

**STANDARD DISCUSSED**

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

## Audit Client Briefing

### How Can Group Management Promote Effective Group Audits?

#### Purpose of this publication

This *Audit Client Briefing* has been developed to provide group auditors with a document for discussion with their clients, group management. This *Briefing* aims to help group auditors promote effective interaction among all those involved in group audits: the group auditor, group management, those charged with governance of the group, component management and component auditors. It will help group auditors explain to their clients that effective interaction among all of these participants is critical to ensuring an effective group audit. With that in mind, the *Briefing* provides examples of interactions among the key players in a group audit, including a diagram illustrating the interrelationships among them. It also includes a table listing relevant documents on specific group audit matters that group management can give the group auditor to improve the audit's effectiveness.

#### 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.



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### **Why is this *Briefing* important to you, as an audit client?**

This briefing document will be important to you, as an audit client, if you are the management of the group being audited. Group audits are often complex engagements. For example, you or component management may be preparing financial information to be included in your group financial statements for various entities or business activities (i.e., components) located in different jurisdictions having different local laws and regulations (such as different tax laws). Another complicating fact is that these entities or business activities (such as a head office and divisions) may be audited by either a group auditor or component auditors on behalf of the group auditor. Therefore, appropriate communication among all the parties involved is crucial to an effective group audit.

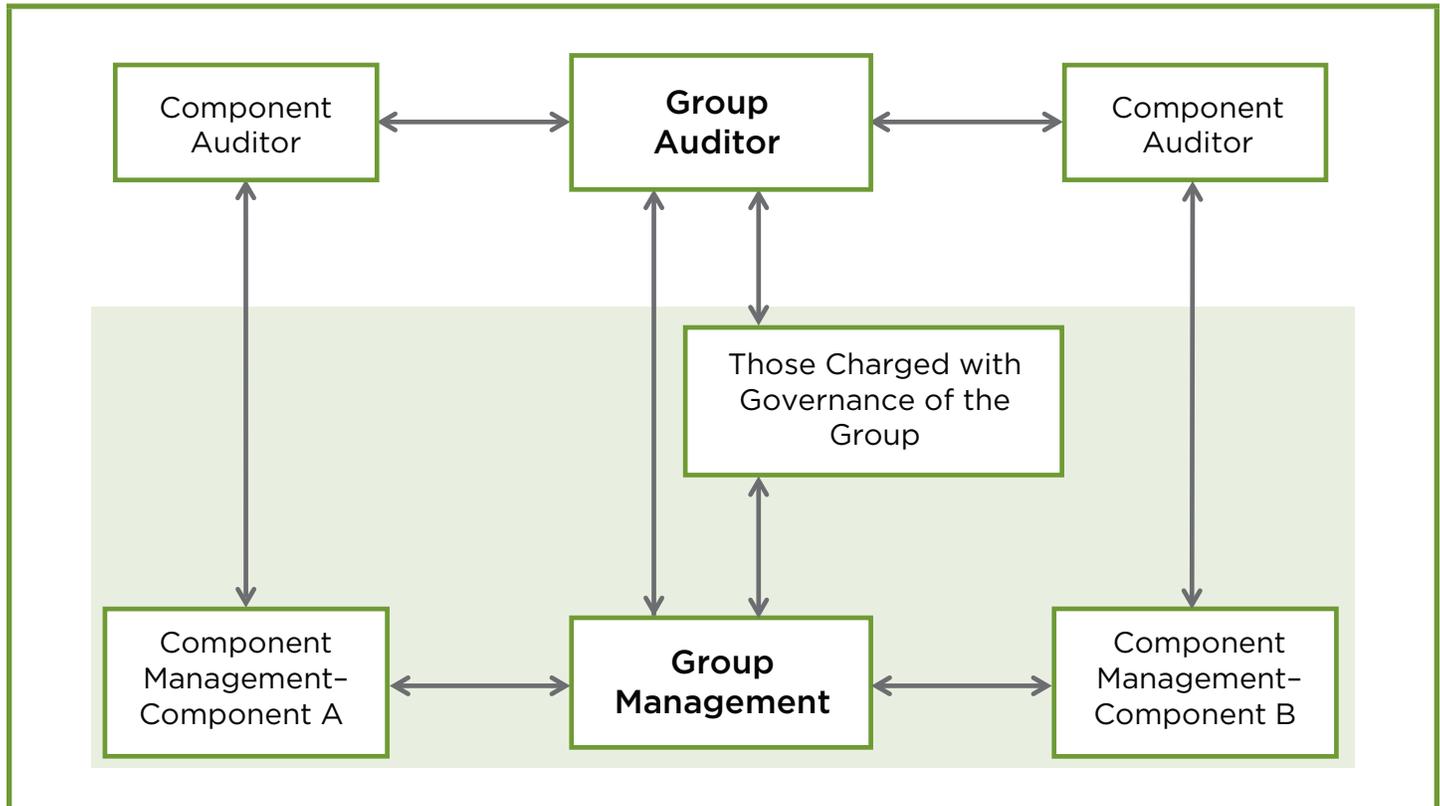
As group management, you can play an important role in facilitating that communication between you, your group auditor, component management and the component auditors.

