

# **Advanced Auditing and Other Assurance Services**

**COM 3242**

**Bachelor of Commerce III**

**Introduction to Group Audits**



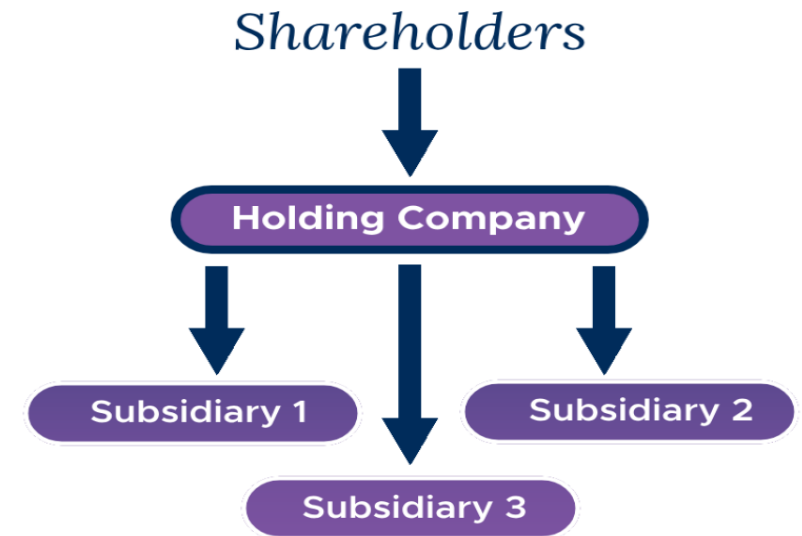
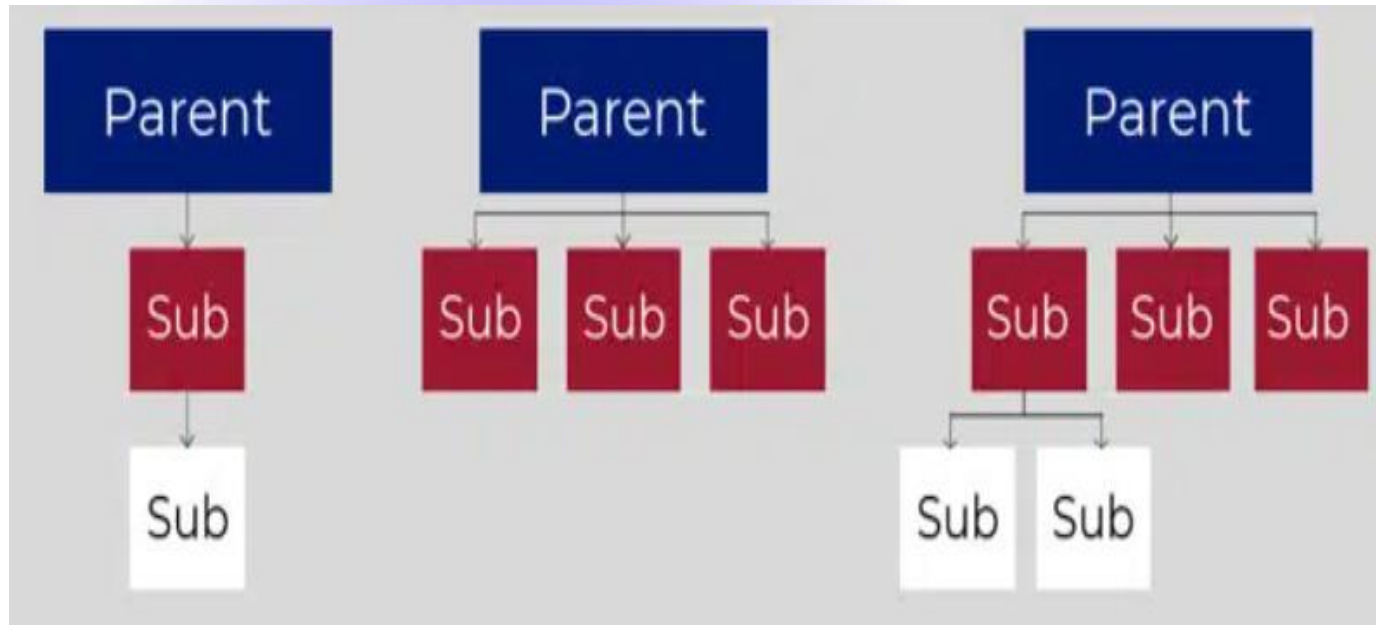
Prof. Twaha Kigongo Kaawaase (PhD, M.Soc.Sc., P.G.Dip.Dev.Fin., B.Com., FCCA, CPA)

# AGENDA: Introduction to Group Audits

- 1) Understanding a Group
- 2) ISA 600 (Revised) : *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*
- 3) Group Audit: Engagement | Acceptance and Continuation
- 4) Group Audit: Group Audit Planning
- 5) Group Audit: Engagement Performance | Execution and Involvement of Component Auditors
- 6) Group Audit: Completion | Reporting
- 7) Further Reading | Key References



# Understanding of Group Structures



Presented by CPA Prof. Twaha K Kaawaase (Ph.D.)

