

STANDARD DISCUSSED

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

Implementation Tool for Auditors

Group Auditors' Involvement with Component Auditors: What, When and How?

A question frequently asked by group auditors is:

I will be receiving a component auditor's opinion on the component's financial statements because the component auditor is required by statute, regulation or for some other reason to express an audit opinion on these financial statements. Do I need to do anything else if I want to use this auditor's work for my group audit?

The answer is:

Yes. Even if you decide to use the audit evidence on which the audit opinion on the component's financial statements is based to provide group audit evidence, you must apply all the relevant requirements of CAS 600 to determine whether you have obtained sufficient appropriate audit evidence about the component's financial information for the group audit. For example, you will have to determine whether materiality for the component financial statements as a whole and performance materiality at the component level meet the requirements of CAS 600.

This *Implementation Tool for Auditors* (**Tool**) provides guidance to group auditors when a component auditor (other than a member of the group engagement team) works on the financial information of a component for the group audit¹. This **Tool**, however, covers only certain requirements that you, as a group auditor, must comply with when a component auditor is involved. CAS 600 and other CASs contain additional requirements you must

¹ *FAQ for Auditors – Are You Sure You Don't Have to Apply CAS 600?* helps auditors determine whether CAS 600 applies to their situation.

comply with when performing a group audit that are not covered in this **Tool**. To properly use this **Tool**, you will need to refer to **Diagram 1**, which summarizes CAS 600 requirements and indicates (by shading) the specific requirements discussed in this **Tool**.

When you plan to ask component auditors to perform the work on the component financial information for the group audit, you shall communicate clearly with them about the scope and timing of their work and their findings. You shall be involved in their work; the level of your involvement may vary with the significance of the component, the identified significant risks in the component that could lead to material misstatement of the group financial statements and your understanding of the component auditors. **Diagram 2** illustrates the nature and timing of an effective two-way communication process between group auditors and component auditors. The following samples of letters and memorandum of work performed are also provided:

Template 1	Sample letter of instruction from group auditors to component auditors
Template 2	Sample letter of confirmation from component auditors to group auditors
Template 3	Sample memorandum of work performed from component auditors to group auditors

CAS 600:

- focuses your attention on areas of higher risk in group financial statements;
- adopts a risk-based approach to the group audit (in other words, it expands on how CAS 315, *Identifying and assessing the risks of material misstatement through understanding the entity and its environment*, CAS 330, *The auditor's responses to assessed risks*, and other relevant CASs are to be applied to the group audit);
- assists you in meeting the requirements in CAS 220, *Quality control for an audit of financial statements*, when component auditors perform work on the financial information of components;
- focuses on your responsibility for the work of component auditors by requiring your involvement in their work to obtain sufficient appropriate audit evidence on which to base your audit opinion on the group financial statements.

Although this **Tool** focuses on significant components, its guidance may apply equally to any component, whether significant or not. Even if the component is not significant, you may nevertheless decide to ask a component auditor to perform work on the component to obtain sufficient appropriate audit evidence on which to base the group audit opinion. The nature, timing and extent of your involvement in the work of the component auditor will vary based on your understanding of that component auditor.

You will need to adapt this **Tool** to the specific circumstances of your group audit engagement. In practice, complying with the requirements in CAS 600 involves professional judgment. The **Tool** provides practical considerations for complying with the requirements; however, there may be other ways to comply with the requirements in your situation that are not covered in this **Tool**.

CAS 600 requires you to communicate to those charged with governance of the group an overview of the nature of the group engagement team's planned involvement in the work of the component auditors on significant components' financial information.

Diagram 1 - CAS 600 requirements, including those applicable when component auditors perform work on the financial information of components for the group audit

Diagram 1 below summarizes the requirements in CAS 600; the specific requirements highlighted by shading are discussed in the Tool.

