obtained from group management, those charged with governance of the group and where applicable, communication with component management or the previous group auditor.</p>

²³ ISA 300, *Planning and Audit of Financial Statements*

²⁴ ISA 300, paragraph A2

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	<p>A33B. The group auditor updates its understanding of the group and its environment, the applicable financial reporting framework and the entity's system of internal control, as required by ISA 315 (Revised 2019). This understanding may assist the group auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant classes of transactions, account balances and disclosures.</p> <p>A33C. The process of establishing the overall group audit strategy may assist the group auditor in developing expectations for matters such as:</p> <ul style="list-style-type: none"> • Whether to perform audit work centrally, at the component or a combination thereof; • The nature, timing and extent of audit work to be performed, including the components at which to perform audit work and the nature of the audit work (e.g., 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); and • The resources needed to perform the engagement, including the nature, timing and extent to which component auditors are to be involved. <p>A33D. Due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risk. The group auditor may also modify its determination of the components at which to perform audit work as well as the nature, timing and extent to which component auditors are to be involved. ISA 300²⁵ requires the group auditor to update and change the overall audit strategy as necessary during the course of the audit.</p> <p><i>Components at Which to Perform Audit Work (Ref: Para. 17A)</i></p> <p>A33E. The determination of components at which components to perform audit work is a matter of professional judgment. Matters that may influence the group auditor's</p>

²⁵ ISA 300, paragraph 10

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	<p>determination include, for example:</p> <ul style="list-style-type: none"> • The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components. • The nature and amount of assets, liabilities and transactions, at the location or business unit, including, significant transactions that are outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature executed at the location or business unit. • The nature of the events or conditions associated with the component, for example: <ul style="list-style-type: none"> ○ Newly formed or acquired entities or business units. ○ Entities or business units to which significant changes have taken place. ○ Abnormal fluctuations identified by analytical procedures performed at group level, as required by ISA 315 (Revised 2019).²⁶ • The effectiveness of the control environment, including the commonality of controls, the information technology systems, and the monitoring activities by the group as it relates to the entities or business units comprising the group. <p><i>Resources</i> (Ref: Para. 17A, 25)</p> <p>A33F. An understanding of the group and its environment and expectations of the components within the group at which audit work is to be performed, provides a foundation for the group engagement partner’s determination that sufficient and appropriate resources to perform the group audit engagement can be assigned or made available. This judgment includes a determination of the nature, timing and extent to which component auditors are to be involved in the group audit engagement and is a matter of professional judgment. Factors that influence the group auditor’s determination include, for example:</p> <ul style="list-style-type: none"> • The nature of the engagement resources, such as the use of appropriately experienced engagement team members. For example, component auditors may

²⁶ ISA 315 (Revised 2019), paragraph 14(b)

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	<p>have greater experience and a more in-depth knowledge of the industries in which components operate than the group auditor.</p> <ul style="list-style-type: none"> • The amount and location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations. • Access arrangements. For example, when the group auditor’s access to a component in a particular jurisdiction is restricted, component auditors may need to be involved. • The nature of the components’ business activities, including their complexity or specialization of operations. For example, when the group has different types of business activities, the involvement of component auditors may be more likely than when the group has one business activity. • The group’s system of internal control, including the information system in place. For example, when the group’s system of internal control is de-centralized, the involvement of component auditors may be more likely than when the system of internal control is centralized. <p>Previous experience with the component auditor may also influence the group auditor’s decision whether to involve them in the group audit. [Previously paragraph A71]</p> <p>A33G. When the group auditor determines that component auditors will be involved in the group audit, the group auditor obtains an understanding of the component auditors to determine that they have the appropriate competence and capabilities (see paragraph 21). Such procedures are affected by factors described in paragraph A42.</p> <p>A33H. When component auditors are involved, the group auditor may involve them throughout the different phases of an audit, for example, component auditors may:</p> <ul style="list-style-type: none"> • Perform risk assessment procedures, including the identification and assessment of risks of material misstatement (see paragraph 25); and • Respond to the assessed risks of material misstatement (see paragraph 37).

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	<p>The nature, timing and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in certain phase.</p> <p>A33I. In a group audit, differences in local laws and regulations, business practices, language and culture may pose challenges in the coordination of the overall audit strategy between the group auditor and component auditors. Adequate and timely involvement, and clear and timely communication by the group engagement partner and group auditor may address these challenges. When component auditors are involved, the group engagement partner remains ultimately responsible for the audit work performed and the direction, supervision and review of the component auditor’s work throughout all phases of the audit.²⁷</p> <p>A33J. ISA 300²⁸ requires the group engagement partner and other key members of the engagement team to be involved in planning the audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. When component auditors are involved, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the audit. The group engagement partner’s determination of which component auditors to involve in planning the audit may be affected by the nature, timing and extent to which the component auditor is involved.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>18. In applying ISA 220 (Revised),²⁹ the group engagement partner shall evaluate whether the group auditor will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate</p>	<p><i>Consideration When Component Auditors Are Involved</i> (Ref: Para. 18–19)</p> <p>A34. In evaluating whether the group auditor will be able to be involved in the work of the component auditor to the extent necessary, the group auditor may obtain an understanding of whether the group auditor will have unrestricted access to the component auditor, including relevant audit documentation sought by the group</p>

²⁷ ISA 220 (Revised), paragraph 29

²⁸ ISA 300, paragraph 5

²⁹ ISA 220 (Revised), paragraph 13

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audit evidence. (Ref: Para. A34)	auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.
19. As part of the evaluation in paragraph 18, the group auditor shall request the component auditor to confirm that the component auditor will cooperate with the group auditor. (Ref: Para. A35)	A35. When requesting the component auditor to confirm that the component auditor will cooperate with the group auditor, the group auditor may also request the component auditor to confirm that it will conduct its work as directed by the group auditor.
<p>Relevant Ethical Requirements, Including Those Related to Independence</p> <p>20. In applying ISA 220 (Revised),³⁰ the group engagement partner shall take responsibility for: (Ref: Para. A36–A39, A52J)</p> <p>(a) Determining that component auditors have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;</p> <p>(b) Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement and, in particular, are independent; and</p> <p>(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.</p>	<p>Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 20)</p> <p>A36. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those relating to independence, that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor’s jurisdiction.</p> <p>A37. In communicating relevant ethical requirements, the group auditor 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.</p> <p>A38. 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.³¹ Becoming aware of actual or suspected breaches of relevant ethical requirements may be more challenging in a group audit, particularly where component auditors do not use common network services. In such circumstances, the group auditor may also instruct component auditors to communicate relevant information to the group engagement partner.</p>

