

# Audit and Assurance Alert

## CANADIAN AUDIT STANDARDS (CAS)

AUGUST 2022

### *CAS 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

#### **STANDARD DISCUSSED**

This Audit and Assurance Alert (*Alert*) is being issued to raise awareness about the revised Canadian Auditing Standard (CAS) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

CAS 600 replaces the extant standard – there are both new and revised requirements to consider.

#### **Why Should You Read This *Alert*?**

The scope of audits that are considered group audits has changed. Keep reading this *alert* to find out the following:

- how and whether the standard is applicable to your audit (see [Scope and Applicability](#))
- how the standard can be adapted to groups of various complexity (see [Scalability of the Standard](#))
- how the standard links with other Canadian Auditing Standards when the auditor plans and performs the audit (see [Achieving Quality in a Group Audit, Risk-based Approach to Planning and Performing the Group Audit, and Documentation](#))

- how the group auditor communicates and interacts with component auditors (see [Communicating and Interacting with Component Auditors](#))
- how the auditor manages audit quality at the group and component level (see [Achieving Quality in a Group Audit](#))

This *Alert* informs practitioners of the significant changes in CAS 600. Practitioners should refer to CAS 600 for full details of all the requirements, as this *Alert* does not address all aspects of CAS 600.

## When Is CAS 600 Effective?

CAS 600 is effective for audits of group financial statements for periods beginning on or after December 15, 2023, with early application permitted.

## What Has Changed?

The key changes from the extant standard include the following:

### 1. Scope and Applicability

CAS 600 is applicable when the auditor has been engaged to audit group financial statements. The standard defines group financial statements to include the financial information of more than one entity or business unit through a consolidation process. This is similar to the notion in extant CAS 600 that a group always has more than one component. The standard defines what is meant by “consolidation process” and recognizes that this term is used not only to prepare consolidated financial statements in accordance with the applicable financial reporting framework but also to present combined financial statements and to aggregate the financial information of entities or business units such as branches or divisions.

The standard may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm, such as to perform an inventory count at a remote location. The auditor would adapt the requirements as necessary based on the engagement circumstances. This is consistent with the extant CAS 600.

### 2. Achieving Quality in a Group Audit

CAS 600 clarifies how the requirements in revised CAS 220, *Quality Management for an Audit of Financial Statements*, apply in managing and achieving audit quality in a group audit. For example, the group engagement partner is responsible for determining that component auditors have the appropriate competence and capabilities, including sufficient time to perform the audit procedures at the component. Also, the group engagement partner is required to take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account the following:

- areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with CAS 315, *Identifying and Assessing the Risks of Material Misstatement*
- areas in the audit of group financial statements that involve significant judgment

While the engagement partner has overall responsibility for managing and achieving quality on the group audit engagement, this process involves the whole engagement team.

### **3. Responsibilities of Group Engagement Partner and Group Auditor**

Based on the revisions to CAS 220, CAS 600 outlines responsibilities of the group engagement partner and group auditor. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements in CAS 600. For some requirements, the group engagement partner or group auditor is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors.

### **4. Engagement Acceptance or Continuance, Including Restrictions on Access to Information or People**

CAS 600 contains enhanced acceptance and continuance requirements. It provides guidance for dealing with restrictions on access to information or people. The standard aims to help auditors identify access issues at the engagement acceptance or continuance phase of the audit by requiring the group auditor to obtain agreement from group management that it acknowledges and understands its responsibility to provide the group auditor with the following:

- Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters
- Additional information that the engagement team may request from group management or component management for the purpose of the group audit
- Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence

The standard provides examples of how the group auditor may be able to overcome some of the more common restrictions faced, including guidance on dealing with access restrictions when the group has a non-controlling interest in an entity that is accounted for by the equity method.

### **5. Risk-based Approach for Planning and Performing the Group Audit**

CAS 600 uses the risk-based approach in CAS 315 and CAS 330, *The Auditor's Responses to Assessed Risks*, to plan and perform the group audit engagement. It focuses on the group auditor's responsibilities for identifying and assessing risks of material misstatement at the group financial statement level and assertion level and for designing and performing the audit procedures. However, the standard recognizes that the involvement of component auditors is critical for many group audit engagements and that the group auditor needs to determine the nature, timing and extent of involvement of component auditors.

