

**Audits of Less Complex Entities—Audits of Group Financial Statements****Extract for the Explanatory Memorandum Accompanying the Exposure Draft of the ISA for  
LCE—Audits of Group Financial Statements****Background**

1. The [authority] of the [draft] International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) specifically excludes audits of group financial statements (group audits). Accordingly, if the audit is a group audit, the [draft] ISA for LCE cannot be used and the auditor will need to use a different set of auditing standards, such as the International Standards on Auditing (ISA). Therefore, Parts 1-9 of the [draft] ISA for LCE do not include any requirements relevant to group audits.
2. When deciding to exclude group audits in the [draft] ISA for LCE the IAASB on balance, had the view that group audits inherently exhibit characteristics of complexity within an entity that have not been contemplated in the design of the standard and, therefore, should be excluded. Characteristics resulting from having more than one entity or business unit whose financial information is included in the group financial statements through a consolidation process drive special considerations that expand the auditor's requirements throughout the audit process.
3. However, there are strong views from some stakeholders that group audits should be included if the reporting entity, and the group, otherwise would be considered a less complex entity. The IAASB would like to further understand the views of its stakeholders on whether or not to include group audits in the [draft] ISA for LCE, and if so, how the requirements should be incorporated.

**Complexity in a Group Audit**

4. In addition to the matters that may cause the audit of a single entity to be more complex, there are matters specifically relating to groups that could make the audit of the group financial statements more complex.

This includes:

- *The complexity of the group's structure.* A group may be more complex than a single entity because a group may have several subsidiaries, equity accounted investments, branches or divisions or other entities or business units, sometimes in multiple locations. Its legal structure may also be different from the operating structure (e.g., for tax purposes). The complexity of the group structure could also include consideration of accounting for goodwill, joint ventures or special purpose entities that may also increase the complexity of the audit.
- *The geographic locations of the group's operations.* Having a group that is located in multiple geographical locations may give rise to increased complexities arising from different laws or regulations, languages, cultures and business practices, and there may be more complexities with obtaining sufficient appropriate audit evidence, including because of cultural and language issues, or access issues.
- *The structure and complexity of the group's IT environment and IT systems.* For example, a group may have a complex IT environment and systems because of multiple IT systems that

are not integrated (e.g., because of recent acquisitions or mergers). A group may also use one or more external service providers for aspects of its IT.

- *Relevant regulatory factors, including the regulatory environment.* A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- *The ownership, and relationships between owners and other people or entities, including related parties.* Understanding the ownership and relationships can be more complex in a group that involves many entities or business units or that operate over multiple jurisdictions. Complexities may also arise when there are changes in ownership through formation, acquisition or joint ventures.
- *The consolidation process used by the group (e.g., sub-consolidations and consolidation adjustments).* The level of centralization versus decentralization of the group's activities or processes relevant to its financial reporting process, and the consistency of the accounting policies and practices applied across the group may also add complexity to the consolidation process.

#### **Options Relating to Group Audits for Purposes of the [draft] ISA for LCE**

5. Three options have been described in this [Explanatory Memorandum] in relation to group audits. These are intended to assist the IAASB in deciding on and designing objectives and requirements that are appropriate for an audit of an LCE. The option that is ultimately selected will determine what is included or not in the standard in relation to group audits.
6. If group audits are to be included in the [draft] ISA for LCE, consideration will be needed about how to incorporate group audits while retaining the basic premise of the standard, i.e., that the group audit would continue to be an audit of a less complex entity. Stakeholder views are sought on the following options:

(a) **Option 1: Group audits are excluded from the [draft] ISA for LCE.**

This retains the status quo of the exposure draft and no changes will be made to include requirements for group audits.

The inclusion of group audits in the [draft] ISA for LCE (see options 2 and 3 below) would result in additional requirements, which would make the standard itself longer and more complex. More professional judgment would also be needed in determining whether the [draft] ISA for LCE would apply, particularly for option 3. However, not including group audits within the scope of the standard may significantly reduce the uptake of the standard as there are many less complex groups that would otherwise be able to use the standard except for the specific exclusion of group audits.