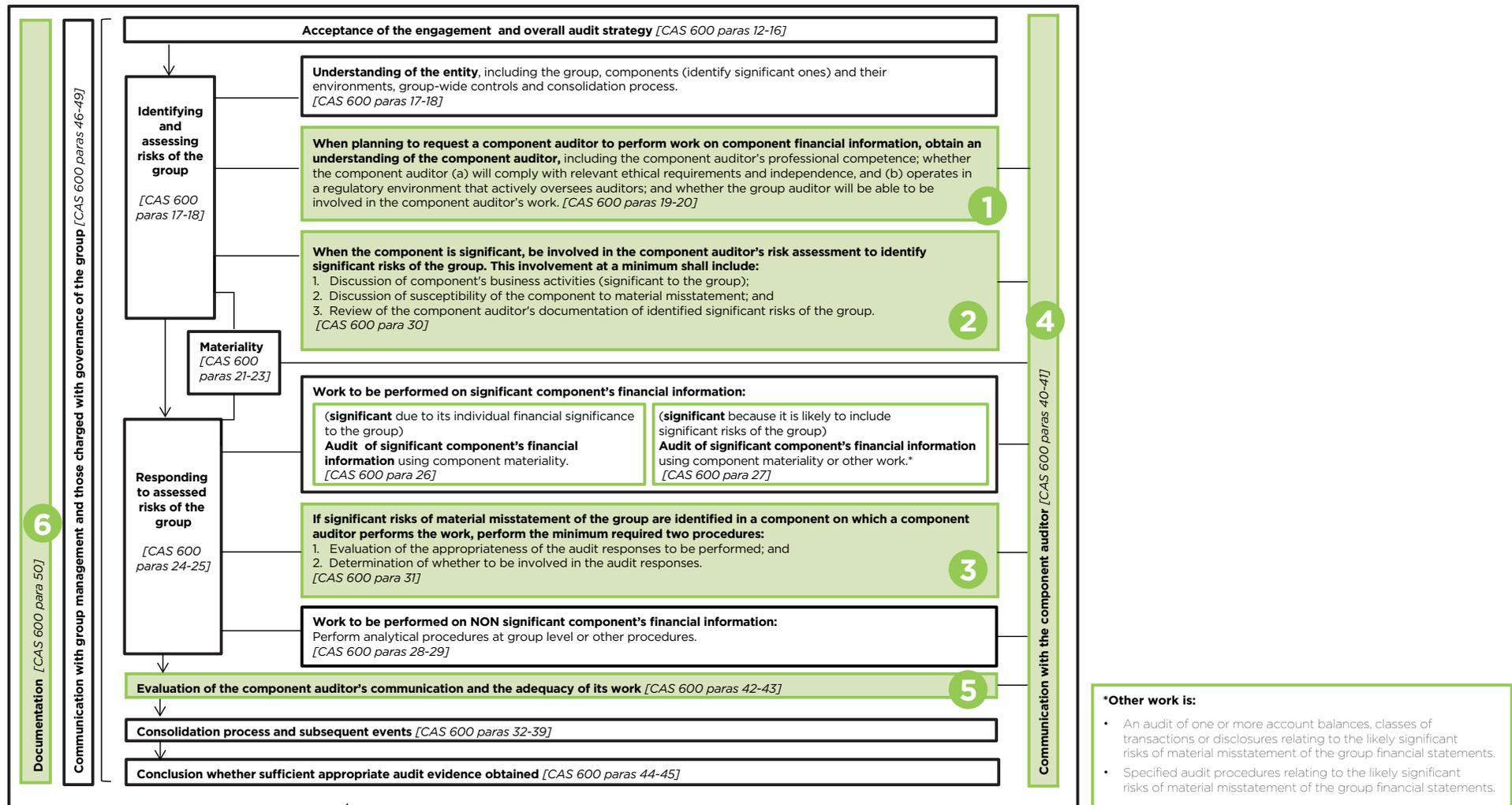
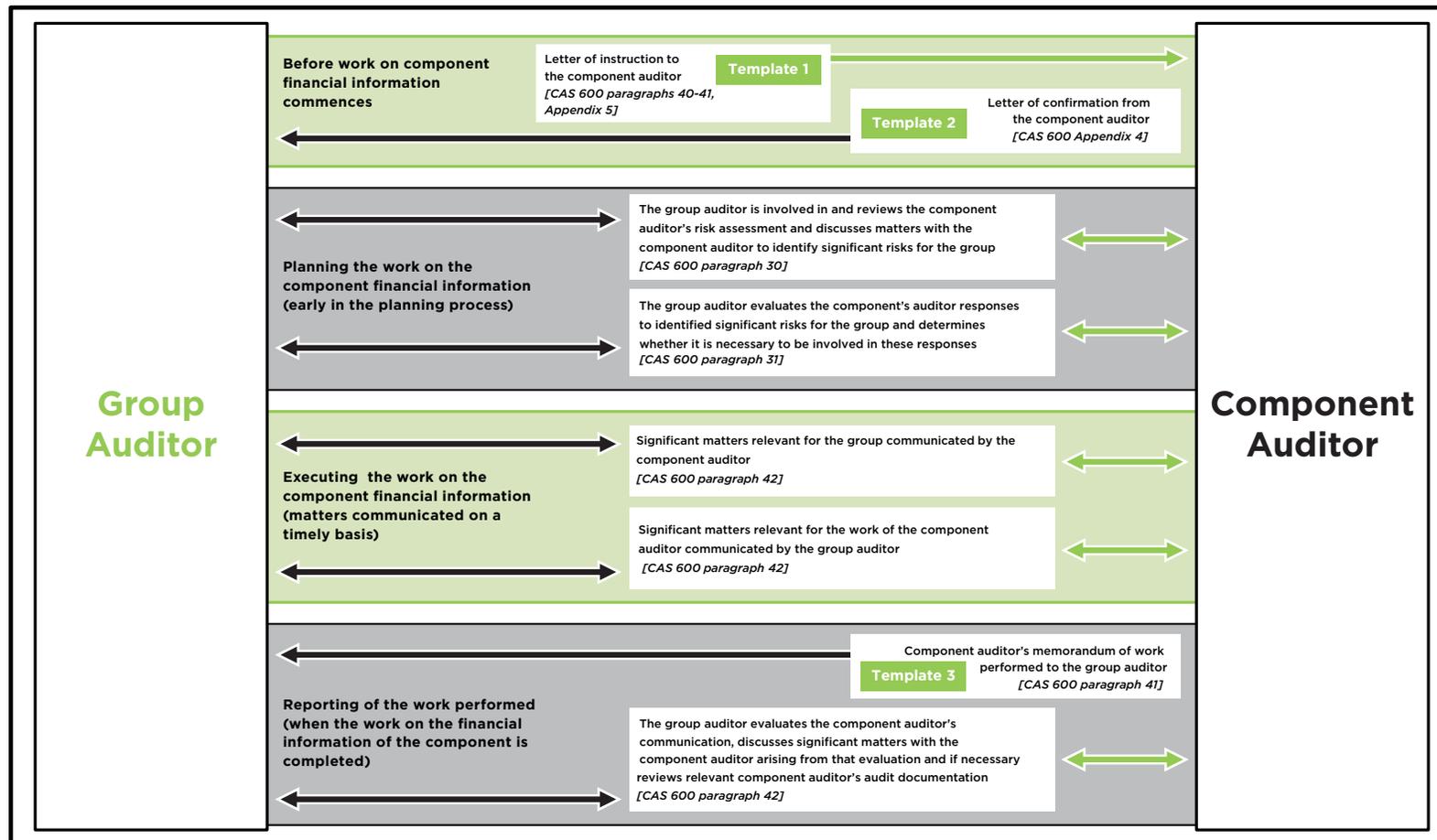


