

TOPIC 3 PART 2

Planning and Execution of Group Audits, ISA 600 (Revised)¹

Key definitions

Group audit – The audit of group financial statements

Group auditor – The group engagement partner and members of the engagement team other than component auditors.

The group auditor is responsible for:

- i. Establishing the overall group audit strategy and group 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.

1. Planning a Group Audit

Planning must ensure that group audit risks are properly understood and addressed.

a) Understanding the Group

- ❖ Obtain knowledge of the group, its components, and environment (e.g., industries, regulatory environments, reporting framework).
- ❖ Identify significant components (by size, risk, or both).
- ❖ Understand the group-wide controls and consolidation process.

b) Risk Assessment

- ❖ Perform risk assessment procedures at the group level.
- ❖ Identify significant risks affecting the group (e.g., revenue recognition, related party transactions, intra-group balances).
- ❖ Consider component-level risks that may impact the group statements.

c) Materiality

- ❖ Determine group materiality for the consolidated financial statements.
- ❖ Set component materiality and performance materiality.
- ❖ Communicate materiality levels to component auditors.

d) Involvement with Component Auditors

- ❖ Evaluate competence and independence of component auditors.
- ❖ Communicate scope, materiality, risks, and required reporting.
- ❖ Plan extent of involvement (review of working papers, site visits, discussions).

¹ International Standard on Auditing 600 (Revised), Special Considerations—Audits Of Group Financial Statements (Including The Work Of Component Auditors)

e) Group Audit Strategy & Plan

- ❖ Develop a group audit strategy covering scope, timing, and direction.
- ❖ Establish coordination and communication channels with component auditors.
- ❖ Document how work at component level will support the group opinion.

2. Execution of a Group Audit

Execution involves performing audit procedures at both group and component levels.

a) Work on Components

- For significant components:
 - Perform full-scope audits or specific procedures depending on risks.
- For non-significant components:
 - Perform analytical procedures at group level, or targeted procedures if risk indicates.

b) Consolidation Procedures

- Evaluate appropriateness of consolidation process and adjustments.
- Test elimination entries (e.g., intercompany sales, balances, unrealized profits).
- Check for consistency of accounting policies across the group.

c) Review of Component Auditor Work

- Evaluate sufficiency and appropriateness of component auditor's work.
- Perform direct involvement procedures where risks are higher.
- Address findings, misstatements, or scope limitations.

d) Group-wide Controls

- Test the design and operating effectiveness of group-level controls (e.g., monitoring, oversight of subsidiaries).
- Evaluate how group management ensures financial reporting consistency.

3. Completion & Reporting

- Aggregate misstatements across components and evaluate materiality.
- Assess whether sufficient appropriate audit evidence has been obtained.
- Communicate with those charged with governance at the group level about:
 - Planned scope and timing.
 - Significant findings.
 - Involvement with component auditors.
- Issue the group auditor's report based on consolidated evidence.
- If necessary, consider modifications (e.g., due to limitations in component access).

Generally, Group audit planning revolves around risk assessment, materiality allocation, and coordination with component auditors; execution involves targeted testing of components, consolidation, and review of component work; completion ensures aggregation, evaluation, and appropriate reporting.

Questions

Prepare a boardroom-level summary (strategic, high-level for executives) or as a technical note (step-by-step ISA 600 detail) for planning and executing group audits.

1. Boardroom-Level (Strategic) View of Group Audits

Stage	Key Focus	Strategic Takeaway	Audit Evidence (Examples)
Planning	• Understand the group structure • Identify key subsidiaries • Set materiality • Involve component auditors.	Risk-focused planning ensures all critical parts of the business are covered.	Group structure charts, risk assessment papers, materiality memo, communications to component auditors.
Execution	• Full-scope audits on significant components • Analytics/targeted tests on smaller ones • Test consolidation process • Maintain oversight of component auditors.	Strong coordination and oversight prevent gaps in assurance.	Component auditor reports, consolidation testing results, intercompany reconciliations, oversight documentation.
Completion	• Aggregate findings • Assess sufficiency of evidence • Communicate results to audit committee/board.	Transparent reporting assures the board that consolidated accounts are reliable.	Summary of misstatements, evaluation of sufficiency of evidence, governance communication letters, final group audit opinion.

2. Technical / Exam-Level (ISA 600) View of Group Audits

Stage	Detailed Actions	Exam/ISA 600 Notes	Audit Evidence (Examples)
Planning	- Understand group & consolidation process. - Identify significant components. - Set group & component materiality. - Perform group risk assessment. - Communicate with component auditors. - Develop group audit strategy & plan.	Group auditor retains overall responsibility even if using component auditors.	Group-wide risk assessment documentation, component materiality memo, instructions to component auditors, audit strategy/plan.
Execution	- Audit significant components fully. - Analytics/limited procedures for non-significant ones. - Review component auditors' work. - Test consolidation adjustments/eliminations. - Ensure consistent accounting policies. - Assess group-wide controls.	Must obtain sufficient appropriate evidence across the group.	Component auditor working papers, reviewed consolidation schedules, elimination journal testing, group-wide control test results.
Completion	- Aggregate misstatements. - Evaluate sufficiency of evidence. - Communicate findings to TCWG. - Form group audit opinion.	Modify opinion if unable to obtain adequate evidence from key components.	Misstatement summary, sufficiency-of-evidence evaluation, TCWG communication letters, draft group auditor's report.

Boardroom level questions

"Given the complexity of our group structure and reliance on component auditors in different jurisdictions, how can we, as a board, be assured that the group auditor has obtained sufficient and appropriate evidence to support a reliable opinion on the consolidated financial statements?"

Planning Stage

1. Risk Focus

How has the group auditor identified the most significant components and risks across our group, and are we confident that audit resources are being directed where risks are highest?"

2. Component Oversight

What steps are in place to ensure that component auditors — especially those in different jurisdictions — maintain the same quality, independence, and reporting standards expected by the group?"

Execution Stage

3. Consolidation Assurance

"What assurance do we have that the group auditor has tested and validated the accuracy of the consolidation process, including elimination of intercompany transactions and consistency of accounting policies across subsidiaries?"

4. Evidence Sufficiency

"How does the group auditor satisfy themselves, and us as a board, that the evidence obtained from component auditors is sufficient and appropriate to support the group opinion?"

Completion Stage

5. Communication of Findings

"How will the group auditor communicate significant audit findings — including any issues at subsidiary level — in a way that gives us clear visibility of risks to the consolidated accounts?"

6. Reliability of Group Opinion

"In situations where access to information from certain subsidiaries may be restricted (e.g., legal, political, or jurisdictional barriers), what is the impact on the group auditor's opinion, and how should we as a board respond?"