You can also take specific actions to help your group auditor perform an effective group audit, allowing you to issue group financial statements that meet user needs. Find them in this !

### **What are the interrelationships between key players in a group audit?**

To obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor's opinion, your group auditor may have to interact with many key players, as illustrated in [Diagram 1](#) below.

Diagram 1—Interrelationships in a group audit



The interrelationships in a group audit can sometimes be complex. For example, when auditors other than the group auditor (i.e., component auditors) audit the financial information of components on behalf of the group auditor, the group auditor is required to be involved in their work. Your group auditor will need to:

- obtain an understanding of the component auditors in different areas, such as their professional competence and whether or not they are independent and comply with ethical requirements relevant to the group audit;
- communicate clearly to component auditors about the requested scope and timing of their work on the component financial information and how they will communicate their findings to the group auditor;
- be involved in the component auditors' risk assessment to identify whether the components face any risks that could lead to significant risks of material misstatement of the group financial statements; and
- decide what use can be made of the component auditors' work (e.g., if the group auditor concludes that the work of a component auditor is insufficient, the group auditor needs to determine what additional procedures are to be performed and by whom).

Your group auditor must also interact with those responsible for overseeing the group financial reporting process (i.e., those charged with governance of the group) and communicate with them about specific matters of group audit relevance. These matters include:

- an overview of the type of work to be performed on the financial information of the components and of the nature of the group auditor's planned involvement in the work to be performed by the component auditors on the financial information of components;
- any concern about the quality of the component auditors' work and any limitations on the group audit (e.g., access to information that has been restricted); and
- identified fraud or suspected fraud.

You can expect your group auditor to communicate with you on specific matters related to group audits, such as:

- matters related to the audit of the consolidation process that will help you take appropriate actions to prevent or detect and correct material misstatements in the group financial statements;
- observations about your group financial reporting procedures manual, such as whether instructions to components facilitate the production of uniform and comparable financial information for the preparation of group financial statements;
- identified fraud or suspected fraud; and
- deficiencies in internal control at components and in group-wide internal control.

Effective interaction between you, your group auditor, those charged with governance of the group, component management and component auditors is critical to an effective group audit.

### What are the main roles and responsibilities of the key players in a group audit?

Depending on the circumstances of your group audit, the audit of components may be performed by either your group auditor or component auditors working on behalf of the group auditor. In any event, your group auditor alone is responsible for the audit of the group and for the auditor's report on the group financial statements. [Table 1](#) below explains the main roles and responsibilities of the key players in a group audit.

**Table 1—Roles and responsibilities of key players in a group audit**

Key players	Roles and responsibilities
Those charged with governance of the group	<ul style="list-style-type: none"> <li>oversee the group financial reporting process;</li> <li>assist the group auditor in identifying sources of audit evidence and in overcoming difficulties encountered during the group audit; and</li> <li>take appropriate and timely actions in response to any matters raised by the group auditor.</li> </ul>
Group management	<ul style="list-style-type: none"> <li>prepares the group financial statements;</li> <li>prepares instructions to components (such instructions specify the requirements for financial information of the components to be included in the group financial statements and often include financial reporting procedures manuals and a reporting package);</li> <li>determines internal control necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error; and</li> <li>provides the group auditor with access to all information relevant for the purpose of the group audit, as well as unrestricted access to persons within the group in order to obtain audit evidence.</li> </ul>
Group auditor	<ul style="list-style-type: none"> <li>is responsible for the direction, supervision and performance of the group audit engagement;</li> <li>communicates clearly with component auditors;</li> <li>obtains sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion on the group financial statements; and</li> <li>forms and expresses an opinion on the group financial statements without referring to the component auditors in the group auditor's report.</li> </ul>
Component management or group management	<ul style="list-style-type: none"> <li>prepares a component's financial information in accordance with the applicable financial reporting framework (as per instructions from group management).</li> </ul>
Component auditor or group auditor	<ul style="list-style-type: none"> <li>performs work on financial information related to a component for the group audit; and</li> <li>reports on the results.</li> </ul>

### What actions can you take to promote an effective group audit?

Auditing standards require your group auditor to obtain an understanding of your group and of your consolidation process. To help your group auditor obtain this understanding, you can give the auditor the relevant documents listed in [Table 2](#) below.