Diagram 2 - Illustration of an effective two-way communication process between group auditors and component auditors

If there is no effective two-way communication between you and the component auditors, there is a risk you may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. **Diagram 2** illustrates the nature and timing of such effective two-way communication; in your situation, timing may vary, different communications may be necessary, or in different forms. Three templates are provided at the end of the **Tool**.

Template 1	Sample letter of instruction from group auditors to component auditors
Template 2	Sample letter of confirmation from component auditors to group auditors
Template 3	Sample memorandum of work performed from component auditors to group auditors



Tool – Group auditors' involvement with component auditors: “What” (Requirements to be complied with by the group auditor) and “How” (Practical considerations for complying with the requirements)

Reference in **Diagram 1**

1

“Understand the component auditors”

“What”

[CAS 600 paragraphs 19 and 20]

➤ For your understanding of the component auditors, you shall understand the following **four elements**:

<p><i>Element 1 – Ethical requirements and independence</i></p> <p>Whether the component auditors understand and will comply with the ethical requirements relevant to the group audit and, in particular, are independent.</p>	<p><i>Element 2 – Professional competence</i></p> <p>The component auditors' professional competence.</p>	<p><i>Element 3 – Ability to be involved in the component auditors' work</i></p> <p>Whether you will be able to be involved in the work of the component auditors to the extent necessary to obtain sufficient appropriate audit evidence.</p>	<p><i>Element 4 – Regulatory environment</i></p> <p>Whether the component auditors operate in a regulatory environment that actively oversees auditors.</p>
--	--	---	--

➤ You shall not request a component auditor to perform work on a component's financial information if the component auditor does not meet the independence requirements relevant to the group audit or you have serious concerns about the matters arising from obtaining the understanding set out in **Elements 1, 2 or 3**.

“How”

The requirement to understand component auditors applies not only to those outside your network² but also to members of your network. In other words, it applies in all cases when component auditors are asked to perform work on the component financial information for the group audit.

The extent of your procedures to obtain such understanding may vary with the following factors:

- if the component auditors operate in a foreign jurisdiction³;
- your previous experience with the component auditors;
- if the component auditors are within your network;
- if there is a significant turnover in the component auditors' engagement team;
- the complexity of the work to be performed on the financial information of the component.

2 Network is defined in CSQC 1 paragraph C12.(l) and CAS 220 paragraph C7.(j) as a larger structure that is aimed at cooperation and that is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

3 If components are in foreign jurisdictions, including emerging markets, consult the *Chair's Message on Auditing in Emerging Markets* (AASB) for some of the considerations for the group audit.

Practical considerations for *Element 1 – Ethical requirements and independence*

To obtain the understanding for the ethical requirements you may:

- request a written confirmation from the component auditors (see **Template 2** for a sample letter of confirmation);
- discuss your code of ethics with the component auditors and document your discussion.

To obtain this understanding for independence, you may provide a list of all entities in the group structure from which the component auditors should be independent and obtain a written confirmation that the component auditors are, in fact, independent.

Practical considerations for *Element 2 – Professional competence*

Your understanding of the component auditors' professional competence may include whether they:

- sufficiently understand auditing and other standards applicable to the group audit to fulfill their responsibilities in the group audit (such standards may be different from, or in addition to, those applying in the component auditors' jurisdiction);
- have the special skills (for example, industry-specific knowledge) necessary to perform the work on the financial information of the particular component; and
- where relevant, adequately understand the applicable financial reporting framework to fulfill their responsibilities in the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework).

To obtain such understanding, you may:

- Discuss the component auditors with colleagues in your firm, or with reputable third parties who know the component auditors.
- Hold discussions with component auditors.
- Consider obtaining:
 - a completed experience questionnaire or CVs for their engagement team;
 - a description of their firm's quality control system;
 - a confirmation from their professional body that theirs is a firm in good standing.

Practical considerations for *Element 3 – Ability to be involved in the component auditors' work*

You will need to communicate early with the component auditors to agree on the extent of your involvement in their work.

You will need to ensure that you will be able to be adequately involved in the work of the component auditors. Matters that you may need to consider include:

- language (e.g., Will there be a need for you to communicate with the component auditors and/or component management in another language?)
- laws and regulations (e.g., Are there any laws and regulations that could limit your ability to access the component auditors' working papers should the need arise?)

Practical considerations for *Element 4 – Regulatory environment*

Where independent oversight bodies oversee the auditing profession and monitor the quality of audits, awareness of the regulatory environment may assist you in evaluating the independence and competence of the component auditors. In some jurisdictions, information about the regulatory environment may be obtained from the component auditors or be provided by the independent oversight bodies.

