

STANDARD DISCUSSED

CAS 600, *Special considerations – audits of group financial statements (including the work of component auditors)*

FAQ for Auditors

Are You Sure You Don't Have to Apply CAS 600?

The definition of a group set out in CAS 600 is significantly broader than one might think, and the applicability of CAS 600 is not limited to audits involving a parent company and subsidiaries. Before concluding that CAS 600 does not apply to your situation, you need to consider whether the entity's financial statements include the financial information of more than one component. This FAQ will help you determine whether you have a group for the purposes of CAS 600.

This FAQ for Auditors addresses key questions that arise when an auditor asks whether Canadian Auditing Standard (CAS) 600 *Special considerations – audits of group financial statements (including the work of component auditors)* must be applied in a particular audit.

Q1

Why is it important to know if you have a group audit?

An auditor must apply the audit risk model in every audit to identify the risks of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements. In a group audit, audit risk includes the risk that component auditors may not detect a misstatement in the components' financial information that could cause a material misstatement of the group financial statements, and the risk that you, the group auditor, may not detect this misstatement. You are required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level so that you can arrive at reasonable conclusions on which to base your opinion on the group financial statements. CAS 600 provides a framework to help you apply the audit risk model to audits involving more than one component.

Q2

What is a component for the purposes of CAS 600?

A component is an entity or business activity for which management prepares financial information that is included in the group financial statements. The structure of a group affects how components are identified. For example, a group financial reporting system may be based on an organizational structure that provides for financial information to be prepared:

- by a parent and one or more subsidiaries, joint ventures or investees accounted for by the equity or cost method;
- by a head office and one or more divisions or branches; or
- by a combination of both.

Some groups may, however, organize their financial reporting system by function, process, product or service (or by groups of products or services) or geographic location. In these cases, management will prepare financial information to be included in the group financial statements for a function, process, product or service (or group of products or services) or geographic location.

This means, for example, that a head office could be a component. (See Q6, [Example 1](#).)

Components can be aggregated at a certain level. These aggregated components may constitute a single component for purposes of a group audit.

Q3

When is there a group for the purposes of CAS 600?

When the financial statements of an entity include the financial information of more than one component, that entity constitutes a group for the purposes of CAS 600.

Q4

What are group financial statements for the purposes of CAS 600?

Group financial statements are financial statements that include the financial information of more than one component, as well as combined financial statements aggregating the financial information prepared by components that have no parent but are under common control. You must apply CAS 600 to audit group financial statements.

Q5

Which factors could be considered in identifying components to determine whether there is a group for the purposes of CAS 600?

Prior to determining if there is a group for the purposes of CAS 600, an auditor needs to identify an entity's components. If there is more than one, they will constitute a group for the purposes of CAS 600.

You may need to examine many factors to be able to identify an entity's components and it is possible that no one of these will be the single determining factor in this identification.

The factors listed below in [Table 1](#) may be considered in identifying components to determine whether you are dealing with a group for the purposes of CAS 600 (the list is not necessarily comprehensive).

Table 1—Factors that could be considered in identifying components to determine whether there is a group for the purposes of CAS 600

Factors	Examples
Business risks	<ul style="list-style-type: none"> • Are the business risks similar across the potential components? • Do the potential components have the same business lines?
Management	<ul style="list-style-type: none"> • Are potential components managed individually or on a combined basis? • How are the geographical locations managed?
Control environment	<ul style="list-style-type: none"> • Is the control environment consistent across the potential components?
Information system	<ul style="list-style-type: none"> • Is the chart of accounts centralized or is it separated by potential component?
Financial information	<ul style="list-style-type: none"> • Is the financial information prepared separately or on a combined basis?
Legal structure	<ul style="list-style-type: none"> • What are the reasons for the legal structure of potential components (e.g., income tax purpose, limitation liability)?