(b) **Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors.**

The second option is to include requirements related to group audits in the [draft] ISA for LCE but to exclude any requirements for considerations when component auditors are involved as

proposed in ED-600.<sup>1</sup>

Under this option, the involvement of component auditors would be seen as the ‘cut-off point’ for when the standard could not be used (i.e., the involvement of component auditors implies a level of complexity not contemplated in the design of the standard, provided that the audit otherwise meets the criteria to be considered an audit of an LCE). Although the involvement of component auditors in itself does not necessarily drive complexity, the reasons why an auditor would decide to involve component auditors (for example, there may be different jurisdictions, different languages, different laws or regulations, greater experience and more in-depth knowledge of the component auditors, etc.) may be indicative of more complexity in the group audit (i.e., the use of component auditors could be seen as a ‘proxy’ for other matters that would increase complexity). Paragraph 4 above, sets out examples of those matters that influence the complexity in a group audit.

The Task Force [IAASB] is of the view that this option is easier to apply in practice and involves less significant judgments about the complexity of the group (notwithstanding that judgment is needed in determining whether component auditors are to be used or not). However, this approach carries a greater risk that the [draft] ISA for LCE may be inappropriately used in certain circumstances as there could be an inclination for ‘avoiding’ the use of component auditors in circumstances when it would otherwise be appropriate (i.e., the decision to use component auditors would be driven by which standard(s) the auditor may wish to use).

(c) **Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors.**

The third option is to include requirements for group audits in the [draft] ISA for LCE, including requirements for when component auditors are involved as proposed in ED-600.

Under this option, the decision about whether the group audit would meet the requirements for an audit in accordance with the [draft] ISA for LCE is based on the complexity of the reporting entity (i.e., the matters that would make the group audit complex are considered). Paragraph 4 above, sets out examples of those matters that influence the complexity in a group audit.

The rationale for this option is consistent with the view that the involvement of component auditors does not in itself drive complexity of the group audit. Although the involvement of component auditors could be a ‘proxy’ for matters that would increase complexity, this option allows the auditor to consider whether there are matters or circumstances that give rise to complexity. This approach would also be more consistent with the basic premise of the [draft] ISA for LCE, in that it applies to entities that are less complex (whether a single entity or a group, and whether component auditors are involved or not). However, in of itself this approach would increase the complexity to the auditor’s consideration about whether the standard is appropriate or not because more judgment will be needed to determine whether the standard is appropriate or not to the nature and circumstances of the entity being audited.

Although this approach would likely result in the ability for the [draft] ISA for LCE to be able to be used for more group audits than option 2, it places more emphasis on the use of professional

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<sup>1</sup> Exposure Draft: Proposed International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs*

judgment in determining whether the [draft] ISA for LCE is appropriate in the particular facts and circumstances of the group. The use of more judgment about the criteria to use the [draft] ISA for LCE may also increase the risk that the ISA for LCE is inappropriately used. The increased judgments would also require more documentation about the appropriateness of using the [draft] ISA for LCE.

This option would likely also significantly increase the content within the standard (which will further lengthen it) (see section below on “Impact to the Requirements of the [Draft] ISA for LCE”).

### **Changes to the [draft] ISA for LCE**

7. If option 1 is selected, no changes will be made in relation to requirement for group audits to the [draft] ISA for LCE. In the case of both options 2 and 3, changes will be required to accommodate relevant objectives and requirements for group audits, which are further described below.

#### *Impact to the [Authority] of the [draft] ISA for LCE*

8. If the decision is made to include group audits within the scope of the [draft] ISA for LCE, the specific exclusion in paragraph [number] of the [draft] ISA for LCE will need to be removed. Depending on whether option 2 or 3 above is agreed to be more appropriate for the nature and circumstances of the standard, further consideration will need to be given to how this impacts the list of specific exclusions and how jurisdictions, firms and auditors will be able to decide whether the standard is appropriate or not. Therefore the impact on the authority of the standard will be further considered when there is more clarity around the inclusion of group audits within the standard, as well as more clarity on the authority itself.
9. Under both options 2 and 3, professional judgement will need to be applied for the following matters:
  - At the engagement level, the auditor would need to apply professional judgement to determine if the group as a whole meets the attributes of complexity within the [authority] of the [draft] ISA for LCE (i.e., the audit is an audit of an LCE). Such determination would be based on the characteristics relating to complexity already included in Part A of the standard, together with additional matters that are relevant to the complexity of groups as outlined in paragraph 4.
  - The auditor would also need to apply professional judgement to determine the components of the group and make a preliminary determination about whether component auditors need to be involved or not. Making those judgements will be based on the preliminary understanding of the group and its environment, including expectations of the locations, functions or activities within the group at which audit evidence is to be obtained, as well as the group engagement partner’s determination that sufficient and appropriate resources to perform the group audit engagement can be assigned or made available.