Reference in **Diagram 1****2****“Identify the significant risks of the group”****“What”***[CAS 600 paragraph 30]*

- ➔ If a component auditor performs an audit of the financial information of a significant component, you shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by your understanding of the component auditor, but at a minimum shall include the following **three procedures**:

Procedure 1

Discussing with the component auditor or component management which of the component's business activities are significant to the group.

Procedure 2

Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error.

Procedure 3

Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor's conclusion about the identified significant risks.

“How”**Practical considerations for *Procedures 1 and 2***

One example of a matter⁴ to be discussed is the regulatory environment affecting the group financial statements (e.g., in foreign jurisdictions, regulators may impose onerous constraints on entities' operations that should be factored into the risk assessment process because they may have a significant impact on the group financial statements).

Based on your understanding of the component auditor, you may decide to discuss the required matters in one or more of the following ways: by telephone, in writing, by visiting the component auditor, or by other means.

Practical considerations for *Procedure 3*

You may compare the component auditor's documentation of identified significant risks of material misstatement of the group financial statements with the list of significant risks included in your “letter of instruction” (see **Template 1** for a sample letter of instruction) or otherwise communicated. You will need to evaluate whether any new risks have an impact on the group audit.

This review may also enable you to verify whether the work that either you or the component auditor will have to perform will appropriately address those significant risks.

⁴ If components are in foreign jurisdictions, including emerging markets, consult the *Chair's Message on Auditing in Emerging Markets* (AASB) for some of the considerations for the group audit.

Reference in **Diagram 1****3****“Respond to significant risks of the group”****“What”***[CAS 600 paragraph 31]*

- You shall evaluate the appropriateness of the further audit procedures to be performed to respond to the identified significant risks of material misstatement of the group financial statements, if such risks have been identified in a component on which a component auditor performs the work.
- You shall determine whether it is necessary for you to be involved in the further audit procedures, based on your understanding of the component auditor.

“How”

You may have a conversation with the component auditors, visit them to discuss the proposed responses, or review their audit plan related to these responses.

Based on your understanding of the component auditors, the extent of your involvement in the further audit procedures will vary depending on the circumstances and may take into consideration the assessed level of risk, complexity of the procedures and the competence of the component auditors.

For example, if the recoverability of the carrying value of a mineral property is a significant risk to the group, you may decide to be involved in the audit of the carrying value.

Reference in **Diagram 1****4****“Communicate with the component auditors”****“What”***[CAS 600 paragraphs 40 and 41]*

- You shall communicate your requirements to the component auditors on a timely basis. This communication shall set out the work to be performed, the use to be made of that work and the form and content of the component auditor communications with you. It shall also include the following:

<ul style="list-style-type: none"> • A request that the component auditors, knowing the context in which you will use their work, confirm that they will cooperate with you. 	<ul style="list-style-type: none"> • The ethical requirements that are relevant to the group audit and, in particular, the independence requirements.
---	--

<ul style="list-style-type: none"> Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditors. You shall request them to communicate on a timely basis any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and their responses to such risks. 	<ul style="list-style-type: none"> A list of related parties prepared by group management, and any other related parties of which you are aware. You shall request the component auditors to communicate, on a timely basis, whether there are any related parties that neither group management nor you have previously identified. You shall determine whether to identify such additional related parties to other component auditors.
<ul style="list-style-type: none"> In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. 	
<p>➡ You shall also request the component auditors to communicate matters relevant to your conclusion with regard to the group audit. Such communication shall include:</p>	
<ul style="list-style-type: none"> Whether the component auditors have complied with ethical requirements that are relevant to the group audit, including independence and professional competence. 	<ul style="list-style-type: none"> Whether the component auditors have complied with your requirements.
<ul style="list-style-type: none"> Which component financial information the component auditors are reporting on. 	<ul style="list-style-type: none"> Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements.
<ul style="list-style-type: none"> A list of uncorrected misstatements of the component's financial information (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by you). 	<ul style="list-style-type: none"> Indicators of possible management bias.
<ul style="list-style-type: none"> Any other matters that may be relevant to the group audit, or that the component auditors wish to draw to your attention, including exceptions noted in the written representations that they requested from component management. 	<ul style="list-style-type: none"> Other significant matters that the component auditors communicated or expect to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component.
<ul style="list-style-type: none"> Description of any identified significant deficiencies in internal control at the component level. 	<ul style="list-style-type: none"> The component auditors' overall findings, conclusions or opinion.

“How”

You will have to establish an effective two-way communication process with the component auditors to obtain group audit evidence from their work. See **Diagram 2** for an illustration of such a communication process.

To establish that communication process, you will have to agree with the component auditors on certain elements, for example:

- the timing and form of communications;
- the timing and nature of your involvement in the work of the component auditors;
- the form of reporting expected from the component auditors.

You may communicate what you expect from the component auditors in a letter of instruction before the work on the component financial information begins; see **Template 1** for a sample letter of instruction to the component auditors.

Communicate your instructions early in the audit process so that the component auditors can plan to meet your requirements.

Reference in Diagram 1**5****“Evaluate the component auditors’ communications and work”****“What”**

[CAS 600 paragraphs 42 and 43]

- You shall evaluate the component auditors’ communications. You shall discuss significant matters arising from that evaluation with the component auditors, component management or group management, as appropriate, and determine whether it is necessary to review other relevant parts of the component auditors’ audit documentation.
- If you conclude that the work of the component auditors is insufficient, you shall determine what additional procedures are to be performed and whether the component auditors or you are to perform them.