# Group Structure: Single Country and Currency



## MUKWANO GROUP OF COMPANIES



### → A K Plastics Limited (AKPL)

AK Plastics, one of the oldest producers of plastics in the country, recently introduced a wide range of new



### → A K Oils & Fats Uganda Limited (AKOFL)

A K Oils & Fats Uganda Limited manufactures a wide spectrum of vitamin-fortified and cholesterol-free premium vegetable and sunflower cooking oils and fats. The famous cooking oil brands in this range are Mukwano Vegetable Cooking Oil, ROKI and Three Star whereas; Tamu, Nice Fry and Marina Catering margarine constitute our cooking fat range. A recent addition to the cooking oil product portfolio is our premium brand Sunseed, a sunflower oil made from 100% sunflower seeds grown by the co-operative farmers in northern Uganda.



## MUKWANO GROUP OF COMPANIES



### → Mukwano Personal Care Products Limited (MPCPL)

MPCPL is the home of powder and liquid detergents, personal care and hygiene products.



### → AK Transporters Uganda Limited (AKTL)

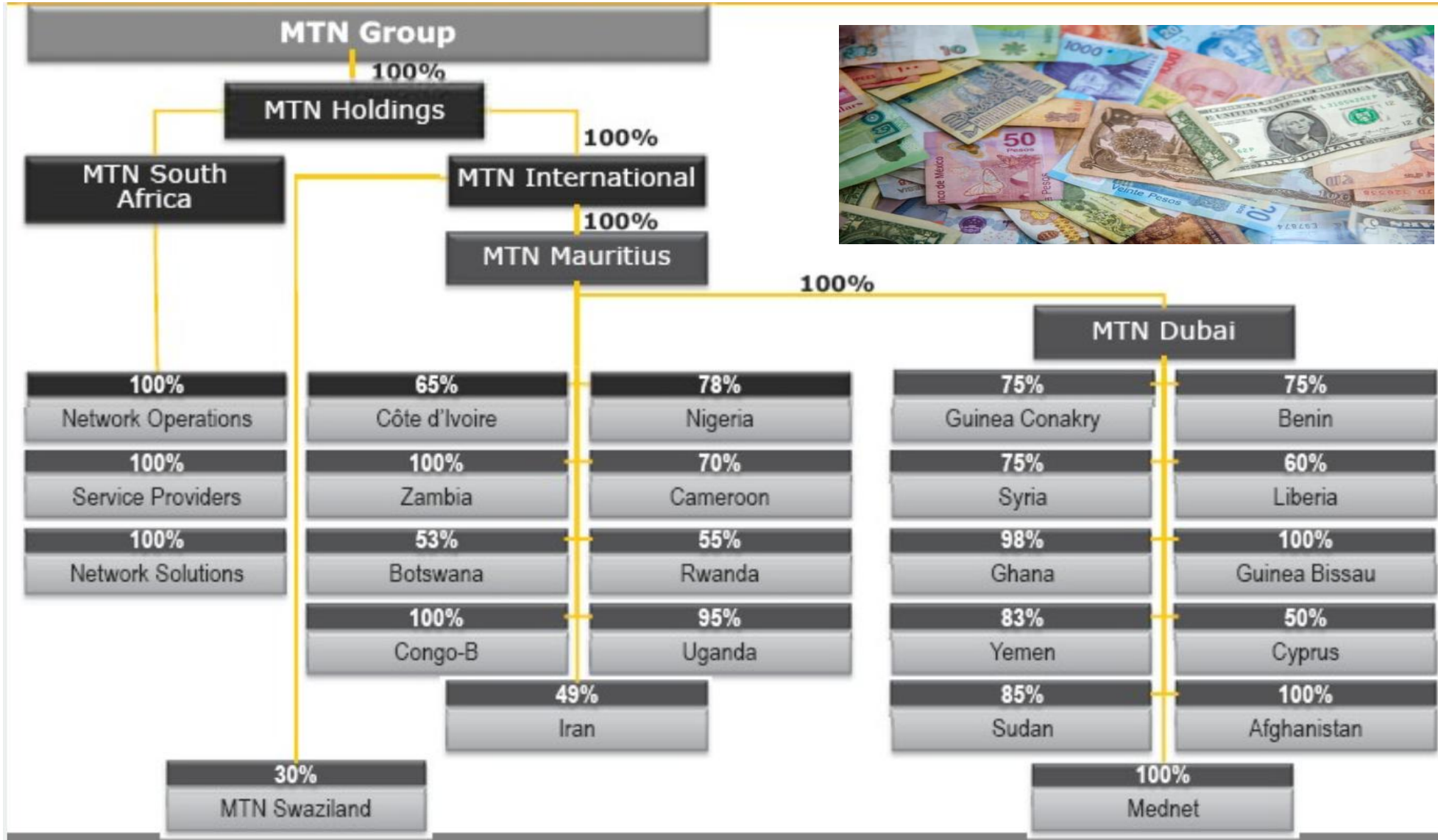


## MUKWANO GROUP OF COMPANIES

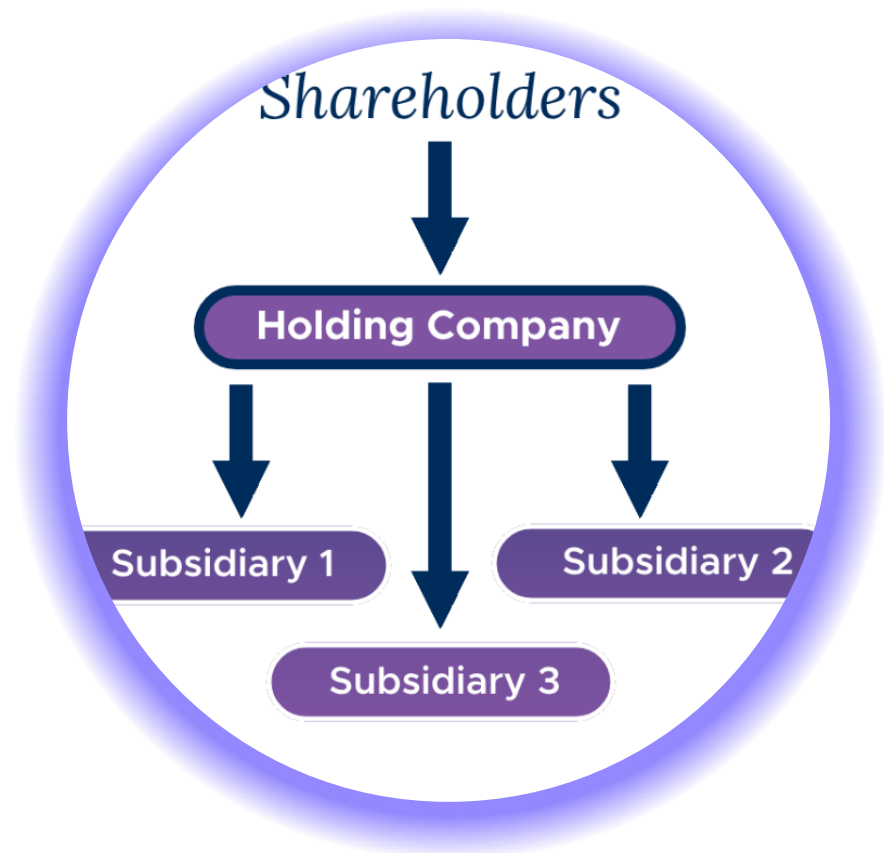


### → Ayago Agro Industries Limited and AKOF Kiryandongo Farm

# Group Structure: Multiple Countries and Currencies



# IFRS 10: Consolidated Financial Statements



- Does a parent-sub subsidiary relationship exist? IFRS 10 mandates the preparation of consolidated financial statements.
- These are financial statements of a group (parent and subsidiaries) presented as those of a single economic entity.
- The financial statements of a group have to be audited in line with ISA 600

**ISA 600 (Revised) :  
Special Considerations  
– Audits of Group  
Financial Statements  
(Including the Work of  
Component Auditors)**



# KEY ISA 600 (*Revised*) DEFINITIONS

- 1) **Group** – A reporting entity for which **group financial statements** are prepared. A group always has more than one component
- 2) **Component** – An entity or business activity for which group or component management prepares financial information that should be included in the **group financial statements**