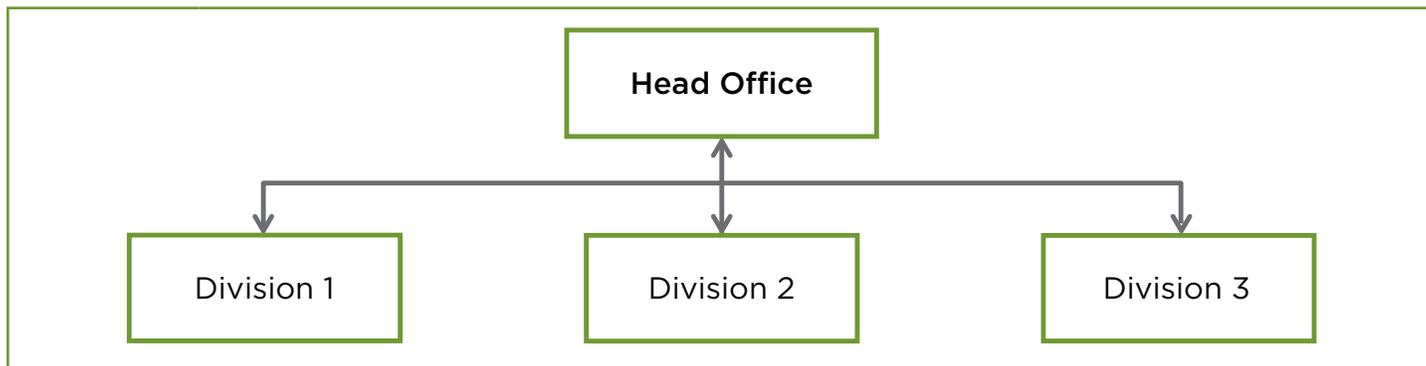
Q6

What are some examples of the identification of components?

To help you identify components, the examples below illustrate some situations you may encounter. They do not necessarily apply to every situation. If one or more considerations differ in your engagement, you may reach a different conclusion than the one that is shown. [Example 1](#) illustrates a structure in which the entity consists of a head office with divisions. [Example 2](#) illustrates a structure in which the entity consists of a parent with subsidiaries.

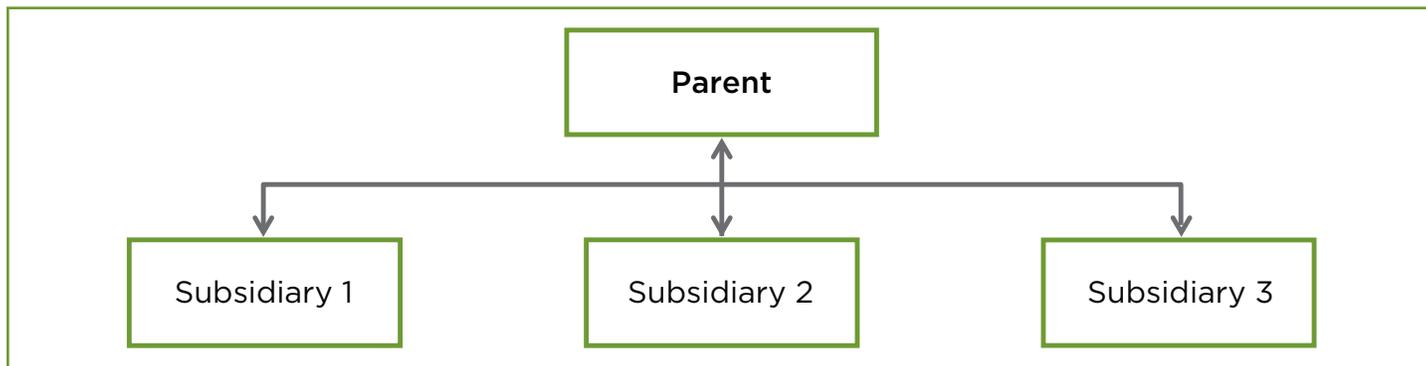
There is not necessarily a bright-line test for determining how many components an entity has. A holistic approach, considering all the facts and circumstances, must be taken for each audit.

Example 1—Head office with divisions



Facts	<ul style="list-style-type: none"> • Divisions 1, 2 and 3 have separate charts of accounts. • Divisions 1 and 2 have similar business risks. • Operations of Divisions 1 and 2 are managed as one division (i.e., there is one management that performs the same controls and the operations are analyzed on a combined basis). • Divisions 1 and 2 prepare financial information on a combined basis. • Division 3 operations are managed separately from Divisions 1 and 2. • Management of Division 3 prepares financial information separately. • Head office has centralized functions (i.e., payroll and treasury) and management prepares financial information separately. It faces different business risks than the divisions do.
Analysis	<p>Considering the factors outlined in Table 1 in Q5, the facts and circumstances indicate that:</p> <ul style="list-style-type: none"> • Divisions 1 and 2 could be a single component even though they have separate charts of accounts because: <ul style="list-style-type: none"> – Management prepares combined financial information of Divisions 1 and 2. – Management analyzes the two divisions on a combined basis. – The two divisions have the same control environment. – The two divisions have similar business risks. • Division 3 could be considered a separate component because: <ul style="list-style-type: none"> – Management prepares financial information separately. – Management analyzes Division 3 results separately. – Division 3 has different business risks. • Head office could be a separate component because: <ul style="list-style-type: none"> – Management prepares financial information separately. – Management analyzes the results of the head office separately. – Head office has different business risks.
Conclusion	<p>The analysis of the facts and circumstances could lead to the conclusion that there is a group for the purposes of CAS 600, comprising three components.</p>