“How”

The evaluation of the component auditors’ communications is an ongoing process. You evaluate such communications as they are received throughout the engagement.

<i>Before work on the component begins</i>	<i>During work on the component</i>	<i>When work on the component is completed</i>
<p>The evaluation may begin before work on financial information of the component begins, starting with the confirmation obtained from the component auditors (see Template 2 for a sample letter of confirmation).</p>	<p>You will also need to evaluate the communications of the component auditors before work is completed. For example, you need to review the component auditor's risk assessment of a component, as well as the component auditor's planned responses to significant risks for the group identified in a component. Then you must decide whether you need to be involved in the performance of those responses.</p> <p>As you have asked the component auditors to notify you on a timely basis of any matters that require your attention, you will also have to evaluate these communications when they arise.</p>	<p>When the work on the financial information of the component is completed, the component auditors will communicate to you the matters requested. The standard does not mandate the form of reporting from the component auditors to you. This communication may take the form of a memorandum or a report of the work performed (see Template 3 for a sample memorandum of the work performed). For your evaluation of this communication and to assess whether further action is needed, you may consider the following:</p> <ul style="list-style-type: none"> • Have all the requested matters relevant for your group audit been addressed? • Have they been addressed appropriately so that you can understand the matter, the work performed, the evidence obtained and the conclusion reached (i.e., do they pass the "experienced auditor test"?)? • Are the component auditors' conclusions consistent with their findings?

Reference in **Diagram 1**

6

"Document the group audit"

"What"

[CAS 600 paragraph 50]

- ☞ You shall include in the group audit documentation the following matters:
 - An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.
 - The nature, timing and extent of your involvement in the work performed by the component auditors on significant components including, where applicable, your review of relevant parts of the component auditors' audit documentation and conclusions thereon.
 - Written communications between you and the component auditors about your requirements.

“How”

In practice, documenting your involvement with the component auditors in a group situation can be challenging. Regardless of the form of communication, you are required to comply with the documentation requirements of CAS 600, CAS 230, *Audit documentation*, and other CASs.

The group audit file must demonstrate, sufficiently to meet “the experienced auditor test” (as defined in CAS 230 paragraph 8), your evaluation of the work performed by the component auditors and your conclusions, including when you have reviewed the relevant component auditor’s audit documentation. The component auditors’ memorandum of work performed may not, by itself, be sufficient. You may need to supplement the memorandum with your own documentation to demonstrate that you have evaluated and concluded on the component auditors’ work.

You may need to document ongoing discussions with the component auditor to demonstrate that an effective two-way communication process has occurred. For example, you may prepare a schedule of any relevant discussions throughout the engagement including the nature of the matters discussed as well as when and with whom.

Don’t forget to document relevant discussions about the component auditors that provide evidence of your understanding of them.

Template 1

Sample letter of instruction from group auditors to component auditors

You shall communicate your requirements to the component auditors on a timely basis. This communication often takes the form of a letter of instruction sent before the work on the component financial information begins. CAS 600 does not mandate how the component auditors are to report; it is up to you to specify the form and content of that reporting.

Clear and timely communication of your requirements forms the basis of effective two-way communication between group auditors and component auditors.

The following letter of instruction is based on CAS 600 Appendix 5; you may, however, have specific requirements to communicate to the component auditors in your group situation that are not covered in this template.

For the purposes of this **Letter of Instruction**, you will also need to use **Template 2 – Letter of Confirmation** and **Template 3 – Memorandum of Work Performed**.

[Group Auditor Letterhead]

[Date]

[To Component Auditor Partner]

We, the group engagement team, have been engaged to express an audit opinion on the group financial statements of **[name of parent company]** for the year ended **[insert year end]**, in accordance with **[identify applicable financial reporting framework (e.g., IFRS)]**. This Letter of Instruction sets out the procedures that we require you, the component auditor, to perform on the financial information of the component. We intend to evaluate and, if considered appropriate, use your work for the audit of the group financial statements of **[name of parent]**.

These instructions are designed to inform you, as the component auditor of **[enter name of component]**, of the work we require you to perform for the purpose of the group audit. The instructions outline, among other areas, audit procedure requirements, key reporting deadlines and audit deliverables to be submitted to us as the group auditor. Accordingly, we ask that the appropriate members of the engagement team in your office read these instructions carefully.

Please be aware that the group engagement team may also communicate with those charged with governance of the group, group management, those charged with governance of the component and component management.

Any concerns that you may have regarding these instructions should be addressed to the group audit engagement team. Also, please inform the group engagement team/manager/partner **[enter name]** immediately if you believe any items in the instructions are incorrect.