- 3) **Group financial statements** – Financial statements that include the financial information of more than one entity or business unit **through a consolidation process** .
- 4) **Group audit** – The audit of group financial statements
- 5) **Group auditor** – Auditor responsible for the audit of the Group Financial Statements
- 6) **Component auditor** – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit
- 7) **Group audit opinion** – The audit opinion on the group financial statements
- 8) **Group management** – Management responsible for the preparation of the group financial statements
- 9) **Component management** – Management responsible for a component

# Why Was ISA 600 Revised?

Effective Dec 2023 (applied 2024)

- i. The original **ISA 600** was focusing too heavily on **component size** rather than the risks they posed.
- ii. It **lacked clarity** on how **group auditors** should **coordinate with component auditors** in multinational engagements.



## Alignment

Aligns with recently revised ISA 220, ISA 315 (Revised 2019), and quality management standards



## Risk Focus

Shifts from size-based scoping to a top-down, **risk-based approach** to group audits



## Quality

Strengthens **professional scepticism, communication,** and documentation requirements

# ISA 600 (Revised) — Group Audits

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## Risk-Based Approach

Emphasis on risk assessment at the group level, moving away from a purely component-based approach

## Wider Engagement Team

Component auditors formally integrated as part of the group engagement team

## Revised Component Definition

New definition requiring auditors to assess aggregation risk across components

## Enhanced Documentation

Stronger requirements for group-level documentation and access to component working papers

## Two-Way Communication

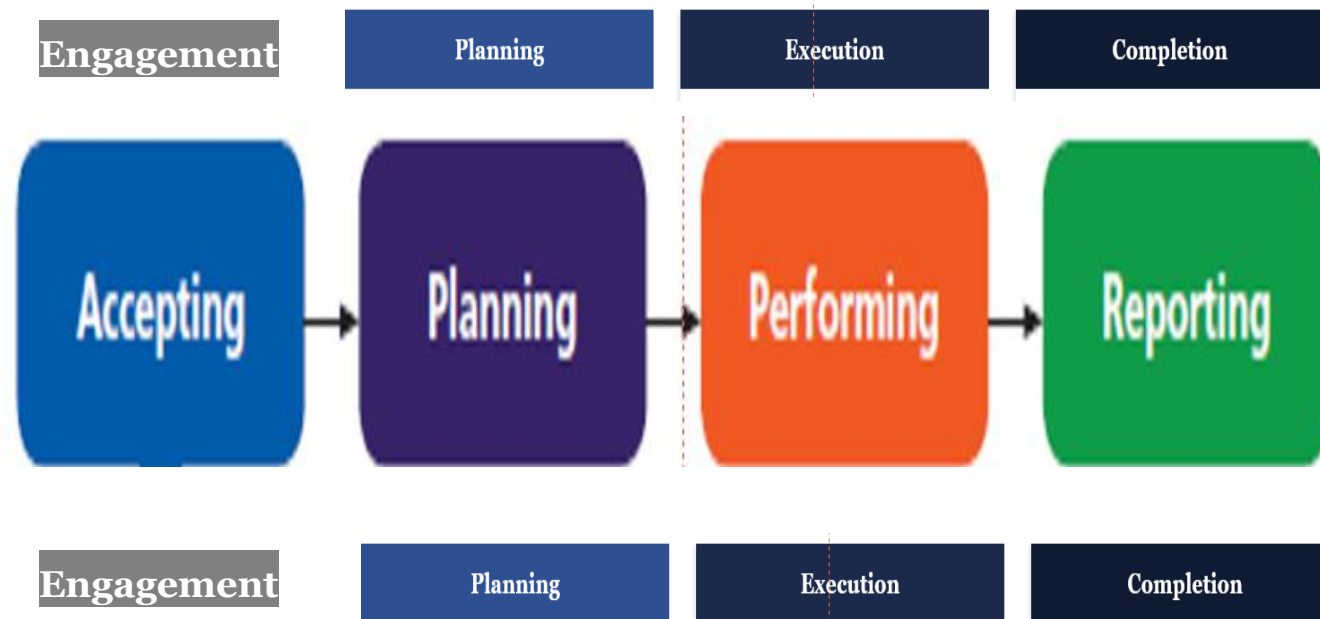
Greater emphasis on robust, ongoing communication between group and component auditors