Changes with regard to these judgments may be needed within the [authority] as well as the required procedures within the standard itself.

#### *Impact to the Requirements of the [draft] ISA for LCE*

10. The impact to the requirements of the [draft] ISA for LCE would differ significantly between options 2 and 3 for including group audits within the [draft] ISA for LCE. Paragraphs 11-12 below provide the broad impacts to the requirements of the [draft] ISA for LCE under these options. The detailed impact

to each Part of the ISA for LCE as a result of inclusion of requirements pertaining to group audits is presented in **Appendix 1** to this paper.

Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors

11. For this option it would not be necessary to include any requirements in the [draft] ISA for LCE that address the group auditor's use of component auditors. This would significantly limit the number of new requirements from ED-600 that would impact the [draft] ISA for LCE. Broadly, the major areas where the requirements of the [draft] ISA for LCE would be impacted include:

- Those requirements that need to be expanded to address matters that are relevant in a group audit engagement, including, for example, understanding the entity and its environment, the applicable financial reporting framework and the entity's system of internal control (for all entities or business units within the group), communication with management and those charged with governance relevant to the group audit, and evaluating whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion.
- New requirements for:
  - Determining and documenting the components of the group, and (if applicable) to address situations when there are restrictions on access (both outside of the control of group management and those imposed by group management).
  - Determining and documenting component performance materiality and the threshold for misstatements identified in component financial information.
  - The group engagement team to take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process.

Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors

12. Under this option, requirements for considerations when component auditors are involved within ED-600 would need to be included in the [draft] ISA for LCE (on the same basis as other ISA requirements have been included – i.e., proportionate to the nature and circumstances of an LCE audit). In addition to the additional requirements for the [draft] ISA for LCE set out in paragraph 11 above (that would also be applicable under this option), new requirements would also be necessary for the use of component auditors. Broadly, these include:

- The group engagement partner's leadership responsibilities for managing and achieving quality to include the work of component auditors. This also includes relevant ethical requirements, and those related to independence, engagement resources and engagement performance.
- More extensive communication requirements with management and those charged with governance.
- Requirements for robust two-way communications between the group auditor and component auditors, including the need for the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit.

- Requirements for the group engagement team to communicate to the component auditor the amounts determined with respect to component performance materiality and the threshold above which misstatements identified in component financial information are to be communicated to the group engagement team.
- Requirements for the group engagement team to assign the design and performance of risk assessment procedures and further audit procedures to component auditors.
- Clarifying that the evaluation of whether sufficient appropriate audit evidence has been obtained, includes the work performed by component auditors, as well as the effect of any uncorrected misstatements identified by component auditors.
- Requirements for when the group engagement team concludes that the work of the component auditor is insufficient, to determine what additional audit procedures are to be performed and whether those will be performed by the component auditor or by the group engagement team.
- A requirement that the auditor’s report on the group financial statements should not refer to a component auditor, unless required by law or regulations to include such reference.

*Other Impacts to the [draft] ISA for LCE*

13. In addition to the matters highlighted above relating to both options, the new or revised definitions in ED-600 would need to be added to the other definitions within the Appendix of the [draft] ISA for LCE.
14. Also, under both options, some further essential explanatory material may need to be added to the [draft] ISA for LCE to clarify how certain requirements apply in a group audit.
15. Under both options, further consideration will also need to be given to any revisions to the objectives of the relevant Parts. In addition, for option 3 (which includes requirements for component auditors), there would be a need to align the [draft] ISA for LCE with the objective of ED-600 for when component auditors are involved (i.e., for the auditor to “be sufficiently and appropriately involved in the work of component auditors throughout the group audit engagement, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work”).