³⁰ ISA 220 (Revised), paragraphs 16–17 and 21

³¹ ISA 220 (Revised), paragraph 19

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	<p>A39. As described in ISQM 1, there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement and where such insufficiency may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a more important consideration by the firm in respect to group audit engagements where, for example, there are multiple components at which audit procedures are performed. The International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out requirements and application material addressing threats to compliance with the fundamental principles and to independence that might be created by fees and other remuneration arrangements.</p>
<p>Engagement Resources</p> <p>21. In applying ISA 220 (Revised),³² the group engagement partner shall: (Ref: Para. A40A)</p> <p>(a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)</p> <p>(b) When information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to the group audit and determine its effect on the group audit. (Ref: Para. A46)</p>	<p>Engagement Resources (Ref: Para. 21)</p> <p>A40A. When insufficient or inappropriate resources are made available in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management or the firm to make sufficient and appropriate resources available.</p> <p>Competence and capabilities of the component auditors (Ref: Para. 21(a))</p> <p>A41. Determining whether the component auditor has the appropriate competence and capabilities influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work. Determining whether the component auditor has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement.</p> <p>A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:</p>

³² ISA 220 (Revised), paragraphs 25–26

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	<ul style="list-style-type: none"> • Previous experience with or knowledge of the component auditor. • The component auditor's specialized skills (e.g., industry specific knowledge). • The component auditor's understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management. • The degree to which the group auditor and component auditor are subject to common systems of quality management, for example, whether the group auditor and a component auditor: <ul style="list-style-type: none"> ○ 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: <ul style="list-style-type: none"> ○ 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. <p>A43. The procedures to determine the component auditor's competency and capability may include, for example:</p> <ul style="list-style-type: none"> • An evaluation of the information communicated by the group auditor's firm to

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	<p>the group auditor, including:</p> <ul style="list-style-type: none"> ○ The firm’s ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm.³³ ○ Information from the network about the results of the monitoring activities undertaken by the network across the network firms. <ul style="list-style-type: none"> • Discussing the matters in paragraph A51 with the component auditor. • Requesting the component auditor to confirm the matters referred to in paragraph 20 in writing. • Discussing the component auditor’s competency and capabilities with colleagues in the group engagement partner’s firm. • Obtaining confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties. • In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 21(a)–(b) has changed since the previous year. • Obtaining published external inspection reports. <p>A44. The group engagement partner’s firm and the component auditor’s firm may be members of the same network and may be subject to common network requirements or use common networks services.³⁴ 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 ISQM 1, the firm is responsible for designing, implementing</p>

³³ ISQM 1, paragraph 53

³⁴ ISQM 1, paragraphs 58–59

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	<p>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.</p> <p>Automated tools or techniques (Ref: Para. 21(a))</p> <p>A45. As described in ISA 220 (Revised),³⁵ when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group auditor's instructions.</p> <p>Monitoring and remediation (Ref: Para. 21(b))</p> <p>A46. The group auditor may be provided with information about deficiencies in relation to the component auditor's firm from external monitoring reports, or from the component auditor, that may be relevant to the group auditor's understanding of the competence and capability of the component auditor. If the group auditor and the component auditor are members of the same network and are subject to common monitoring activities undertaken by the network across network firms' systems of quality management, the results of the network's monitoring activities may also include such information. This information influences the nature, timing and extent of the engagement partner's direction and supervision of the component auditor and the review of their work.</p>
<p>22. If the group engagement partner has serious concerns about any of the matters in paragraphs 18–21, including if a component auditor does not meet the independence requirements that are relevant to the group audit, the</p>	<p>Application of the Group Auditor's Understanding of a Component Auditor (Ref: Para. 22)</p> <p>A47. If a component auditor does not meet the independence requirements that are relevant to the group audit, the group auditor cannot overcome this by being involved in the work of the component auditor or by supplementing the work of component auditor by</p>

³⁵ ISA 220 (Revised), paragraph A20

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<p>group auditor shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. (Ref: Para. A47–A48)</p>	<p>performing additional risk assessment or further audit procedures on the financial information of the component.</p> <p>A48. However, the group auditor may be able to overcome concerns that are not determined to be serious about the component auditor’s professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.</p>
<p>Engagement Performance</p> <p>23. In applying ISA 220 (Revised),³⁶ the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work. In doing so, the group engagement partner takes into account: (Ref: Para. A49–A52)</p> <p>(a) Areas of higher assessed risks of material misstatement of the group financial statements, or where a significant risk has been identified; and</p> <p>(b) Areas in the group financial statements that involve significant judgment.</p>	<p>Engagement Performance (Ref: Para. 23)</p> <p>A49. It may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team.</p> <p>A50. If component auditors are from a firm other than the group auditor’s firm, the firm’s policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network, for example, in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors. ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.³⁷</p> <p>A51. In addition, the nature timing and extent of direction and supervision and review of the component auditor’s work may be tailored taking into account the nature and</p>

³⁶ ISA 220 (Revised), paragraph 29

³⁷ ISA 220 (Revised), paragraph A24

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	<p>circumstances of the engagement and, for example:</p> <ul style="list-style-type: none"> • The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, a corresponding increase in the extent of direction and supervision of the component auditor and a detailed review of the component auditor’s audit documentation may be appropriate. • The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions or introduce greater in-person supervision of the component auditor as the work is performed. • The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used. • Access to component auditors’ audit documentation. For example, where component auditor working papers cannot be transferred out of the jurisdiction, greater in-person supervision of the component auditor and in-person or electronic review of the component auditor’s audit documentation may be appropriate (see also paragraphs A27–A32). <p>A52. There are different ways in which the group engagement partner may direct and supervise component auditors and review their work, for example:</p> <ul style="list-style-type: none"> • Meetings or calls with component auditors to communicate identified and assessed risks, issues, findings and conclusions. • Reviews of the component auditor’s documentation in person or remotely when permitted by law and regulation. • Participating in the closing and other key meetings between the component auditors and component management.
<p>Communications with Component Auditors 23A. The group auditor shall communicate with component</p>	<p>Communications with Component Auditors (Ref: Para. 23A) A52A. Clear and timely communication between the group auditor and the component</p>