Effective Dec 2023 (applied 2024)

# Key Objectives of the Auditor Under ISA 600 (Revised)

- 1) Determine whether appropriate and sufficient audit evidence can be obtained to support an opinion on the group financial statements
- 2) Identify and assess risks of material misstatement of the group financial statements, whether due to fraud or errors, and plan and deploy procedures to respond to such assessed risks.
- 3) Be sufficiently and appropriately involved in the work of the component auditors (Communicating clearly about the scope and timing of their work, evaluating the results of their work )
- 4) Evaluate if sufficient and appropriate evidence has been obtained, including from work performed by component auditors, as a basis for forming an opinion on the group financial statements.

# THE FOUR PHASES OF ASSURANCE ENGAGEMENTS



Accepting

# **ACCEPTANCE & CONTINUANCE OF GROUP AUDIT**



## Matters Considered before Accepting Appointment as a Group Auditor

- 1) Considerations for accepting an appointment as auditor of a single entity apply.
  - Is the firm ready? [Follow ISAs, Ethics standards, resources, skills, experience, Quality control systems]
  - Is there a rational purpose for the audit [ Why is the audit required?]. Will there be any scope limitations?
  - What Financial Reporting Framework is followed [IFRS or something else?]
  - Agree to the Terms of the engagement
- 2) **Additionally, the group auditor is required to determine whether they can reasonably expect to obtain sufficient appropriate evidence to form an audit opinion.**

# For Initial engagement:

Sources of information to guide the group engagement partner when deciding on the availability of sufficient appropriate audit evidence :

- i. The **group structure**, activities and any other relevant factors (such as the **complexity of the industry** in which the group operates)
- ii. The use of **support services** and other organisations by the group
- iii. The **Consolidation process** used by the group
- iv. Having **unrestricted access to information** and **TCWG of the group** (group management, **TCWG of the component**, component management and all component information)

## For Initial engagement ...

- v. Availability of sufficient and appropriate resources
- vi. Communication with predecessor auditors of the group and components
- vii. Social, Economic, Cultural or other factors (such as outbreak of war or disease)

# For Recurring engagements/Continuance:

Additional factors that may become relevant to the continuance decisions as a group auditor:

- i. Changes to the Group structure
- ii. Changes to the Component Significance and Risk
- iii. Changes to the composition of management and TCWG of the group and its components.
- iv. Changes to the applicable financial reporting framework
- v. The display of integrity and competence of group management and component management
- vi. Social, Economic, Cultural or other factors (such as outbreak of war or disease)

## What if there are doubts about the availability of sufficient appropriate evidence due to some limitations :

- The group engagement partner shall consider whether or not to accept or continue the engagement
- If the only option is to disclaim the audit opinion, then the engagement should not be accepted or continued
- If the engagement partner is unable to decline or withdraw from the engagement for legal or regulatory reasons, the group audit will require a disclaimer of opinion.

Accepting

## Terms of Engagement in Group Audits

- Follow requirements of ISA 210: *Agreeing the Terms of Audit engagements*
- **Additional matters** to include in the Terms of Engagement for group audits:
  - i. The Terms should identify the applicable financial reporting framework.
  - ii. The communication between the group engagement team and component auditors should be **unrestricted** to the extent possible under law or regulation
  - iii. Important communications **between the component auditors, TCWG of the component and component management**, including communications on **significant deficiencies in internal control**, should be communicated as well to the group engagement team.
  - iv. Important communications between **regulatory authorities and components** related to **financial reporting matters** should be communicated to the group engagement team.

## REVISION QUESTION / EXAMINATION FOCUS

A case study requiring students to recognise the specific matters to be considered **before accepting an appointment as a group auditor**.

The case could have the following important key issues, which have to be teased out:

- The components where audit work will be performed.
- The resources needed to perform the group audit at those components.
- Any specific risks relevant to the scenario

Where the group audit involves component auditors, the key issues the group engagement partner should consider, including :

- Confirmation of the co-operation of the component auditors.
- Awareness of the component auditors of the relevant ethical requirements of the group audit engagement.
- Determination of the appropriate competence and capabilities of the component auditors.