***Request for Comments [from Respondents to the Consultation] – Specific Questions***

1. Should group audits be excluded from the [draft] ISA for LCE? (please provide reasons for your answer).
  - (a) If you are a practitioner, and group audits are excluded from the [draft] ISA for LCE, how would this impact your use of the standard once it is finalized? In answering, please provide detail of the possible impact (e.g., % of audits undertaken that you would regard as audits of LCEs that are group audits and would be excluded).
2. If audits of group financial statements are to be included in the [draft] ISA for LCE, should this be done using option 2 or 3? (please provide reasons for your preferred option).

**Proposed Presentation of the Group Audits Requirements in the [draft] ISA for LCE**

16. If group audits are included in the ISA for LCE, there are alternatives for how these could be presented within the [draft] ISA for LCE:

- (a) *Presenting all of the requirements pertaining to group audits in a separate Part to the ISA for LCE (for example, in Part 10).*

This approach would have the benefit that all requirements relating to group audits would be comprehensively presented together in one Part of the [draft] ISA for LCE (i.e., as special considerations for group audits). In addition, this approach would also allow for easy 'carving out' the Part on group audits from the [draft] ISA for LCE should some jurisdictions decide that this would not be appropriate to be applied in their jurisdiction. Because the ISA for LCE is written in the 'flow of the audit', under this option, it would be necessary to cross-reference (or repeat) the connected requirements of the [draft] ISA for LCE in each Part of the standard so as to make a connection between the flow of the audit process and the Part on group audits (i.e., would be similar to how ED-600 interacts with the ISAs).

- (b) *Presenting the requirements pertaining to group audits within each Part of the ISA for LCE (where applicable)*

Under this option the requirements for group audits will be presented in separate boxes, or as a subsection, in each Part to distinguish them and facilitate their easy reference.

The benefit of this approach would be that when group audits apply, the auditor would have access to all relevant requirements organized in the manner of the flow of the audit which is consistent with how the standard has been developed. In those circumstances when the requirements for group audits apply, the auditor would approach the group audit procedures in the flow of the audit, and would not have to refer to another Part to determine the relevant requirements.

17. The impact of the revised and additional requirements needed for each Part (as relevant) have been presented in **Appendix 1**.

***Request for Comments [from Respondents to the Consultation] – Specific Questions***

3. If requirements pertaining to audits of group financial statements are included in the [draft] ISA for LCE, how should these be included within the standard (please provide reasons for your preferred option):
- (a) Presenting all of the requirements pertaining to group audits in a separate Part to the [draft] ISA for LCE.
- (b) Presenting the requirements pertaining to group audits within each relevant Part of the ISA for LCE. Please also indicate whether the group audit requirements should be distinguished (for example, in a box or under a separate sub-heading), or built into the text of each Part.

**Appendix 1**

**Possible Impacts to the Parts of the [draft] ISA for LCE as a result of Inclusion of Requirements Pertaining to Group Audits**

The table in this appendix provides further details of the anticipated impacts to the requirements in Parts 1-9 of the [draft] ISA for LCE as a result of inclusion of requirements pertaining to group audits presented in ED-600, as appropriate to LCEs. The changes listed for option 2 also apply to option 3 – option 3 however would require additional changes that are further described under that option.

| <i>Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors</i>  | <i>Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors</i>  |
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| <b>Part 2–Engagement Quality Management</b>  |  |
| <ul style="list-style-type: none"> <li>Clarify that the requirements for the engagement partner’s leadership responsibilities for managing and achieving quality extend to the group audit.</li> </ul> | <p>Further additions or revisions needed include:</p> <ul style="list-style-type: none"> <li>Clarification that the group engagement partner’s leadership responsibilities for managing and achieving quality include the work of component auditors.</li> <li>New requirement for the engagement partner to evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.</li> <li>New requirement for requesting the component auditor to confirm they will cooperate with the group engagement team.</li> <li>New requirements addressing the group engagement partner’s responsibility for:                         <ul style="list-style-type: none"> <li>Relevant ethical requirements, including those relating to independence;</li> <li>Engagement resources (including for determining that component auditors have the appropriate competence and capabilities, sufficient time to perform the assigned audit procedures at the component, and for considering the relevance of the information</li> </ul> </li> </ul> |