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<p>auditors about their responsibilities and the group auditor's expectations, including expectations about the nature, timing and extent of communications. These communications shall take place at appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. (Ref: Para. A52A–A52J) [Previously paragraph 43]</p>	<p>auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors, and facilitates the group auditor's direction and supervision of them and the review of their work. [Previously paragraph A106]</p> <p>A52B. Other factors that may also contribute to effective two-way communication include:</p> <ul style="list-style-type: none"> • Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies and procedures of the group auditor. • A mutual understanding of relevant issues and the expected actions arising from the communication process. • The form of communications. For example, it may be better to discuss matters that need timely attention in a face-to-face meeting or by telephone or videoconference rather than by exchanging emails. • A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding particular matters, and the person(s) from the group auditor to whom questions from component auditors are to be directed. • The process for taking action and reporting back on matters communicated by the group auditor. [Previously paragraph A107] <p>A52C. The nature, timing and extent of communications between the group auditor and component auditors depends on the facts and circumstances of the group audit engagement, including the degree of involvement of the component auditors. Such communication also is influenced by the nature, timing and extent of involvement by the group auditor in the component auditor's work.</p> <p>Form of communication</p> <p>A52D. The form of the communications between the group auditor and component auditors</p>

	<p>may vary based on factors such as the nature of the audit work the component auditors have been requested to perform, and the extent to which communication capabilities are integrated into the audit tools used for the group audit.</p> <p>A52E. The form of communication also may be affected by such factors as:</p> <ul style="list-style-type: none">• 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. [Previously paragraph A109] <p>A52F. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor’s verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters. [Previously paragraph A108. Second sentence moved to paragraph A52G. Last sentence moved to paragraph A52H.]</p> <p>A52G. The component auditor’s communication with the group auditor often takes the form of a memorandum or report of work performed, including the component auditor’s overall findings, conclusions or opinion as required by paragraph 44(h).</p> <p>A52H. Regardless of the form of communication, the documentation requirements of this and other ISAs apply.</p> <p>Timing of communications</p> <p>A52I. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for a new engagement, may be made as part of agreeing the terms of the engagement. [Previously paragraph A110]</p> <p>Non-compliance with laws or regulations (Ref: Para. 20, 23A)</p> <p>A52J. The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such</p>
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	<p>circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.³⁸ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit). [Previously paragraph A111]</p>
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control	
<p>24. In applying ISA 315 (Revised 2019),³⁹ the group auditor shall take responsibility for obtaining an understanding of the following: (Ref: Para. A53–A55, A69–A70)</p> <p>(a) The group and its environment, including: (Ref: Para. A56–A58)</p> <p>(i) The group's organizational structure and its business model, including:</p> <p>a. The locations in which the group has its operations or activities;</p> <p>b. The nature of the group's activities and business lines and the extent to which they are similar; and</p> <p>c. The extent to which the group's business model integrates the use of IT; and</p> <p>(ii) The nature and extent of the measures</p>	<p>A53. ISA 315 (Revised 2019) contains guidance on matters the auditor may consider when obtaining an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control.⁴⁰ Appendix 3 of this ISA provides further explanation of the components of the group's system of internal control, including controls over the group's financial reporting process and the consolidation process.</p> <p>A54. [Moved to paragraph A3A]</p> <p>A55. The group auditor'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:</p> <ul style="list-style-type: none"> • 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 See, for example, Section 360.17 and Section 360.18 of the IESBA Code

³⁹ ISA 315 (Revised 2019), paragraph 19

⁴⁰ ISA 315 (Revised 2019), paragraphs A50–A89

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<p>used internally and externally to assess the entities or business units' financial performance;</p> <p>(b) The applicable financial reporting framework, including the consistency of accounting policies and practices across the group; and</p> <p>(c) The group's system of internal control, including:</p> <p>(i) The nature and extent of commonality of controls; (Ref: Para. A59–A63)</p> <p>(ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A64–A65)</p> <p>(iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and</p> <p>(iv) How the group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the system of internal control. (Ref: Para. A66–A68)</p>	<p><i>The Group and Its Environment</i> (Ref: Para. 24(a))</p> <p>A56. An understanding of the group's organizational structure and its business model may enable the group auditor to understand such matters as:</p> <ul style="list-style-type: none"> • The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special purpose entities are accounted for appropriately and whether adequate disclosures have been made. • The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices. • The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment. • Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.

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	<ul style="list-style-type: none"> • The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates over multiple jurisdictions and when there are changes in ownership through formation, acquisition or joint ventures. These factors may give rise to increased susceptibility to material misstatements. <p>A57. Obtaining an understanding of the degree to which the group’s activities and business lines are similar may enable the group auditor to identify similar risks of material misstatement across components and design an appropriate response.</p> <p>A58. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group’s entities and business units and take action. The group auditor’s understanding of such performance measures may help to identify:</p> <ul style="list-style-type: none"> • 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. <p><i>The Group’s System of Internal Control</i></p> <p>The Nature and Extent of Commonality of Controls (Ref: Para. 24(c)(i))</p> <p>A59. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group’s system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are</p>

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	<p>controls that support direct controls.⁴¹</p> <p>A60. The understanding of the components of the group’s system of internal control therefore includes understanding the commonality of the controls within those components across the group. When the group auditor plans to test the operating effectiveness of identified controls⁴² that are common across the group, the group auditor evaluates the design and determines the implementation of those controls in accordance with ISA 315 (Revised 2019).</p> <p>A61. To determine the commonality of an identified control across the group, the group auditor may consider whether:</p> <ul style="list-style-type: none"> • The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components; • The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented; • If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or • If the control is automated, it is configured in the same way in each IT application across the components. <p>A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly 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 auditor 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</p>