# GROUP AUDIT PLANNING



# Matters to be Considered and the Procedures at the Planning Stage of a Group Audit

- A. The Overall Group Audit Strategy and Group Audit Plan
- B. Considerations when component auditors will be involved
- C. Leadership, Responsibility for quality and Relevant Ethical Requirements, including Independence.
- D. Engagement Resources
- E. Understanding the Group and Risk Assessment

*[We shall consider matters 'A – E' one by one]*

# A: Group Audit Strategy & Group Audit Plan

ISA 300 guides that Audit work should be planned to ensure it is performed **effectively**. This is done by adopting **two complementary items**:

- An **Audit strategy** (which gives the scope of the engagement and other **significant factors** that are essential in carrying out the audit), leading to an Audit Plan
- An **Audit Plan** (More specific detailing of the approach, the *nature*, *timing* and *extent* of the audit procedures – the audit programmes)

## A general strategy (overall audit plan) will entail :

- ✓ Determining audit objective
- ✓ Knowledge of the entity
- ✓ Risk and setting materiality thresholds
- ✓ Determining audit approach (Risk-based or Top-Down)
- ✓ Determining and managing resources required
- ✓ The *nature, timing* and *extent* of the audit procedures (the audit programme)
- ✓ Managing the audit engagement Team and communication

The Group audit strategy and Group audit plan will additionally address:

1. Understand the **group** and **its components** that will be subject to audit work
2. Confirm, if any, **component auditors** to be involved
3. Risk assessment (**Aggregation Risk**) and determine **Materiality** (For the Group and the Components)
4. Confirm the **necessary resources** required for the work

## B. Considerations at the planning stage when component and component auditors will be part of the group audit

- i. Are there events at the component level that can lead to risk of material misstatements at the group assertion level or financial statement level? [*newly acquired entities, significant related parties' transactions, significant transactions outside the normal course of business, abnormal fluctuations in ratios*]
- ii. Significance of classes of transactions, account balances and disclosures in the group financial statements across all components
- iii. The nature and extent of misstatements or control deficiencies identified at a component in prior periods
- iv. Will the group auditor be able to obtain sufficient appropriate evidence from all components
- v. Will component auditors cooperate with the group auditor?

## C (i): Leadership responsibility for Quality (ISA 220 – Revised)

- i. In line with quality management standards (ISQM), the overall responsibility for the quality of a group audit rests with the group engagement partner.
- ii. Given that components may be in multiple locations, **some degree of delegation** of quality responsibility may be possible, but overall responsibility remains with the group engagement Partner
- iii. The group engagement partner must ensure that there are **adequate resources** through the group to achieve the **required quality of the audit**.

## C(ii) : Responsibility for Ethical Requirements, including those related to Independence (ISA 220 – Revised)

- i. The Group auditor /Group engagement partner is required to bring to the attention of the component auditors the relevant ethical requirements.
- ii. The components auditors are required to confirm that they understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.

## D: Engagement Resources

- i. The Group auditor /Group engagement partner is required to determine if the component auditors have the appropriate competence, capabilities, time and other resources to perform the audit procedures at the components.
- ii. Component auditor **must have** the necessary **competence, capability** and **time** to perform the work assigned by the group auditor
- iii. Component auditor's **ability to use** additional resources like **auditor experts, automated tools and techniques**

## E (i) : Understanding the Group and Risk Assessment

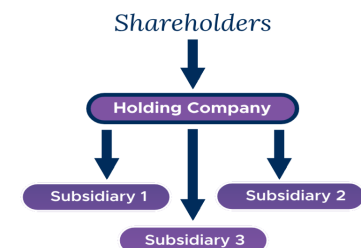
- i. Obtain knowledge of the group, its components and environment (Group structure, nature of business, locations, Group reliance on IT, legal and regulatory matters, financial performance measures across the group)
- ii. The **applicable financial reporting framework** (accounting policies and practices in use across the group)
- iii. **Identify significant components** (by risk, size, or both)
- iv. Understand **group-wide controls** (centralised vs decentralized, e.g inventory management systems, group codes of conduct, IT systems)
- v. **Understand the consolidation process** (how are Group FSS prepared?) and the risk of material misstatements arising there from

## E (ii) : Risk Assessment, Aggregation Risk and Performance Materiality.

- ✓ Perform risk assessment procedures at a group level
- ✓ Identify significant risks affecting the group (Revenue recognition, related party transactions, intra-group balances)
- ✓ Consider component-level risk that may impact the group's financial statements

## E (iii): Aggregation Risk, Group and Component Performance Materiality

- **Aggregation Risk:** The probability that the aggregate of the **uncorrected** and **undetected** misstatements exceeds materiality for the Group Financial Statements as a whole.
- **Group Performance Materiality (GPM):** An amount set by the group auditor below the **Overall Group Materiality** to manage aggregation risk for the group financial statements to an appropriately low level



## E (iii): Aggregation Risk, Group and Component Performance Materiality

- **Component Performance Materiality (CPM):** An amount set below the GPM to help manage aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a Component.
- The **CPM levels** can vary for **different components** or even certain transactions, balances or disclosures depending on risks they present and the amount of audit work that should be performed.