Our instructions (the group engagement team) to you (the component auditor)	
Cooperation	<p>You are requested to confirm that you will cooperate with us, knowing the context in which we will use your work.</p> <p>This confirmation from you is included in the Letter of Confirmation [insert Appendix], which you should complete and return to us by [insert date].</p>
Timetable	<p>The timetable for completing the audit is as follows:</p> <p>[Insert timetable]</p>
Planned visits	<p>Dates of planned visits by group management and us, and dates of planned meetings with component management and you are as follows:</p> <p>[Insert timetable]</p>
Key contacts	<p>A list of key contacts is as follows:</p> <p>[Insert list of key contacts]</p>
Nature of work to be performed	<p>For the purposes of the group audit, we have determined the work you are to perform, the use to be made of that work, and arrangements for coordinating efforts at the initial stage of and during the audit, including our planned involvement in your work, as detailed in the following:</p> <p>[Insert schedule of work to be performed by the component auditor, the use to be made of that work and planned involvement of the group auditor in the component auditor's work.]</p>
Ethical requirements	<p>The ethical requirements that are relevant to the group audit and, in particular, the independence requirements are described below.</p> <p>[Insert ethical and independence requirements]</p> <p>You are requested to confirm that you understand these requirements to fulfill your responsibilities in the audit of the group financial statements, and that you will comply therewith. Your confirmation is included in the Letter of Confirmation [insert Appendix], which you should complete and return to us by [insert date].</p>
Materiality levels (if a component is not subject to audit by statute, regulation or for some other reason)	<p>For the purposes of the group audit, we have determined that you should use the following materiality levels to perform work on the financial information of the component.</p> <p>[Insert materiality schedule. (In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures), and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements).)]</p> <p>We will evaluate the appropriateness of performance materiality determined at the component level. Please advise us of your performance materiality by [insert date].</p>

Materiality levels (if a component is subject to audit by statute, regulation or for some other reason)	<p>We shall determine whether your materiality for the component financial statements as a whole and performance materiality at the component level meet the requirements of CAS 600.</p> <p>Please advise us of your materiality and performance materiality by [insert date].</p>
Related parties	<p>You are requested to communicate to us, on a timely basis, information about related parties not included in the following list of those previously identified by us or group management.</p> <p>[Insert list of related parties prepared by group management and any other related parties that the group engagement team is aware of.]</p>
Intra-group transactions	<p>You are requested to perform the following work on intra-group transactions and unrealized profits and intra-group account balances.</p> <p>[Insert schedule of work to be performed]</p>
Other reporting responsibilities	<p>[Insert instructions for other reporting responsibilities. (Guidance on other statutory reporting responsibilities, for example, reporting on group management's assertion on the effectiveness of internal control.)]</p>
Subsequent events	<p>You are requested to perform the following subsequent events review:</p> <p>[Insert instructions for the subsequent events review when it is likely that there will be a time lag between completion of the work on the financial information of the components and the group engagement team's conclusion on the group financial statements.]</p>
Test of controls	<p>Our findings from testing the control activities of a processing system common to all or some components are as follows:</p> <p>[Insert findings of testing control activities]</p> <p>You are requested to perform the following tests of controls:</p> <p>[Insert tests of controls to be performed by the component auditor]</p>
Significant risks	<p>We have identified the following significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to your work:</p> <p>[Insert list of identified significant risks]</p> <p>You are requested to communicate to us on a timely basis any other significant risks of material misstatement of the group financial statements, due to fraud or error, identified in the component and your response to such risks.</p>
Internal audit function	<p>Our findings of the internal audit function, based on work performed on controls at or relevant to components, are as follows:</p> <p>[Insert findings of the internal audit function]</p>
Inconsistencies in audit evidence	<p>You are requested to communicate to us on a timely basis audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which we originally based the risk assessment performed at group level.</p>
Written representation	<p>[Insert written representation that you require the component auditor to obtain from component management.]</p>

Documentation	Matters you are to document [Insert documentation instructions]
Critical judgments	You are requested to report to us on a timely basis significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.
Going concern	You are requested to report to us on a timely basis matters relating to the going concern status of the component.
Litigation and claims	You are requested to report to us on a timely basis matters relating to litigation and claims.
Deficiencies in internal control	You are requested to report to us on a timely basis significant deficiencies in internal control identified during your performance of the work on the financial information of the component and information that indicates the existence of fraud.
Unusual events	You are requested to notify us as early as possible of any significant or unusual events.
Communicating results	<p>You are requested to communicate the following matters to us when the work on the financial information of the component is completed:</p> <ul style="list-style-type: none"> a) whether you have complied with the ethical requirements that are relevant to the group audit, including independence and professional competence; b) whether you have complied with our requirements; c) identification of the financial information of the component on which you are reporting; d) information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements; e) a list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by us); f) indicators of possible management bias; g) description of any identified significant deficiencies in internal control at the component level; h) other significant matters that you have already communicated or expect to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; i) any other matters that may be relevant to the group audit, or that you wish to draw to our attention, including exceptions noted in the written representations that you requested from component management; and j) your overall findings, conclusions or opinion. <p>At the completion of your work on the financial information of the component, but not later than [insert date], we request that you submit to us a Memorandum of Work Performed in [English]. The template in [insert Appendix] should be used for this communication.</p>

Group Auditors' Involvement with Component Auditors: What, When and How?

Upon receiving these instructions, please:

- acknowledge receipt;
- seek clarification on any items of uncertainty;
- advise us if you anticipate that you will not be able to comply with the instructions; and
- inform us of any events, transactions or recent or proposed legislative changes that may have a significant impact on either the component or the group.

Please complete the template of the **Letter of Confirmation** [insert Appendix] attached to this **Letter of Instruction** and return it by [insert date].

At the completion of your procedures on the financial information of your component, but no later than [insert date], we request that you submit to us a **Memorandum of Work Performed**, in [English]. The template in [insert Appendix] should be used for this communication.

[Group Auditor's signature]

[Date]

[Group Auditor's address]

Template 2

Sample letter of confirmation from component auditors to group auditors

CAS 600 does not mandate the form of communication from component auditors to group auditors. The following sample letter of confirmation is based on CAS 600 Appendix 4. It may vary from one component auditor to another and from one period to the next. In your group situation, you may have specific matters that need to be confirmed by the component auditors that are not covered in this template.