⁴¹ ISA 315 (Revised 2019), paragraph A5

⁴² ISA 315 (Revised 2019), paragraph 26(a)

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	<p>(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).</p> <p>A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). Typically, the processing of transactions and related controls at a shared service center operate in the same way for all transactions regardless of the entity or business unit (e.g., the processes, risks, and controls for all transactions, regardless of the source of the transaction, are the same). In such cases, it may be appropriate to identify the controls and evaluate the design and determine implementation of the controls, and if applicable test operating effectiveness, as a single population.</p> <p>Centralized Activities (Ref: Para. 24(c)(ii))</p> <p>A64. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).</p> <p>A65. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group auditor 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</p>

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	<p>initiated and authorized at a component, but the processing may occur at the shared service center).</p> <p>Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 24(c)(iv))</p> <p>A66. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group’s financial statements. In such circumstances, an understanding of group management’s financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group auditor 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.</p> <p>Instructions by group management to entities or business units</p> <p>A67. In applying ISA 315 (Revised 2019),⁴³ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g., communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management’s instructions may affect the group auditor’s identification and assessment of the risks of material misstatement of the group financial statements. For example, in certain circumstances, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.</p> <p>A68. The group auditor’s understanding of the instructions or policies may include the following:</p> <ul style="list-style-type: none"> • The clarity and practicality of the instructions for completing the reporting

⁴³ ISA 315 (Revised 2019), paragraph 25(b)

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	<p>package.</p> <ul style="list-style-type: none"> • Whether the instructions: <ul style="list-style-type: none"> ○ 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. <p><i>Engagement Team Discussion (Ref: Para. 24)</i></p> <p>A69. The group engagement partner's determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the expected involvement of component auditors.</p> <p>A70. The discussions provide an opportunity to:</p> <ul style="list-style-type: none"> • 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.

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	<ul style="list-style-type: none"> • Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud. • Consider the risk that group or component management may override controls. • Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework). • Discuss fraud that has been identified, or information that indicates existence of a fraud. • Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components. • Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices. • Identify risks of material misstatement relevant to components where the exercise of professional skepticism may be particularly important. • Discuss any events or conditions identified by group management, or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern. • Discuss related party relationships or transactions identified by group management, and any other related parties of which the engagement team is aware.
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>25. When the group auditor involves component auditors in the design and performance of risk assessment</p>	<p><i>Considerations When Component Auditors Are Involved</i> (Ref: Para. 25)</p> <p>A71. [Moved to paragraph A33F] When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains</p>

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<p>procedures, including the identification and assessment of risks of material misstatement of the group financial statements, the group auditor shall evaluate the results of those procedures . (Ref: Para. A33F, A71–A71D)</p>	<p>responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group’s system of internal control.</p> <p>A71A. ISA 315 (Revised 2019)⁴⁴ requires the auditor 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. When component auditors are involved in the design and performance of risk assessment procedures, this evaluation includes the work of the component auditors.</p> <p>A71B. When the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement, ISA 315 (Revised 2019)⁴⁵ requires the group auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.</p> <p>A71C. The group auditor may work with component auditors to develop initial expectations about potential risks of material misstatement of the group financial statements, including significant risks, related to components. [Previously paragraph A82]</p> <p>A71D. The identification of inherent risk 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 auditor may need to communicate its preferred approach with component auditors or provide instructions. [Previously paragraph A83]</p>
<p>26. The group auditor shall communicate with component auditors:</p> <p>(a) Matters related to the financial information of components that may be relevant to the</p>	<p>Related Parties (Ref: Para. 27(b))</p> <p>A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁴⁸ In a group audit there may be a</p>

⁴⁴ ISA 315 (Revised 2019), paragraph 35

⁴⁵ ISA 315 (Revised 2019), paragraph 35

⁴⁸ ISA 550, paragraph 2

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<p>identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error.</p> <p>(b) In applying ISA 550,⁴⁶ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor. (Ref: Para. A72)</p> <p>(c) In applying ISA 570 (Revised):⁴⁷</p> <p>(i) Any events or conditions identified by group management or the group auditor, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.</p> <p>(ii) Any events or conditions identified by the component auditor that may cast significant doubt on the group entity's ability to continue as a going concern</p>	<p>higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:</p> <ul style="list-style-type: none"> • 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. <p>Planning and performing the audit with professional skepticism as required by ISA 200,⁴⁹ is therefore particularly important when these circumstances exist.</p>
Materiality	
<p>29. In applying ISA 320⁵⁰ and ISA 450,⁵¹ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across</p>	<p><i>Component Performance Materiality</i> (Ref: Para. 29(a))</p> <p>A73. Paragraph 29(a) requires the group auditor to determine component performance materiality for each of the components where audit procedures are performed on</p>

⁴⁶ ISA 550, *Related Parties*, paragraph 17

⁴⁷ ISA 570 (Revised), *Going Concern*

⁴⁹ ISA 200, paragraphs 17 and A53–A54

⁵⁰ ISA 320, paragraph 11

⁵¹ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5

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<p>components, for purposes of planning and performing audit procedures, the group auditor shall determine:</p> <p>(a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A73–A76)</p> <p>(b) The threshold above which misstatements identified in component financial information are to be communicated to the group auditor. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A77)</p>	<p>financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, 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. [Last sentence moved to paragraph A74]</p> <p>A74. This ISA does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, ISA 320 requires the group auditor to determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.⁵² In these circumstances, the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.⁵³ [First sentence previously the last sentence of paragraph A73.]</p> <p>A75. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the group auditor may take into account in setting component performance materiality include the following:</p> <ul style="list-style-type: none"> • 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

⁵² ISA 320, paragraphs 10 and A11-A12

⁵³ ISA 320, paragraph A13

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	<p>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).</p> <ul style="list-style-type: none"> • Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example: <ul style="list-style-type: none"> ○ Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions). ○ The nature and extent of misstatements identified at the component in prior audits. <p>A75A. To address aggregation risk, paragraph 30(a) requires component performance materiality to be lower than group performance materiality. As explained in paragraph A75, as the extent of disaggregation across components increases, a lower component performance materiality amount generally would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the account balance or class of transactions for one component represents a substantial portion of the respective significant account balance or class of transactions in the group financial statements.</p> <p>A76. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., in the aggregate). In such cases, group performance materiality often will be used for purposes of performing these procedures.</p> <p><i>'Clearly Trivial' Threshold (Ref: Para: 30(b))</i></p> <p>A77. The threshold for communicating misstatements to the group auditor 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 450,⁵⁴ this threshold is the amount below</p>