## E (iii) ... Aggregation Risk and G/C P Materiality ..

- Setting CPM requires professional Judgement, and the group auditor will dialogue with the component auditors in the process.
- CPM will be lower than the overall Group Performance Materiality
- If Aggregation Risk Increases, CPM will have to be decreased

## Example :

- Group Auditor set the Group Audit Materiality at UgX 7,500,000,000/=
- Group Auditor audits Subsidiary 1 & 2; Component Auditor – Subsidiary 3
- Sub. 1's Accounts receivable are overstated by Ugx 3 Bill unadjusted
- Sub. 3's Accounts receivable have an undetected misstatement of Ugx 6Bill also an overstatement
- The aggregate uncorrected and undetected misstatements are material [  $3 + 6 > 7.5$  ]

**EXTRACTS OF CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AND INDIVIDUAL COMPONENTS FINANCIAL STATEMENTS AS AT 31ST DEC 2025**

	HEADOFFICE [Holdings Ltd]	COMP A (100%)	COMP B (100%)	COMP C (100%)	TOTAL
<b>TOTAL ASSETS</b>	<b>1,000,000,000</b>	<b>3,000,000,000</b>	<b>2,000,000,000</b>	<b>4,000,000,000</b>	<b>10,000,000,000</b>
<b>Materilaity levels as a % of TA (Group)</b>					
GOM 1% of Group TAs					100,000,000
GPM 80% of GOM					80,000,000
Group Trivial error 1% of GPM					800,000
<b>Materilaity levels as a % of TA (Comp A)</b>					
Comp A 'OM' 1% of Comp A TAs		30,000,000			
Comp A 'PM' 80% of Comp A OM		24,000,000			
Comp A Trivial error 1% of Comp A PM		240,000			
<b>Materilaity levels as a % of TA (Comp B)</b>					
Comp B 'OM' 1% of Comp B TAs			20,000,000		
Comp B 'PM' 80% of Comp B OM			16,000,000		
Comp B Trivial error 1% of Comp B PM			160,000		
<b>Materilaity levels as a % of TA (Comp C)</b>					
Comp C 'OM' 1% of Comp C TCs				40,000,000	
Comp C 'PM' 80% of Comp C OM				32,000,000	
Comp C Trivial error 1% of Comp C PM				320,000	

# Misstatements Identified

Total Assets Misstated by	<b>SCENARIO A</b>	<b>SCENARIO B</b>
Head office Total Assets are Misstated by	10,000,000	40,000,000
At Comp A Total Assets are Misstated by	20,000,000	25,000,000
At Comp B Total Assets are Misstated by	10,000,000	15,000,000
At Comp C Total Assets are Misstated by	70,000,000	100,000
<b>Total Value of Misstatements</b>	<b>110,000,000</b>	<b>80,100,000</b>

1. Scenario A : If all the misstatements under scenario A are NOT rectified, will the financial statements of the Group be materially misstated?

2. Scenario B : If all the misstatements under scenario B are NOT rectified, will the financial statements of the Group be materially misstated?

3. Scenario A : If the misstatements under scenario A for Component A & B were rectified, will the financial statements of the Group be materially misstated?

4. Scenario A : What is the value of the Misstatement for Component C ?

Scenario A : What is the overall Materiality for Component C ?

Scenario A : If the misstatement of Component C is not rectified, will the FSS of Comp C be materially misstated ?

Scenario A : If the misstatement of Component C is not rectified, will the FSS of the Group be materially misstated ?

E (iv) : Other areas that could lead to increased risk of material misstatements in the group financial statements

a) Complex group structure and changes in group structure: several subsidiaries, divisions, other business units, multiple locations, coupled with frequent acquisitions, disposals or reorganisations. *Such scenarios introduce factors that may give rise to increased susceptibility to material misstatements, e.g., accounting for goodwill, adequate disclosures, and multiple currency translation Risk [Into the home currency of the holding company]*

E (iv) ...

b) Impact of Non-coterminous 'Year-ends' within the group.

Entities or business units in the group with different financial year-ends may be utilised to manipulate the timing of transactions, thereby posing a risk of material misstatements in the group financial statements.

- Audit procedure: The group auditor must understand the **group management consolidation process** for entities in the group with different reporting dates

## E (iv) ... non-coterminous Year ends :

- All subsidiaries or entities included in the consolidated financial statements must have the same year-end. If some have different year ends, component management must prepare special-purpose financial information (SPFI) for group reporting.
- If the component is **significant** to the group's consolidated financial statements, the SPFI must be independently audited.

## E (v) Other Multiple Countries of operations

- Multiple currencies – translation risk
- Multiple locations
- Potential multiple accounting frameworks
- Potential for multiple languages

# ENGAGEMENT PERFORMANCE

EXECUTION

AND

# INVOLVEMENT OF THE COMPONENT AUDITOR



## **Engagement Performance: Responding to assessed risks of material misstatements, including evaluating the work of the component auditor (ISA 330)**

Once risks are assessed, the group auditor must decide on the most suitable responses (as guided by ISA 330), including the nature, timing and extent of any further audit procedures and components where such procedures will be performed. This also includes:

- A. Group Audit Problems (including the Consolidation Process) and audit procedures
- B. Group Audit work to be done by the component auditors
- C. Audit of completion procedures

## **A : Audit Problems and Procedures (Including auditing the consolidation Process)**

1. Auditing the Consolidation Process
2. Business Combination, including the classification of investments
3. Determination of Goodwill and any possible impairment
4. Group Accounting Policies
5. Intra-group transactions
6. Equity accounting for associates and Joint ventures
7. Changes in group structure, including acquisitions and disposals
8. Accounting for foreign subsidiaries

**A-1: Auditing the Consolidation Process:** The procedures are :

1. Evaluating the **classifications of the components of the group** – for example, whether the components have been correctly identified and treated as subsidiaries, associates or joint ventures.
2. Confirming that figures taken into the consolidation **have been accurately extracted** from the financial statements of the components and that all components are included
3. **Reviewing the disclosures** necessary in the group financial statements, such as **related party transactions** and **minority interests**