The risk-based approach in CAS 600 provides requirements and guidance on what, where and by whom the work is to be performed to obtain sufficient appropriate audit evidence to provide a basis for the group audit opinion. It provides guidance about the scope of further audit procedures that

would respond to the assessed risks of material misstatement at a component (with the involvement of component auditors as applicable) using three approaches:

- design and perform further audit procedures on the entire financial information of the component
- design and perform further audit procedures on one or more classes of transactions, account balances or disclosures
- perform specific further audit procedures

## 6. Materiality and Aggregation Risk

Extant CAS 600 contains both concepts of component materiality and component performance materiality. However, it does not explain the consideration of aggregation risk in the group audit. Now, CAS 600 focuses on component performance materiality for planning and performing audit procedures on component financial information for purposes of the group audit. This change was made to differentiate the materiality used for the component in the group audit from the materiality used in performing a standalone audit of the financial information of the component. The standard also defines aggregation risk and has added this definition to CAS 320, *Materiality in Planning and Performing an Audit*, along with a corresponding change to the definition of performance materiality, as a consequential amendment.

## 7. Communicating and Interacting With Component Auditors

Early on, CAS 600 articulates the group auditor's responsibilities for communicating, and setting expectations, with component auditors. The standard outlines the need for two-way communication throughout the group audit, including expectations about the nature, timing and extent of these communications. There are also requirements outlining matters to be communicated by component auditors to the group auditor that may be relevant to the group auditor's conclusion with regard to the group audit.

## 8. Using Audit Evidence From an Audit Performed for Another Purpose

CAS 600 recognizes situations when an audit has been performed on the financial statements of an entity or business unit that is part of the group and when an auditor's report has been issued for statutory, regulatory or other reasons. In the event the group auditor plans to use such work as audit evidence for the group audit, the standard requires the group auditor to be satisfied that such work is appropriate for purposes of the group audit. Application material highlights that in any event, the requirements of CAS 600 apply, including those relating to the direction and supervision of component auditors and the review of the other auditor's work. The standard also provides examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing the other auditor's work.

## 9. Documentation

In accordance with CAS 230, *Audit Documentation*, the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained and the conclusions reached with respect to significant matters arising during the group audit.

In applying CAS 230, CAS 600 contains enhanced requirements for documentation:

- the way significant matters related to restrictions on access to people or information within the group were addressed
- the basis for the group auditor's determination of components for purposes of planning and performing the group audit
- the basis for the determination of component performance materiality, and the threshold for communicating misstatements in the component financial information to the group auditor
- the basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures
- key elements of the understanding of the group's system of internal control
- the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work
- matters related to communications with component auditors
- the group auditor's evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements

## 10. Professional Skepticism

CAS 600 recognizes the importance of professional skepticism and professional judgment in planning and performing a group audit. The group engagement partner is responsible for creating an environment that emphasizes the expected behaviour of engagement team members. All engagement team members, including component auditors, need to exercise professional skepticism throughout the group audit engagement. They can demonstrate this through their actions and communications. The standard includes examples of the impediments to the exercise of professional skepticism at the engagement level, and possible actions that the engagement team may take to mitigate such impediments.

## 11. Scalability of the Standard

The principles-based approach in CAS 600 allows the auditor to adapt and apply the standard to a wide variety of circumstances, and audits of groups of different complexity. The standard includes separate sections to highlight the requirements and application material for circumstances when component auditors are involved. Therefore, if the group auditor carries out the entire group audit – for example, when the group auditor can perform audit procedures centrally or is able to perform procedures at the components without involving component auditors – some of the requirements in CAS 600 are not relevant because they are conditional on the involvement of component auditors.

## 12. Canadian Amendments to ISA 600 (Revised)

The only Canadian amendment made to ISA 600 was to replace references to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (IESBA Code) with relevant ethical requirements applicable in Canada. In this regard, revisions were made to the references to ethical requirements in the sample Auditor's Report in Appendix 1 of CAS 600.

## What Additional Resources Are Available to Help Me?

1. Basis for Conclusions (August 2022)
2. [IAASB Basis for Conclusions \(April 2022\)](#)
3. [IAASB Fact Sheet: Audits of Group Financial Statements – Introduction to International Standard on Auditing 600 \(Revised\), Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#)

CPA Canada also plans to publish an FAQ and an implementation tool for practitioners to help you implement the revised standard and to inform your clients on changes they can expect to see.

## Feedback

If you have comments on this *Audit and Assurance Alert* or suggestions for future *Alerts*, please send them to:

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