This letter of confirmation from the component auditor is often obtained before work on the financial information of the component commences.

[Component Auditor Letterhead]

[Date]

[To Group Engagement Partner]

This letter is provided in connection with your audit of the group financial statements of **[name of parent]** for the year ended **[date]** for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects, the financial position of the group as at **[date]** and its financial performance and cash flows for the year then ended in accordance with **[indicate applicable financial reporting framework (e.g., IFRS)]**.

We acknowledge receipt of your instructions dated **[date]**, requesting us to perform the specified work on the financial information of **[name of component]** for the year ended **[date]**.

We confirm that:

1. We will be able to comply with the instructions. / We advise you that we will not be able to comply with the following instructions **[specify instructions]** for the following reasons **[specify reasons]**.
2. The instructions are clear and we understand them. / We would appreciate it if you could clarify the following instructions **[specify instructions]**.
3. We will cooperate with you and provide you with access to relevant audit documentation.

We acknowledge that:

1. The financial information of **[name of component]** will be included in the group financial statements of **[name of parent]**.

2. You may consider it necessary to be involved in the work you have requested us to perform on the financial information of **[name of component]** for the year ended **[date]**.
3. You intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of **[name of parent]**.

In connection with the work that we will perform on the financial information of **[name of component]**, a **[describe component, for example, wholly-owned subsidiary, subsidiary, joint venture, investee accounted for by the equity or cost methods of accounting]** of **[name of parent]**, we confirm the following:

1. We have an understanding of **[indicate relevant ethical requirements]** that is sufficient to fulfill our responsibilities in the audit of the group financial statements, and will comply therewith. In particular, and with respect to **[name of parent]** and the other components in the group, we are independent within the meaning of **[indicate relevant ethical requirements]** and comply with the applicable requirements of **[refer to rules]** promulgated by **[name of regulatory agency]**.
2. We have an understanding of Canadian generally accepted auditing standards and **[indicate other national standards applicable to the audit of the group financial statements]** that is sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of **[name of component]** for the year ended **[date]** in accordance with those standards.
3. We possess the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the particular component.
4. We have an understanding of **[indicate applicable financial reporting framework or group financial reporting procedures manual]** that is sufficient to fulfill our responsibilities in the audit of the group financial statements.

We will inform you of any changes in the above representations during the course of our work on the financial information of **[name of component]**.

We will inform you of any events, transactions or recent or proposed legislative changes that may have a significant impact on either the component or the group.

[Component Auditor's signature]

[Date]

[Component Auditor's address]

Template 3

Sample memorandum of work performed from component auditors to group auditors

The standard does not mandate the form of reporting from component auditors to group auditors. When the work on the financial information of the component is completed, the component auditor communicates to the group auditor about all matters requested. This communication may take the form of a memorandum or report of work performed.

The following sample memorandum is based on CAS 600 paragraph 41. It may vary from one component auditor to another and from one period to the next. In your group situation, you may have specific matters that the component auditors need to communicate that are not covered in this template.

[Component Auditor Letterhead]

[Date]

[To Group Engagement Partner]

This memorandum of work performed is provided in connection with your audit of the group financial statements of **[name of parent]** for the year ended **[date]** for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects, the financial position of the group as at **[date]** and its financial performance and cash flows for the year then ended in accordance with **[indicate applicable financial reporting framework (e.g., IFRS)]**.

This memorandum is intended solely for the use of the group engagement team in connection with the audit of the group financial statements of **[name of parent company]** and should not be used for any other purpose. We acknowledge that you intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of **[name of parent]**. The matters raised in this memorandum are only those that have come to our attention in our work on the financial information of **[name of component]**, which was performed in accordance with your instructions. We confirm that we have complied with ethical requirements relevant to the group audit, including independence and professional competence. We also confirm that we have complied with all your requirements, as set out in your **Letter of Instruction** dated **[insert date]**.

Our scope of work performed

The scope of the work we have performed on the financial information of **[insert name of component]** was in accordance with your **Letter of Instruction** dated **[insert date]**. **[Specify any deviations from instructed scope or any limitations in performing the requested scope.]**

<p>Identification of the financial information of the component on which we are reporting</p>	<p>[Insert financial information]</p>
<p>Summary of significant risks of material misstatement of the group financial statements, due to fraud or error, in the component and our responses to such risks</p>	<p>[Description of significant risk 1] [Impacted accounts and assertions] [Management controls in place to address the risk] [Procedures performed by us] [Results]</p>
<p>Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements</p>	<p>[The following: OR No instances of non-compliance were noted.]</p>
<p>Information on indicators of possible management bias</p>	<p>[The following: OR No indicators of management bias were detected.]</p>
<p>Summary of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team)</p>	<p>[No uncorrected misstatements were noted. OR We discussed the following uncorrected misstatements with component management and requested them to correct those misstatements. [Insert a Summary of Uncorrected Misstatements and provide the reasons management has not adjusted the amounts.]]</p> <p>[For the misstatements identified, we determined whether adjustments are indicative of internal control deficiencies. Any significant internal control deficiencies that we identified are noted in the Summary of identified significant deficiencies in internal control at the component level below.]</p> <p>[The following unadjusted disclosure misstatements were identified during the course of our audit.]</p>
<p>Summary of adjusted misstatements of the financial information of the component</p>	<p>[No adjusted misstatements were noted. OR Please refer to the attached Summary of Adjustments [insert the Summary]. All items have been discussed and agreed with component management.]</p>
<p>Summary of identified significant deficiencies in internal control at the component level</p>	<p>[The following: OR No significant deficiencies in internal control at the component level were noted.]</p>