## A-1: Auditing the Consolidation Process: The procedures ...

4. Investigating the treatment of any components which have a **different financial year-end** or **accounting policies** from those of the rest of the group.
5. Trading difficulties in a subsidiary, which may **indicate an impairment adjustment is required for goodwill** held in the consolidated financial statements

## **A-1: Auditing the Consolidation Process:** The procedures ...

6. Gathering evidence appropriate to the **specific consolidation adjustments** made necessary by financial reporting standards, including, for example:
  - a) Calculation of any **goodwill**, including any impairment review
  - b) Cancellation of **intra-group balances** and transactions, such as dividends
  - c) Provisions for **unrealised profits** resulting from intra-group transactions
  - d) **Fair value adjustments** needed for assets and liabilities held by components
  - e) **Retranslation** of financial statements of components denominated in foreign currency

## A-2: Other Audit Problems and Procedures:

1. **Business Combination**, including the classification of investments: Review transaction agreement, minutes and confirm it indeed resulted in a business combination to be accounted for under IFRS 3 : *Business Combination*
2. **Group Accounting Policies**: Ensure Group FSS are prepared in line with group accounting policies; also, component financial information is in line with group accounting policies.
3. **Intra-group transactions**: Review and evaluate the reconciliation and elimination of intra-group transactions, unrealised profits, and intra-group account balances in the general consolidated FSS
4. **Equity accounting for associates and Joint ventures** : Have to follow requirements of IAS 28 (*Investments in Associates and Joint Ventures*)
5. **Changes in group structure, including acquisitions and disposals** ; Lead to consolidation Risks
6. **Accounting for foreign subsidiaries**: lead to translation risks at consolidation

## B: Audit work to be done by the Component Auditors

1. Two-way Communication :
  - a) Matters Group Auditor confirms with/communicates to Component Auditor before relying on the Component Auditor
  - b) Matters the component auditor has to communicate to the group auditor
2. Documentation / Working papers

## B – 1 : Matters Group Auditor confirms with/communicates to Component Auditor before relying on the Component Auditor

1. Group auditor to be **sufficiently** and **appropriately** involved in the work of the component auditor.
2. Component auditor **confirms cooperation** with the group auditor and undertakes the work requested by them
3. Component auditor to **comply with ethical requirements** for the group audit, including **independence**
4. Component auditor must have the necessary **competence, capability** and **time** to perform the work assigned by the group auditor
5. Component auditor's ability to use additional resources like **auditor's experts** and **automated tools and techniques**

## B – 2 : Matters component auditor has to communicate to the Group Auditor

1. The work allocated to the component auditor by the group auditor, and whether it has been performed.
2. Whether the component auditor has complied with all relevant ethical requirements (including independence requirements)
3. Any non-compliance with laws or regulations identified by the component auditor
4. Any corrected and uncorrected misstatements identified by the component auditor that exceed the materiality levels set by the group auditor

## B – 2: Matters component auditor communicates ...

5. Evidence of **Fraud** (or suspected fraud), **management bias** or deficiencies in the system of internal control
6. **Significant matters** that need to be reported to component management or TCWG by the component auditor.
7. **Any other matters** that the component auditor determines the group auditor needs to be aware of (e.g., KAM, Subsequent events)
8. The **overall findings or conclusions** of the component auditor

**NB** : Upon receipt of the communication, the group auditor will decide if **work done is adequate** or **additional procedures** are required

## B-3 DOCUMENTATION (WORKING PAPERS) IN GROUP AUDITS

ISAs require a group auditor to prepare audit documentation on a timely basis, and the documentation should be sufficient to enable an experienced auditor, with no prior connection to the audit, to understand the entire audit process.

For group audits, the group auditor has to follow ISA 600 (Revised) enhanced audit documentation requirements



# AUDIT COMPLETION | REPORTING



## C: Audit completion procedures and activities

Prior to issuing a Group audit Opinion, the following audit completion activities are essential (just like in regular audits)

1. **Subsequent Events Procedures** – will be carried out by group auditors; component auditors are required to notify group auditor of any SEs at the component that may require adjustment or disclosure in the group FSS
2. The **Group auditor** has to conclude if he has obtained **sufficient appropriate audit evidence** (including from component auditors) for his audit opinion. This will require evaluation of the effect of any **uncorrected misstatements** or any **inability to obtain sufficient appropriate evidence** (limitations of scope)



## Forming an appropriate Opinion ( A Summary / revision) :

- Unmodified Opinion (When no material misstatements are discovered)
- Modified / Qualified Opinion (When material misstatements are discovered)

### Circumstances requiring a modified / qualified opinion are two

- When financial statements are materiality misstated (Disagreement of IFRS and the Law)
- When there is an inability to obtain sufficient and appropriate evidence (limitation of scope)

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	Material but NOT Pervasive	Material AND Pervasive
Financial statements are materially misstated	Qualified opinion (Except for...)	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion (Except for...)	Disclaimer of opinion

## KEY PRINCIPLES FOR GROUP AUDIT OPINIONS

1. The **Group Engagement Partner /Group Auditor** is fully accountable for the group audit opinion, regardless of the extent of work performed by component auditors.
2. The group auditor's report **does not** mention the use of component auditors, unless local jurisdiction so requires (ISA 600 R Para 45-53)
3. Where one or more of the components have a modified audit report, the **Group Engagement Partner /Group Auditor** must evaluate the significance of the issue from a group perspective. The valuation :
  - Includes qualitative factors (the nature of the issue),
  - Includes quantitative factors (actual value involved vs group-level materiality thresholds)

## MODIFIED AUDIT REPORTS IN GROUP AUDITS

Where one or more of the subsidiaries has a modified audit report (regardless of who audited the subsidiary), the **Group Engagement Partner /Group Auditor** should :