⁵⁴ ISA 450, paragraph A3

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	<p>which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>30. The group auditor shall communicate to the component auditor the amounts determined in accordance with paragraph 29. (Ref: Para: A77A–A77B)</p>	<p><i>Communicating Component Performance Materiality to Component Auditors</i> (Ref. Para. 30)</p> <p>A77A. In some cases, the group auditor may wish to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor’s in-depth knowledge of the component and potential sources of misstatement of the component financial information. In this regard, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.</p> <p>A77B. Because component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial information, ongoing communication between the component auditor and the group auditor is important, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.</p>
Identifying and Assessing the Risks of Material Misstatement	
<p>31. In applying ISA 315 (Revised 2019),⁵⁵ based on the understanding obtained in paragraph 24, the group auditor shall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A78–A80)</p>	<p>A78. The group auditor’s process to identify and assess the risks of material misstatement of the group financial statements is cumulative and iterative and may be challenging, particularly where the component’s business activities are complex or specialized, or when there are many components across multiple locations. In applying ISA 315 (Revised 2019),⁵⁶ the group auditor develops 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.</p>

⁵⁵ ISA 315 (Revised 2019), paragraphs 28–29

⁵⁶ ISA 315 (Revised 2019), paragraph 22

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	<p>A79. The initial expectations about the potential risks of material misstatement take into account the group auditor’s understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures as they have direct knowledge and experience with the entities or business units may be helpful in understanding the business activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.</p> <p>A79A. 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).⁵⁷ The group auditor 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 auditor determines the significant classes of transactions, account balances and disclosures of the group financial statements. The group auditor’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.</p> <p>A79B. If the group auditor plans to test the operating effectiveness of controls, the auditor shall assess control risk⁵⁸ (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 auditor’s or component auditor’s evaluation of the design, and the determination of implementation, of the identified controls, including common controls.</p> <p>A79C. Based on the risk assessment procedures performed, the group auditor may</p>

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	<p>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. [Previously paragraph A84]</p> <p>A79D. Appendix 4 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error. [Previously paragraph A81]</p> <p><i>Fraud</i></p> <p>A80. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.⁵⁹ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:</p> <ul style="list-style-type: none"> • Group management’s assessment of the risks that the group financial statements are 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 higher. • Whether there are particular components for which the risks of material misstatement due to fraud is higher. • Whether any fraud risk factors or indicators of management bias exist in the consolidation process. • How those charged with governance of the group monitor group management’s processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks. • Responses of those charged with governance of the group, group management,

⁵⁹ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

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	<p>appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group auditor's inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.</p> <p>A81. [Moved to paragraph A79D]</p>
	<p>A82. [Moved to paragraph A71C] A83. [Moved to paragraph A71D] A84. [Moved to paragraph A79C]</p>
Responding to the Assessed Risks of Material Misstatement	
<p>33. In applying ISA 330,⁶⁰ the group auditor shall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components. (Ref: Para. A86–A93)</p>	<p>Responding to the Assessed Risks of Material Misstatement (Ref: Para. 33)</p> <p><i>Performing Further Audit Procedures</i></p> <p>Performing Further Audit Procedures Centrally</p> <p>A86. The group auditor 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 (e.g., at a shared service center), the group auditor may perform further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures. Factors that may be relevant to the auditor's determination of whether to perform further audit procedures centrally include, for example:</p> <ul style="list-style-type: none"> • The level of centralization of activities relevant to financial reporting. • The nature and extent of commonality of controls. • The similarity of the group's activities and business lines.

⁶⁰ ISA 330, paragraphs 6–7

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	<p>A87. [Moved to paragraph A88B]</p> <p>A88. The group auditor 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.</p> <p>A88A. When further audit procedures are performed centrally, component auditors may still be involved in the performance of the further audit procedures. For example, when the group has multiple shared-service centers, the group auditor may involve component auditors in the performance of further audit procedures on these shared service centers.</p> <p>Performing Further Audit Procedures at the Component</p> <p>A88B. In other circumstances, procedures to respond to the risks of material misstatement at the group financial statement level that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has:</p> <ul style="list-style-type: none"> • Different revenue streams; • Multiple lines of business; • Operations across multiple locations; or • De-centralized systems of internal control. [Previously paragraph A87] <p>Numerous Individual Components that Are not Individually Financially Significant</p> <p>A89. The group auditor may have identified a significant class of transactions, account balance or disclosure in the group financial statements that comprises classes of transactions, account balances or disclosures at many entities and business units, none of which individually result in a risk of material misstatement at the group financial statement level. To obtain sufficient appropriate audit evidence, audit procedures on these classes of transactions, account balances or disclosures may be performed centrally if they are homogeneous, subject to common controls and access to</p>

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	<p>appropriate information can be obtained. If this is not the case, the engagement team may need to perform audit procedures at selected components.</p> <p>A90. The group auditor may perform substantive analytical procedures in accordance with ISA 520⁶¹ 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 auditor at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures.</p> <p>Element of Unpredictability</p> <p>A91. Including an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁶²</p> <p>Operating Effectiveness of Controls that Are Common Across the Group</p> <p>A92. If the group auditor 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 auditor, in accordance with ISA 330,⁶³ is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls are operating at the components as designed. The group auditor may request the component auditor to assist the group auditor in performing these procedures.</p>

⁶¹ ISA 520, *Analytical Procedures*

⁶² ISA 240, paragraph 30(c)