| <p><b>Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors</b></p>  | <p><b>Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors</b></p>  |
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|   | <p>provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm); and</p> <ul style="list-style-type: none"> <li>○ Engagement performance, as well as the related documentation requirements presented in ED-600 related to these matters.</li> <li>● New requirement for when the group engagement partner has serious concerns about the matters discussed above (i.e., in respect to engagement resources, engagement performance and when a component auditor does not meet the independence requirements that are relevant to the group audit), for the group engagement team to obtain sufficient appropriate audit evidence at the component without involving that component auditor.</li> </ul>   |
| <p><b>Part 3–Audit Evidence</b></p>   |   |
| <ul style="list-style-type: none"> <li>● Clarify that in the case of group audits, the communication with management and those charged with governance extends to the group and covers matters such as:                     <ul style="list-style-type: none"> <li>○ The overview of the work performed at the entities and business units comprising the group;</li> <li>○ Limitations on the scope of the group audit; and</li> <li>○ Fraud or suspected fraud that involves 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.</li> </ul> </li> </ul> | <p>Further additions or revisions needed include:</p> <ul style="list-style-type: none"> <li>● Extending the communication requirements with management and those charged with governance for instances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed such concerns.</li> <li>● New requirements for two-way communication between the group engagement team and the component auditors (matters for communication, discussing significant matters arising from the communications, determining the need to review the component auditor's audit documentation and evaluating whether communications are adequate for the group auditor's purposes), including requirements for documenting those communications.</li> </ul> |

| <p><b>Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors</b></p>  | <p><b>Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors</b></p>  |
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| <p><b>Part 4–Acceptance or Continuance of an Audit Engagement and Initial Engagements</b></p>   |   |
| <ul style="list-style-type: none"> <li>• Clarify that the requirements for the auditor to obtain the agreement of management that it acknowledges and understands its responsibility extend to information and unrestricted access concerning the group and including component management.</li> <li>• New requirements for the auditor to identify the components; make a preliminary determination about whether to involve component auditors and for the group engagement partner to determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements.</li> <li>• New requirements to address circumstances when restrictions to access may occur (covering both those outside the control of group management and those restrictions imposed by group management), with a related specific documentation requirement for the auditor to document significant matters related to restrictions on access to people or information (both those before deciding to accept or continue the engagement, and those that arose subsequent to acceptance or continuance), and how such matters will be addressed.</li> </ul> | <p>No further additions or revisions needed to those already presented for option 2.</p>  |
| <p><b>Part 5–Planning</b></p>   |   |
| <ul style="list-style-type: none"> <li>• New requirements for the group engagement team to determine:               <ul style="list-style-type: none"> <li>○ The components of the group;</li> <li>○ Component performance materiality; and</li> <li>○ The threshold for misstatements identified in component financial information.</li> </ul> </li> <li>• New requirements for specific documentation for:</li> </ul>  | <p>Further additions or revisions needed include:</p> <ul style="list-style-type: none"> <li>• New requirement for the group engagement team to communicate to the component auditor the amounts determined with respect to component performance materiality and the threshold above which misstatements identified in component financial information are to be communicated to the group engagement team.</li> </ul> |

| <b>Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors</b>   | <b>Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors</b>   |
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| <ul style="list-style-type: none"> <li>○ The group engagement team’s determination of components for purposes of planning and performing the group audit; and</li> <li>○ The determination of component performance materiality and the threshold for misstatements in component financial information.</li> </ul>  |   |
| <b>Part 6–Risk Identification and Assessment</b>  |   |
| <ul style="list-style-type: none"> <li>• Expand the requirements for the auditor to: <ul style="list-style-type: none"> <li>○ Understand the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control for all components in the group (e.g., the group auditor would need to obtain an understanding of matters such as the locations in which the group has its operations or activities, the nature of the group’s activities and business lines and the extent to which they are similar, consistency of accounting policies and practices across the group, the nature and extent of commonality of controls, the consolidation process used by the group, controls relevant to the group financial statements, etc.); and</li> <li>○ Identify and assess the risks of material misstatement relevant to the group financial statements.</li> </ul> </li> </ul> | <p>Further additions or revisions needed include:</p> <ul style="list-style-type: none"> <li>• New requirements for when the group engagement team assigns the design and performance of risk assessment procedures to component auditors, including for the group engagement team to: <ul style="list-style-type: none"> <li>○ Consider the results of the component auditors’ work; and</li> <li>○ Communicate to the component auditor matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement for the group financial statements.</li> </ul> </li> </ul> |
| <b>Part 7–Responding to the Assessed Risks of Material Misstatement</b>   |   |
| <ul style="list-style-type: none"> <li>• New requirements for the group engagement team to take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process, including for evaluating:</li> </ul>   | <p>Further additions or revisions needed include:</p> <ul style="list-style-type: none"> <li>• New requirements for when the group engagement team assigns the design and performance of further audit procedures to component auditors, for the group engagement team to:</li> </ul>   |

