



Audits of Group Financial Statements

ISA 600

08 December 2010

Agenda

Context for revising ?

Group engagement partner

Risk Assessment of all *the significant components*

Engagement Acceptance and Continuance

Group wide controls

Components and Component Auditors

Materiality

Communication

Subsequent events

Context for revising ?

- **Lack of an international standard dealing with group audits.**
- **Varying group audit practice around the world.**
- **Regulatory concerns.**
- **Need to reflect application of risk assessment and quality control principles in group audit context.**
- **Standard reflects international best practice.**

Group engagement partner



Group engagement partner

Group engagement partner alone should be responsible for direction, supervision, and performance of engagement and for group audit opinion.

Therefore, reference to component auditor in the group auditor's report no longer permitted.

Group engagement partner

“ The financial statements of subsidiaries X Stock Fund, Y Multi Asset Fund and Z Income Fund were reviewed / audited by another firm of chartered accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for the subsidiaries, is based solely on the report of other auditor.”

NOW -----THIS IS NOT ALLOWED

Components



Component ----- *defined*

An entity or business activity for which group or component management

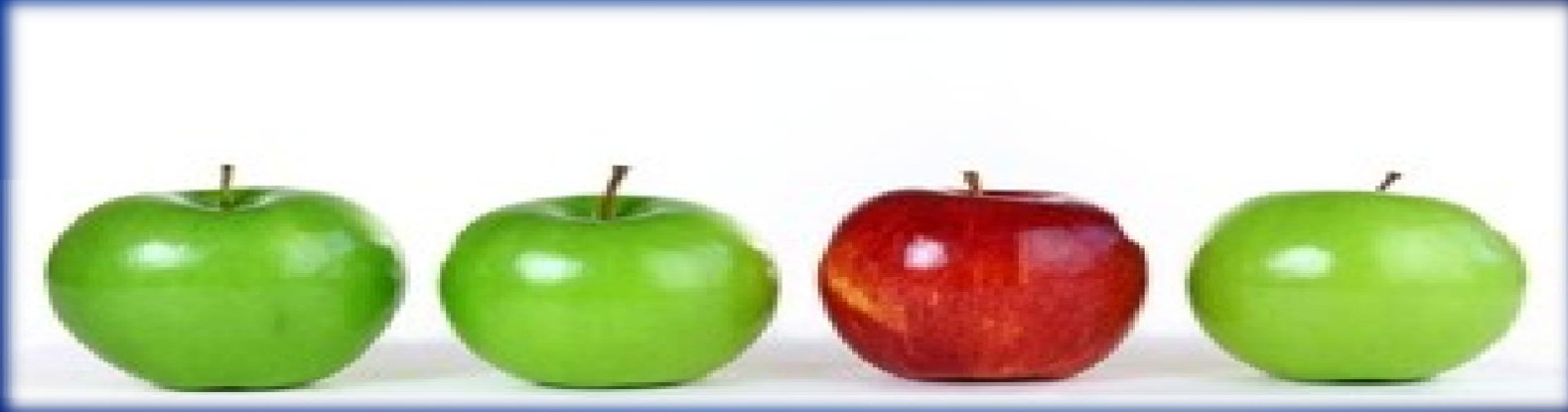
prepares financial information

that should be included in the group financial statements.

Component auditor - ----- *defined*

An auditor of a component is a component auditor only when it has been asked by the group engagement team to perform work on the component for the group audit. *Can be an auditor in another firm or an auditor in another office of the same firm or network*

Many auditors and network of audit firms allowed



- **Emphasis on sole responsibility does not imply that group audit should be performed by only one firm or one network**
- **Standard requires group engagement team to obtain an understanding of component auditors**

Significant Components

What is a significant component?

- A component financially significant to the group (i.e. size) ----- an audit of the component's financial information is required
- A component likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances - one or more of
 - An audit of the component's financial information
 - An audit of one or more account balances, classes of transactions or disclosures affected by the significant risks
 - Specified audit procedures responsive to the significant risks

Components that are **not significant**



Analytical
procedures at group
level is required

Cannot restrict the no of branches being
audited

Significant Components

- *audited by Component Auditors*

Group engagement team to be involved in

Component auditor's risk assessment

- Have all the significant risks been identified?
- Involvement depends on understanding of component auditor but standard specifies minimum work required

Component auditor's responses to significant risks

- Are the responses appropriate?
- Direct involvement by group engagement team in responding to the significant risks may be necessary based on understanding of component auditor

Risk Assessment of all *the significant components*

- A major change

Identification and assessment of risks through obtaining an understanding of the

- Group,*
- its components, and**
- their environments**

Effect on current practice will vary - If best practices already followed, changes may not be significant - In other cases, more effort could be required or there could be synergy gains