⁶³ ISA 330, paragraph 8

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	<p>A93. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the audit plan. Possible revisions to the audit plan may include:</p> <ul style="list-style-type: none"> • Requesting additional substantive procedures to be performed at certain components. • Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively. • Increasing the number of components selected for further audit procedures.
<p><i>Consolidation Process</i></p> <p>34. The group auditor 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:</p> <p>(a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations; and (Ref: Para. A94)</p> <p>(b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A95)</p>	<p><i>Consolidation Process</i></p> <p>Consolidation Procedures (Ref: Para. 34(a))</p> <p>A94. The further audit procedures on the consolidation, including sub-consolidations, may include:</p> <ul style="list-style-type: none"> • Determining that the journal entries necessary are reflected in the consolidation; and • Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective. <p>Consolidation Adjustments and Reclassifications (Ref: Para. 34(b))</p> <p>A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group auditor's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:</p> <ul style="list-style-type: none"> • 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;

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	<ul style="list-style-type: none"> • 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.
<p>35. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.</p>	
<p>36. If the group financial statements include the financial statements of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor shall take responsibility for evaluating whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.</p>	
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>37. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements. (Ref: Para. A97–A101)</p>	<p><i>Considerations When Component Auditors Are Involved (Ref: Para. 37)</i></p> <p>A97. In assigning further audit procedures to component auditors, the group auditor may request component auditors to perform one or more of the following:</p> <ul style="list-style-type: none"> • 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

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	<ul style="list-style-type: none"> • Perform specific further audit procedures as identified and communicated by the group auditor. <p>Design and Perform Further Audit Procedures on the Entire Financial Information of the Component</p> <p>A98. The group auditor may request a component auditor to design and perform further audit procedures on the entire financial information of a component when:</p> <ul style="list-style-type: none"> • 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. • There is a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to group management's assessment of the group's ability to continue as a going concern. <p>Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures</p> <p>A100. The group auditor may request a component auditor to design and perform further audit procedures on one or more classes of transactions, account balances, or disclosures of the financial information of a component, when a component has a limited number of significant classes of transactions, account balances or disclosures. For example, a component may have limited operations but holds a significant portion of the land and buildings of the group or has significant tax balances.</p> <p>Perform specific further audit procedures as identified and communicated by the group auditor</p> <p>A101. The group auditor may request a component auditor to perform specific further audit procedures on the financial information of a component when audit evidence needs to be obtained with respect to a specific assertion. For example, the group auditor may centrally test the class of transaction, account balance or disclosure and may require the component auditor to perform specific further audit procedures related to existence or valuation (e.g., specific further audit procedures related to the valuation of claims</p>

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	or litigations in the component's jurisdiction).
<p>38. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group auditor shall evaluate the appropriateness of those further audit procedures.</p>	
<p>39. In accordance with paragraph 23, the group auditor shall determine the nature and extent of direction and supervision of component auditors and the review of their work when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations. (Ref: Para. A102)</p>	<p>Consolidation Process (Ref: Para. 39)</p> <p>A102. The appropriate level of the group auditor's involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor's previous experience with the component auditors that perform procedures on the consolidation and sub-consolidations (also see paragraph A51) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).</p>
<p>40. The group auditor shall determine whether the financial information identified in the component auditor's communication (see paragraph 44(a)) is the financial information that is incorporated in the group financial statements.</p>	
<p>41. The group auditor shall request the component auditor to communicate on a timely basis:</p> <ul style="list-style-type: none"> (a) Related parties not previously identified by group management or the group auditor. (b) Any events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern. 	
<p><i>Using Audit Evidence from an Audit Performed for Another</i></p>	<p><i>Using Audit Evidence from an Audit Performed for Another Purpose</i> (Ref: Para. 42)</p>

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<p><i>Purpose</i></p> <p>42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group auditor plans to use such work as audit evidence for the group audit, the group auditor shall evaluate whether: (Ref: Para. A103–A104)</p> <p>(a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;</p> <p>(b) Performance materiality used for that audit is appropriate for the purposes of the group audit; and</p> <p>(c) Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 20–22. (Ref: Para. A105)</p>	<p>A103. An audit may be performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons. For example, when an entity or business unit has been acquired close to year-end. If an audit has been performed and an auditor's report has been issued for statutory, regulatory or other reasons, the group auditor may use audit evidence from that audit if the group auditor is satisfied that the work is appropriate for the group auditor'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 auditor may decide not to use the audit evidence from that audit. Alternatively, the group auditor may plan to have additional audit procedures performed on the component, to address the assessed risks of material misstatement of the group financial statements.</p> <p>A104. In addition to the factors in paragraph 42, factors that may affect the group auditor'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:</p> <ul style="list-style-type: none"> • 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. <p>A105. Other relevant requirements in this ISA with respect to the use of the work of a component auditor as described in paragraph 42(c), may include the requirements in the sections on understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control, materiality, identifying and assessing the risks of material misstatement, responding to the assessed risks of material misstatement and two-way communication between the group auditor and</p>

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	the component auditor.
Communication about Matters Relevant to the Group Auditor's Conclusion	
43. [Moved to paragraph 23A]	A106. [Moved to paragraph A52A] A107. [Moved to paragraph A52B] A108. [Moved to paragraph A52D] A109. [Moved to paragraph A52F] A110. [Moved to paragraph A52H] A111. [Moved to paragraph A52I]
44. The group auditor shall request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A111A) <ol style="list-style-type: none"> (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures; (b) Information on instances of non-compliance with laws or regulations; (c) Corrected and uncorrected misstatements of the financial information on which the component auditor performed further audit procedures and that are above the threshold communicated by the group auditor in accordance with paragraph 30; (Ref: Para. A111B) (d) Indicators of possible management bias; (e) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed; 	<p><i>Communication about Matters Relevant to the Group Auditor's Conclusion with Regard to the Group Audit</i> (Ref: Para. 44)</p> <p>A111A. Although the matters required to be communicated in accordance with paragraph 44 relate to the group auditor's conclusion with regard to the group audit, certain matters may need to be communicated timely in the course of the component auditor's procedures. Such matters may include, for example:</p> <ul style="list-style-type: none"> • Information on instances of non-compliance with laws or regulations; • Newly arising significant risks of material misstatement, including risks of fraud; • Identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial statements; or • Significant or unusual transactions. <p><i>Communication of Misstatements of Component Financial Information</i> (Ref: Para. 44(c))</p> <p>A111B. Knowledge about corrected and uncorrected misstatements across components may alert the group auditor to potential pervasive internal control deficiencies, when considered along with the communication of deficiencies in accordance with paragraph 44(e). In addition, a higher than expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit</p>