In the case of a continuing engagement, you can outline the changes to:

- the group structure (for example, when there have been acquisitions, disposals, reorganizations or changes in how the group financial reporting system is organized);

- the composition of those charged with governance of the group, group management and key management of components;
- group-wide controls; and
- the applicable financial reporting framework.

You can also facilitate your group auditor's access to important communications between the component auditors and component management (e.g., communications on significant deficiencies in component internal control), as well as providing your group auditor access to important communications between regulatory authorities and components on financial reporting matters relevant to the group audit.

**Table 2—List of documents prepared by group management on matters specific to the group financial statements**

Document	Example of elements to be included in the document	Due date
Group financial reporting procedures manual	<ul style="list-style-type: none"> <li>• a reporting package (e.g., standard formats for providing financial information for incorporation in the group financial statements);</li> <li>• instructions such as:               <ul style="list-style-type: none"> <li>– the accounting policies to be applied;</li> <li>– statutory and other disclosure requirements applicable to the group financial statements, including:                   <ul style="list-style-type: none"> <li>– identification and reporting of segments;</li> <li>– related party relationships and transactions;</li> <li>– intra-group transactions and unrealized profits;</li> <li>– intra-group account balances; and</li> </ul> </li> </ul> </li> <li>• a reporting timetable.</li> </ul>	
Description of the group-wide controls	<ul style="list-style-type: none"> <li>• Group management's risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.</li> <li>• Monitoring of components' operations and their financial results, including regular reporting routines, which enables group management to monitor the components' performance against budgets and to take appropriate action.</li> <li>• Monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits and intra-group account balances at the group level.</li> <li>• Monitoring the timeliness and assessing the accuracy and completeness of financial information received from the components.</li> <li>• Monitoring of controls (e.g., IT systems, internal audit).</li> <li>• Consistent policies and procedures, including a group financial reporting procedures manual.</li> <li>• Assigning authority and responsibility to component management.</li> </ul>	

Document	Example of elements to be included in the document	Due date
Description of the consolidation process	<ul style="list-style-type: none"> <li>• The process for obtaining an understanding of the accounting policies used by components.</li> <li>• The process for identifying and accounting for components in accordance with the applicable financial reporting framework (e.g., identifying and reconciling differences between group and local GAAP).</li> <li>• The process for identifying:               <ul style="list-style-type: none"> <li>— reportable segments for segment reporting in accordance with the applicable financial reporting framework;</li> <li>— related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.</li> </ul> </li> <li>• The accounting policies applied to the group financial statements, changes from those of the previous financial year and changes resulting from new or revised standards under the applicable financial reporting framework.</li> <li>• The procedures for dealing with components with financial year ends different from the group's year end.</li> <li>• The procedures for dealing with acquisitions, disposals or reorganizations.</li> <li>• The process for ensuring complete, accurate and timely financial reporting by the components for the consolidation.</li> <li>• The process for translating the financial information of foreign components into the currency of the group financial statements.</li> <li>• How IT is organized for the consolidation, including the manual and automated stages of the process and the manual and programmed controls in place at various stages of the consolidation process.</li> <li>• The process for obtaining information on subsequent events.</li> </ul>	
Description of the consolidation adjustments process	<ul style="list-style-type: none"> <li>• The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries and the experience of personnel responsible for the consolidation.</li> <li>• The consolidation adjustments required by the applicable financial reporting framework.</li> <li>• Procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits and intra-group account balances.</li> <li>• Business rationale for the events and transactions that gave rise to the consolidation adjustments.</li> <li>• Frequency, nature and size of transactions between components.</li> </ul>	

## Resources for Audit Clients

Visit the Canadian Institute of Chartered Accountants CAS website at [www.cica.ca/CAS](http://www.cica.ca/CAS), where you will find resources for audit clients:

- ***Client Briefing for Auditors*** — The Importance of Effective Two-Way Communication Between the Auditor and the Client (i.e., Those Charged with Governance)
- Communicating Successfully with Your Stakeholders (guide)

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