| <p><b>Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors</b></p>   | <p><b>Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors</b></p>  |
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| <ul style="list-style-type: none"> <li>○ Whether all entities and business units have been included in the group financial statements, and, if applicable, for designing and performing further audit procedures on sub-consolidations.</li> <li>○ The appropriateness, completeness and accuracy of consolidation adjustments and reclassifications.</li> <li>○ If the financial information has been appropriately adjusted when 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, and when the group financial statements include financial statements of an entity or business unit with a financial reporting period-end that differs from that of the group.</li> </ul> | <ul style="list-style-type: none"> <li>○ Communicate with component auditors about matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.</li> <li>○ Evaluate the appropriateness of the further audit procedures of the component auditor for areas of higher assessed risks of material misstatement of the group financial statements, including significant risks.</li> <li>○ Determine whether the financial information identified in the component auditor’s communications is the financial information that is incorporated in the group financial statements.</li> <li>○ Determine the nature and extent of direction and supervision of component auditors and the review of their work, including when they perform further audit procedures on the consolidation process (including on sub-consolidations).</li> <li>● Further communication and documentation requirements between the group and the component auditor, including how the group engagement team addressed any significant matters with respect to:             <ul style="list-style-type: none"> <li>○ Related party relationships or transactions; and</li> <li>○ Events or conditions that may cast significant doubt on the group’s or group entity’s ability to continue as a going concern.</li> </ul> </li> <li>● New requirement for the group engagement team to document its 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 as well as requirements relating to using audit evidence from an audit performed for another purpose (i.e., statutory, regulatory or for other reasons).</li> </ul> |

| <p><b>Option 2: Group audits are included in the [draft] ISA for LCE but exclude any requirements relating to component auditors</b></p>   | <p><b>Option 3: Group audits are included in the [draft] ISA for LCE and include requirements relating to component auditors</b></p>  |
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| <p><b>Part 8–Concluding</b></p>  |   |
| <ul style="list-style-type: none"> <li>• Clarify that the requirements for the auditor to evaluate whether sufficient appropriate audit evidence has been obtained, as well as requirements to evaluate the effect of any uncorrected misstatements and any instances where there had been an inability to obtain sufficient appropriate audit evidence, extend to the group.</li> <li>• Clarify that the procedures with respect to subsequent events extend to all components included in the group financial statements.</li> </ul> | <p>Further additions or revisions needed include:</p> <ul style="list-style-type: none"> <li>• Clarify that the evaluation of the effect on the group audit opinion of any uncorrected misstatements includes those identified by the component auditors.</li> <li>• New requirement for when the group engagement team concludes that the work of the component auditor is insufficient (i.e., to determine what additional audit procedures are to be performed and whether those will be performed by the component auditor or by the group engagement team).</li> <li>• New requirement for the group engagement team to request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements.</li> </ul> |
| <p><b>Part 9–Forming an Opinion and Reporting</b></p>  |   |
| <ul style="list-style-type: none"> <li>• n/a</li> </ul>  | <ul style="list-style-type: none"> <li>• New requirement that the auditor’s report on the group financial statements would not refer to a component auditor, unless required by law or regulation to include such a reference. If the latter applies, then it should be noted in the auditor’s report that such reference does not diminish the group engagement partner’s or the group engagement partner’s firm’s responsibility for the group audit opinion.</li> </ul>  |