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<p>(f) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in the group’s system of internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (Ref: Para. A112)</p> <p>(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 auditor, including exceptions noted in the written representations that the component auditor requested from component management; and</p> <p>(h) The component auditor’s overall findings, conclusions or opinion. (Ref: Para. A112A–A112B)</p>	<p>procedures need to be performed at certain components.</p> <p><i>Communications with Those Charged with Governance of the Component</i> (Ref: Para. 44(f))</p> <p>A112. In certain circumstances, the group auditor may combine certain entities or business units into components for purposes of planning and performing the group audit (see paragraphs A4-A6). In these circumstances, the group auditor may need to use professional judgment to determine, in accordance with ISA 260 (Revised),⁶⁴ the appropriate person(s) in the governance structure of those entities or business units with whom to communicate, in view of the nature of the matters to be communicated.</p> <p><i>Component Auditor’s Overall Findings, Conclusions or Opinion</i> (Ref: Para. 44(h))</p> <p>A112A. The form and content of the deliverables from the component auditor are influenced by the scope of the audit work requested by the group auditor. The scope of the component auditor’s work also will influence the form and content of overall statement about the work performed by the component auditor (i.e., overall findings, conclusions or opinion).</p> <p>A112B. Although an overall summary memorandum or report from the component auditor, including the component auditor’s overall findings, conclusions or opinion, may provide audit evidence about the work performed by the component auditor, such information typically is not sufficient on its own. This information is considered in connection with the group auditor’s evaluation required by paragraph 49 as to 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.</p>
<p>45. The group auditor shall:</p> <p>(a) Discuss significant matters arising from the communications with the component auditor, component management or group management,</p>	<p><i>Reviewing the Component Auditor’s Audit Documentation</i> (Ref: Para. 45(b))</p> <p>A113. The nature, timing and extent of the review of the component auditor’s audit documentation may vary depending on the circumstances and may be affected by:</p> <p>(a) The identified risks of material misstatement of the group financial statements,</p>

⁶⁴ ISA 260 (Revised), paragraph 11

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<p>as appropriate;</p> <p>(b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor's audit documentation; and (Ref: Para. A113)</p> <p>(c) Evaluate whether the communications with component auditors are adequate for the group auditor's purposes.</p>	<p>including the degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of those risks;</p> <p>(b) The extent to which the component auditor documentation supports significant judgments made and conclusions reached with respect to matters that are material to the group financial statements;</p> <p>(c) Whether other significant matters have been communicated to the group auditor in accordance with paragraph 44;</p> <p>(d) The group auditor's understanding of the component auditor, including the competence and capabilities of the component auditor;</p> <p>(e) The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's policies or procedures for review of audit documentation; and</p> <p>(f) Limitations on the group auditor's ability to access the component auditor's audit documentation.</p>
<p>46. If the group auditor determines that the component auditors' communications are not adequate for the group auditor's purposes, the group auditor shall consider whether further information can be obtained from component auditors or other sources. If such information cannot be obtained through other sources, the group auditor shall consider the implications for the group audit, in accordance with paragraph 49.</p>	
Subsequent Events	
<p>47. In applying ISA 560,⁶⁵ the group auditor shall take responsibility for performing procedures designed to identify events that may require adjustment to or disclosure in the group financial statements, including,</p>	<p>A114. The group auditor may:</p> <p>(a) Request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the</p>

⁶⁵ ISA 560, *Subsequent Events*, paragraph 7

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<p>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)</p>	<p>financial information of the components and the date of the auditor's report on the group financial statements.</p> <p>(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.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>48. The group auditor shall request the component auditors to notify the group auditor if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements. (Ref: Para. A114)</p>	
<p>Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained</p>	
<p>49. In applying ISA 330,⁶⁶ the group auditor 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. A114A–A115)</p>	<p><i>Sufficiency and Appropriateness of Audit Evidence</i> (Ref: Para. 49)</p> <p>A114A. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor's attention that differs significantly from the information on which the risk assessment was based. For example:</p> <ul style="list-style-type: none"> • The misstatements identified at a component may need to be considered in relation to other components; or • The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

⁶⁶ ISA 330, paragraph 26

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	<p>In such circumstances, the group auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.</p> <p>A115. The evaluation required by paragraph 49 assists the group auditor 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 330⁶⁷ 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.</p>
<p><i>Evaluating the Effect on the Group Audit Opinion</i></p> <p>50. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A116)</p>	<p><i>Evaluating the Effect on the Group Audit Opinion</i> (Ref: Para. 50)</p> <p>A116. The group engagement partner's evaluation may include a consideration of whether misstatements communicated by component auditors indicate a systemic issue (e.g., with respect to transactions subject to common accounting policies or common controls) that may affect other components.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>51. If the group auditor concludes that the work of the component auditor is insufficient, the group auditor shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.</p>	
Auditor's Report	
<p>52. The auditor's report on the group financial statements shall not refer to a component auditor, unless required</p>	<p>A117. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings,</p>

⁶⁸ ISA 705 (Revised), paragraphs 20 and 24

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<p>by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A117–A118)</p>	<p>conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.</p> <p>A118. When the group audit opinion is modified because the group auditor 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.⁶⁸</p>
Communication with Group Management and Those Charged with Governance of the Group	
<p>53. The group auditor shall determine which identified deficiencies in the group's system of internal control to communicate to those charged with governance of the group and group management in accordance with ISA 265.⁶⁹ In making this determination, the group auditor shall consider deficiencies in internal control that have been identified by the group auditor and that have been communicated to the group auditor by component auditors. (Ref: Para. A119)</p>	<p><i>Group Engagement Partner's Review of Component Auditor Communications</i> (Ref: Para. 53)</p> <p>A119. The group engagement partner is not expected to review, prior to their issuance, all communications between a component auditor and component management. The group engagement partner may inform component auditors of their responsibilities in identifying communications that may be significant to the group audit engagement.</p>
<p><i>Communication with Group Management</i></p> <p>54. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 44 (f)), or information indicates that a fraud may exist, the group auditor shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary</p>	<p><i>Communication with Group Management</i> (Ref: Para. 54–55)</p> <p>A120. ISA 240 contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.⁷⁰</p>