- **Ignore if the matter** is not material to the group
- Carry the qualification through to the Group accounts if the matter is material to the subsidiary and also material in a group context
- Note that a **disclaimer opinion** in a subsidiary may become an **“Except For”** opinion in the group context

**EXTRACTS OF CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AND INDIVIDUAL COMPONENTS FINANCIAL STATEMENTS AS AT 31ST DEC 2025**

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<b>TOTAL ASSETS</b>	<b>1,000,000,000</b>	<b>3,000,000,000</b>	<b>2,000,000,000</b>	<b>4,000,000,000</b>	<b>10,000,000,000</b>
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# Misstatements Identified

Total Assets Misstated by	<b>SCENARIO A</b>	<b>SCENARIO B</b>
Head office Total Assets are Misstated by	10,000,000	40,000,000
At Comp A Total Assets are Misstated by	20,000,000	25,000,000
At Comp B Total Assets are Misstated by	10,000,000	15,000,000
At Comp C Total Assets are Misstated by	70,000,000	100,000
<b>Total Value of Misstatements</b>	<b>110,000,000</b>	<b>80,100,000</b>

1. Scenario A : If all the misstatements under scenario A are NOT rectified, will the financial statements of the Group be materially misstated?

2. Scenario B : If all the misstatements under scenario B are NOT rectified, will the financial statements of the Group be materially misstated?

3. Scenario A : If the misstatements under scenario A for Component A & B were rectified, will the financial statements of the Group be materially misstated?

4. Scenario A : What is the value of the Misstatement for Component C ?

Scenario A : What is the overall Materiality for Component C ?

Scenario A : If the misstatement of Component C is not rectified, will the FSS of Comp C be materially misstated ?

Scenario A : If the misstatement of Component C is not rectified, will the FSS of the Group be materially misstated ?

Refer to the Previous **Example 4** under **Scenario A**

Note : A qualification at the component DOES NOT necessary translate into a qualification at a Group level

Note : A **Disclaimer** at the component may translate into an "**Except for**" qualification at a Group level



# THANK YOU



## KEY REFERENCES AND AREAS FOR FURTHER READING

1. ICPAU (2023), "Paper 16: Audit Practice and Assurance – Study Materials for Examinations" *The Institute of Certified Public Accountants of Uganda, 2023*
2. ACCA (Exams 2025-2026), " Course Book for Advanced Audit and Assurance – International (AAA-INT), *BPP Publishing, ISBN 9781509749488*
3. IAASB (2025), "2025 Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Pronouncements", *IFAC, New York: Available at: <https://www.iaasb.org>*

**Audit of assertions** involves **evaluating management's claims about financial statements** to ensure they are accurate, complete, and fairly presented

## Categories of Audit Assertions [COVER CC P&D

Audit assertions are generally classified into three main categories:

- 1) Assertions about **Transactions and Events**
- 2) Assertions about **Account Balances**
- 3) Assertions about **Presentation and Disclosure**

# Assertions about Transactions and Events

These relate to income statement items and include [ **OCACC** ]

- i. **Occurrence:** Transactions recorded actually occurred and pertain to the entity.
- ii. **Completeness:** All transactions that should have been recorded are included (There are no unrecorded transactions)
- iii. **Accuracy:** Amounts and other data are recorded correctly.
- iv. **Cut-off:** Transactions are recorded in the correct accounting period.
- v. **Classification:** Transactions are recorded in the proper accounts

# Assertions about Account Balances

These relate to balance sheet items and include [ ERV ]

- i. **Existence:** Assets, Liabilities, and Equity balances exist.
- ii. **Rights and Obligations:** The entity has rights to assets and obligations for liabilities.
- iii. **Valuation or Allocation:** Balances are recorded at appropriate amounts, and adjustments are properly allocated

# Assertions about Presentation and Disclosure

Ensuring that

- i. Financial statements are presented clearly and understandably.
- ii. Disclosures are complete, accurate, and in accordance with applicable accounting standards

## B: Component Auditors are Part of the Engagement Team

*Under ISA 220 (Revised), component auditors are formally part of the group engagement team.*

1

### Direction

The group engagement partner must direct the nature, timing, and extent of work performed by component auditors

2

### Supervision

Active involvement throughout the component audit process to ensure alignment with overall audit strategy

3

### Review

Group auditor reviews component auditor work and retains ultimate responsibility for the audit opinion

The group auditor must also assess the competence, capabilities, and independence of each component auditor.

Prof. Twaha Kaawaase

## B1-2 : Summary of the required Two-Way Communication Requirements under each stage of the Group Audit

### Planning

- Audit strategy and approach
- Ethical requirements and independence
- Risk assessments at group level
- Component materiality levels

### Execution

- Progress updates on component work
- Matters arising during the audit
- Changes to assessed risks
- Access restrictions or limitations

### Completion

- Summary of findings and conclusions
- Identified misstatements
- Indicators of management bias
- Significant deficiencies in internal control

# B-3 : Enhanced Documentation & Access



## Documentation Requirements

- Group audit file must stand alone as a complete record
- Document assessments of component auditor competence and independence
- Record the rationale for scoping decisions linked to risk assessment [which components were scoped out]
- Include evidence of direction, supervision, and review
- Access to component audit working papers required for group file



## Restrictions on Access

- Clarifies types of restrictions that may exist (people, information, documentation)
- Provides guidance on overcoming access barriers
- Addresses challenges in different jurisdictions
- Considers language barriers and their impact on work scope