Summary of other significant matters communicated (or expected to be communicated) to those charged with governance of the component	(These matters may include fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component.) [The following: OR No items requiring your attention were noted.]
Information on litigation and claims	[The following: OR No items requiring your attention were noted.]
Information on going concern status of component	[The following: OR No items requiring your attention were noted.]
List of related parties not previously identified by the group engagement team	[The following: OR No items requiring your attention were noted.]
Written representation	[We have obtained a written representation on component management's compliance with the applicable financial reporting framework. OR We have obtained a statement that differences between the accounting policies applied to the financial information of the component and those applied to the group financial statements have been disclosed.]
Summary of significant or unusual events	[The following: OR No items requiring your attention were noted.]
Summary of significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments	(These matters may include: <ul style="list-style-type: none"> • Appropriate selection, application and consistency of principles and disclosures. For example: <ul style="list-style-type: none"> – Accounting conclusions or reporting presentations that depend primarily on management intent or representations (including estimates) – Complex or unusual transactions – Revenue recognition issues – Significant or unusual capitalization or deferred cost issues – Significant new or changes in accounting policies – Unusual or unique accounting policies

	<ul style="list-style-type: none"> • Results of audit procedures. For example: <ul style="list-style-type: none"> – Significant changes to the audit strategy including changes to risk assessments – Identified or suspected fraud – Illegal acts or non-compliance with laws and regulations – Non-routine transactions – Errors – Significant deficiencies in internal control – Estimates that require significant judgement) <p>[The following: OR No items requiring your attention were noted.]</p>
	<p>Description of the matter 1</p> <p>[Provide a brief description of the matter.]</p> <p>Background</p> <p>[Describe the facts and circumstances underlying the matter. Be concise and use plain English, taking care to include only information that is relevant to the matter.]</p> <p>Evidence obtained</p> <p>[Describe the audit procedures performed by the team and summarize all evidence obtained on the matter, including supporting and opposing evidence.]</p> <p>Technical reference and analysis, including implication(s) of the matter</p> <p>[Present possible alternative views, along with arguments that support such alternatives, the impact that the alternatives might have on current and future financial statements and the rationale for accepting or rejecting the alternatives.]</p> <p>Results of consultations, if applicable</p> <p>[Summarize results of consultations, which should be agreed on with those consulted, with evidence of that agreement (if applicable, including alternative views or positions that were discussed and the rationale for rejecting them).]</p> <p>Record of discussion</p> <p>[Summarize discussion with management and others on the issue, including when and with whom the matter was discussed.]</p>

	<p>Inconsistent information</p> <p>[If the engagement team has identified any information that contradicts or is inconsistent with the team's final conclusion, document how the contradiction or inconsistency was addressed in forming the final conclusion.]</p> <p>Final conclusions</p> <p>[State final conclusions reached and basis thereof.]</p>
<p>Subsequent events review</p>	<p>We performed the procedures as requested. [The following: OR No items requiring your attention were noted.]</p>
<p>Summary of any other matters relevant to the group</p>	<p>(These matters may include exceptions noted in the written representations that the component auditor requested from component management.)</p> <p>[We confirm that, apart from the matters noted above, we have not become aware of any other matters relating to the financial information of [insert name of component] or the group financial statements of [insert name of parent company] that we should report to you. OR We wish to draw your attention to the following matters not included above: <insert as appropriate>]</p>
<p>Our overall findings, conclusions or opinion</p>	<p>[Insert agreed-upon report.]</p>

[Component Auditor's signature]

[Date]

[Component Auditor's address]

Resources on Group Audits

Visit the CPA Canada website at www.cica.ca where you will find resources on group audits:

Performing Group Audits Under CASs:

- **FAQ for Auditors** — Are You Sure You Don't Have to Apply CAS 600?
- **Client Briefing for Auditors** — How Can Group Management Promote Effective Group Audits?
- Chair's Message on Auditing in Emerging Markets (AASB)

Communicating Under CASs:

- **Implementation Tool for Auditors** — Communications Between the Auditor and Those Charged with Governance: What, When and How?

About this publication

CPA Canada through its Research, Guidance and Support group undertakes initiatives to support practitioners and their clients in the implementation of standards. As part of these initiatives, CPA Canada 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.

CPA Canada 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 CPA Canada board or committee, the governing body or membership of CPA Canada 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 September 2013.

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



Gordon Beal, CPA, CA
Director, Research, Guidance and Support
September 2013

Advisory Group on Implementation of Canadian Auditing Standards

Stacy Hammett, CPA, CA
PwC LLP

Nazia Lakhani, CPA, CA
BDO Canada LLP

Norah Langill, CPA, CA
Deloitte LLP

Laura Sluce, CPA, CA
Ernst & Young LLP

Ryan Wildman, CPA, CA
Grant Thornton LLP

Robert G. Young, FCPA, FCA
KPMG LLP

Andrée Lavigne, CPA, CA
CPA Canada

Hélène Marcil, CPA, CA
CPA Canada

Eric R. Turner, CPA, CA
CPA Canada