Example 2—Parent and subsidiaries



	Scenario 1	Scenario 2
Facts	<ul style="list-style-type: none"> Each subsidiary has a separate chart of accounts. Each subsidiary prepares separate financial information. Each subsidiary has different business risks. Each subsidiary has its own manager who analyzes the results. The parent has a centralized treasury function and management prepares financial information separately. It has different business risks than the subsidiaries do. 	<ul style="list-style-type: none"> The three subsidiaries operate as a single entity; they have no employees or management of their own. Business risks are the same for all subsidiaries. There is a single control environment. Each subsidiary prepares separate financial information for tax purposes only. The results of the parent and the subsidiaries are analyzed on a combined basis.
Analysis	<p>Considering the factors outlined in Table 1 in Q5, the facts and circumstances indicate that:</p> <ul style="list-style-type: none"> Each subsidiary could be a separate component because: <ul style="list-style-type: none"> Management prepares financial information separately. Management analyzes the results of each subsidiary separately. Each subsidiary has different business risks. The parent could be a separate component because: <ul style="list-style-type: none"> Management prepares financial information separately. Management analyzes the results of the parent separately. The parent has different business risks. 	<p>Considering the factors outlined in Table 1 in Q5, the facts and circumstances indicate that:</p> <ul style="list-style-type: none"> The parent and all subsidiaries, although they are legally separated entities, in substance they operate as one entity on a combined basis.

	Scenario 1	Scenario 2
Conclusion	The analysis of the facts and circumstances could lead to the conclusion that there is a group for the purposes of CAS 600, comprising four components.	The analysis of the facts and circumstances could lead to the conclusion that the financial statements are prepared from financial information accumulated on a single-entity basis and that they are not group financial statements for the purposes of CAS 600.

Don't forget to document your analysis in your file to support the conclusion reached. This applies even if you conclude you don't have a group audit!

Q7

Should you apply CAS 600 even if you are the auditor of all components?

Yes. Even when you are the auditor of all components, you must apply CAS 600. When there is one engagement team for the group and all of its components, many requirements of the standard specifically related to involvement with component auditors will not apply. The other requirements (e.g., component materiality) will, however, apply to fulfil the objective of obtaining sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion on the group financial statements.

Resources on Group Audits

Visit the Canadian Institute of Chartered Accountants CAS website at www.cica.ca/CAS, where you will find resources on group audits:

- **Companion resource:**
 - [Audit Client Briefing](#)—How Can Group Management Promote Effective Group Audits?
- **Other resource:**
 - [Communicating Successfully with Your Stakeholders](#) (guide)

About this publication

The Canadian Institute of Chartered Accountants (CICA) through its Guidance and Support group undertakes initiatives to support practitioners and their clients in the implementation of standards. As part of these initiatives, the CICA created the Advisory Group on Implementation of Canadian Auditing Standards to provide advice on the identification of issues related to the implementation of Canadian Auditing Standards (CASs) and on the development of non-authoritative implementation guidance related to these issues.

The CICA's Guidance and Support group staff prepared this publication based on the advice of the advisory group. It provides non-authoritative guidance and has not been adopted, endorsed, approved or otherwise acted upon by the Auditing and Assurance Standards Board, any CICA board or committee, the governing body or membership of the CICA or any provincial institute/Ordre or the organizations represented by the advisory group members.

Auditors are expected to use professional judgment in determining whether the material in this publication is both appropriate and relevant to the circumstances of their particular audit engagements. This publication is based on the CASs as updated in May 2011.

The CICA expresses its appreciation to the members of the Advisory Group on Implementation of Canadian Auditing Standards and to CICA staff for preparing this publication.



Gordon Beal, CA
Director, Guidance and Support group
The Canadian Institute of Chartered Accountants

This publication was originally published by The Canadian Institute of Chartered Accountants (CICA) in 2012. It has been reissued by the Chartered Professional Accountants of Canada (CPA Canada) as originally published non-authoritative guidance.

CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

Advisory Group on Implementation of Canadian Auditing Standards

Julie Corden, CA
Deloitte LLP

Johanna Field, CA
Grant Thornton LLP

Stacy Hammett, CA
PwC LLP

Nazia Lakhani, CA
BDO Canada LLP

Anilisa Sainani, CA
Ernst & Young LLP

Robert G. Young, FCA
KPMG LLP

Andrée Lavigne, CA
CICA

Hélène Marcil, CA
CICA

Eric R. Turner, CA
CICA