⁶⁸ ISA 705 (Revised), paragraphs 20 and 24

⁶⁹ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

⁷⁰ ISA 240, paragraphs 41–43

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responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)	
<p>55. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group auditor shall request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A121)</p>	<p>A121. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:</p> <ul style="list-style-type: none"> • Potential litigation. • Plans for abandonment of material operating assets. • Subsequent events. • Significant legal agreements.
<p><i>Communication with Those Charged with Governance of the Group</i></p> <p>56. The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260</p>	<p><i>Communication with Those Charged with Governance of the Group</i> (Ref: Para. 56)</p> <p>A122. The matters the group auditor communicates to those charged with governance of the group may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 56(a) may be communicated after the</p>

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<p>(Revised)⁷¹ and other ISAs: (Ref: Para. A122)</p> <p>(a) An overview of the work to be performed at the entities and business units comprising the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A123)</p> <p>(b) Instances where the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.</p> <p>(c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.</p> <p>(d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others where the fraud resulted in a material misstatement of the group financial statements.</p>	<p>group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 56(b) may be communicated at the end of the audit, and the matters referred to in paragraph 56(c)–(d) may be communicated when they occur.</p> <p>A123. ISA 260 (Revised)⁷² requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. With respect to a group audit, the group auditor's determination of the planned scope and approach is based on the understanding of the group and its environment in accordance with paragraph 24 of this ISA. This understanding helps the group auditor to make preliminary judgments about components, including how the group's entities or business units may be combined for purposes of planning and performing the group audit, and where component auditors may need to be involved.</p>
Documentation	
<p>57. In accordance with ISA 230,⁷³ the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature,</p>	<p>Documentation (Ref: Para. 57)</p> <p>A123A. The audit documentation for the group audit supports the group auditor's evaluation in accordance with paragraph 49 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion.</p>

⁷¹ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁷² ISA 260 (Revised), paragraph 15

⁷³ ISA 230, *Audit Documentation*, paragraphs 8–9

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<p>timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying ISA 230,⁷⁴ the group auditor shall include in the audit documentation: (Ref: Para. A123A–A124C, A129–A130A) [First sentence previously the first sentence of paragraph A124]</p> <p>(a) Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.</p> <p>(b) The basis for the group auditor’s determination of components for purposes of planning and performing the group audit.</p> <p>(c) The basis for the determination of component performance materiality and the threshold for communicating misstatements in component financial information to the group auditor.</p> <p>(d) The nature, timing and extent of the group auditor’s direction and supervision of component auditors and the review of their work. (Ref: Para. A125–A128)</p> <p>(e) Matters related to communication with component auditors, including:</p> <p>(i) The matters required to be communicated in accordance with paragraphs 27–28 and</p>	<p>A124. The audit documentation for the group audit consists of the documentation in the group auditor’s file together with the documentation of the nature, timing and extent of the work performed by component auditors (component auditor documentation). Component auditor documentation generally resides in the component auditor’s audit file and need not be replicated in the group auditor’s audit file. [First sentence moved to paragraph 57. Last two sentences moved to paragraphs A124A and A124B, respectively]</p> <p><i>Component Auditor Documentation Included in the Group Auditor’s Audit File</i></p> <p>A124A. In some circumstances, The group auditor may decide to include certain of the component auditor’s documentation in the group auditor’s audit file. For example, the group auditor may determine that certain component auditor documentation may be helpful to facilitate the review by the group engagement partner or engagement quality reviewer for the group audit, or to supplement the description of a particular matter in the communication from the component auditor in accordance with paragraph 44. [First sentence previously the second last sentence of paragraph A124.]</p> <p>A124B. The extent to which such component auditor documentation is included in the group auditor’s audit file, is a matter of professional judgment. Examples may include documentation regarding: [First sentence previously the last sentence of paragraph A124.]</p> <ul style="list-style-type: none"> • Significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit; • Matters that may need to be communicated to those charged with governance of the group; or • Matters that may be determined to be key audit matters to be communicated in the auditor’s report on the group financial statements. <p>A124C. When required by law or regulation, certain component auditor documentation may need to be included in the group auditor’s audit file to facilitate the request of a regulatory authority to review documentation related to work performed by a</p>

⁷⁴ ISA 230, paragraphs 8–11 and A6-A7

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<p>41.</p> <p>(ii) Matters relevant to the group auditor's conclusion with regard to the group audit, as required by paragraph 44, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.</p> <p>(f) The group auditor'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.</p>	<p>component auditor.</p> <p><i>Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work</i> (Ref: Para. 57(d))</p> <p>A125. ISA 300 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.</p> <p>A126. When component auditors are involved in the group audit, the group auditor's documentation of its involvement in the work of component auditors may include, for example:</p> <ul style="list-style-type: none"> • 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 auditor's determination of component auditor audit documentation selected for review. • Changes in the planned nature and extent of involvement with component auditors, and the reasons why. <p>A127. The determination of the nature and extent of the review of component auditor documentation by the group auditor is 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.</p> <p>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 auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors, and such tool also may also be used for audit documentation.</p>

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	<p><i>Additional Considerations When Access to Component Auditor Documentation is Restricted</i></p> <p>A129. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction.</p> <p>A130. In these circumstances, the group auditor may be able to overcome the restrictions (see paragraph A29). When the group auditor is able to review the component auditor documentation by visiting the component auditor’s location, or remotely when permitted by law or regulation, the group auditor’s documentation nonetheless needs to comply with the requirements of this ISA, including with respect to the documentation of the nature, timing and extent of the group auditor’s direction and supervision of component auditors and the review of their work. The guidance in paragraph A113 may be helpful to the group auditor in determining the extent of the review of the component auditor documentation in these circumstances. Also see paragraphs A124B and A124C for examples of circumstances in which certain of the component auditor documentation may be included in the group auditor’s audit file.</p> <p>A130A. If the group auditor is unable to obtain access to the component auditor documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A32.</p>