

FAQ for Auditors

CANADIAN AUDITING STANDARDS (CAS)

DECEMBER 2022

STANDARD DISCUSSED

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

Are you sure you don't have to apply CAS 600?

The revised CAS 600 was issued into the *CPA Canada Handbook – Assurance* in August 2022 and is effective for audits of financial statements for periods beginning on or after December 15, 2023.

The definition of a group set out in CAS 600 is significantly broader than one might think, and the applicability of CAS 600 includes more than only audits involving a parent company and subsidiaries. Before concluding that CAS 600 does not apply to your client, you need to consider whether the entity's financial statements include the financial information of more than one entity, or business unit, such as branches or divisions, through a consolidation process. This *Frequently Asked Questions (FAQ)* will help you determine whether you have a group audit for the purposes of CAS 600.

This FAQ document for auditors addresses key questions that arise when an auditor is considering 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.

Questions addressed in this FAQ:

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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.

Q1 Why is it important to know if you have a group audit?

Understanding when CAS 600 applies to your audit engagement is important for planning a more efficient and effective engagement and conducting a quality 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 material 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.

Further, CAS 600 emphasizes the importance of effective two-way communication throughout the audit between the group auditor and the component auditors. It is important to understand the applicability of CAS 600 to ensure logistical considerations are made for gaining access to people, documents and other information that will be required. This may require additional coordination and lead time when multiple jurisdictions are involved.

Q2 When do you have a group audit?

CAS 600 applies when conducting an audit of the financial statements of an entity which include the financial information of more than one entity, or business unit, such as branches or divisions, through a consolidation process. A shared services centre, such as for processing accounts receivable or payable on behalf of other entities or business units within the group, could also be considered a component. This may be the case when the centralized activities are relevant to the group's financial reporting process.

Q3 What are group financial statements for the purposes of CAS 600?

Group financial statements include the financial information of more than one entity or business unit through a consolidation process. The standard defines what is meant by “consolidation process” and recognizes that this term is used not only for the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also applies to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions.¹

CAS 600 PARAGRAPH 14(K)

Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this CAS, a consolidation process includes:

- i. consolidation, proportionate consolidation or an equity method of accounting
- ii. the presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management or
- iii. the aggregation of the financial information of entities or business units such as branches or divisions

CAS 600 must be applied when auditing group financial statements and can be scaled based on the size and complexity of the entity. This understanding will be important when determining whether the group auditor will be able to perform all audit procedures centrally or whether component auditors will need to be involved.

QUESTIONS FOR CONSIDERATION:

- Are the operations of subsidiaries consolidated and presented together?
- Does the entity have equity method investees?
- Are combined financial statements prepared?

¹ CAS 600 paragraph 2

Q4 What is a component for the purposes of CAS 600?

A component is an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit.

The identification of components by auditors for the purposes of the group audit may differ from those identified by management of the entity. The [Appendix](#) to this publication includes some example scenarios to help you identify components.

A group may be organized in various ways. For example, a group may be organized by:

- legal or other entities including:
 - a parent and one or more subsidiaries
 - joint ventures
 - investments accounted for by the equity method
- other factors such as:
 - geography
 - other economic units (including branches or divisions)
 - functions or business activities

In this CAS, these different forms of organization are collectively referred to as “entities or business units.” The group auditor uses professional judgment in determining the components for which audit work will be performed.² The financial information of the components is combined through a consolidation process to form the group financial statements.³

² CAS 600 paragraph 5

³ CAS 600 paragraphs 2 and 14(k)

Q5 How can you determine whether there is a group for the purposes of CAS 600?

To determine if there is a group for the purposes of CAS 600, an auditor will also need to identify components for the purpose of the group audit. If a consolidation process (as described in Q4 above) is used to prepare the group financial statements, it 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.

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).

It is possible that no one of these will be the single determining factor in this identification.

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

Factors	Examples
Business risks	Are the business risks similar across the potential components? Do the potential components have the same business lines?
Management	Are potential components managed individually or on a combined basis? How are the geographical locations managed?
Control environment	Is the control environment consistent across the potential components? Are there common information systems and internal control?
Information system	Which information systems and internal controls are common across components? What services or functions are supported by a shared service centre?

Q6 Who should apply CAS 600? What if you are the auditor of all components?

CAS 600 applies to group audits regardless of who audits the components. When there is one engagement team for the group and all of its components, some requirements of the standard, specifically those related to component auditors, will not apply. Even when you are the auditor of all components, applying CAS 600 will assist you in conducting a high-quality audit.

The auditor considers audit quality at the group level, which includes:

- identifying and assessing the risk of material misstatement of the group financial statements
- evaluating if sufficient appropriate audit evidence has been obtained from planned procedures as a basis for forming an opinion on the group financial statements

Beyond group audits, this CAS may also be adapted for use when the engagement team involves individuals from another firm to assist in carrying out planned audit engagement procedures. Such circumstances can include those involved with a physical inventory count, inspecting property, plant and equipment, or performing audit procedures at a shared service center at a remote location.⁴

Q7 Where can you find resources on group audits?

[Audit & Assurance Alert CAS 600: Revised standard coming into effect](#)

Published in August 2022, this Audit & Assurance 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)*.

Future implementation support resources for CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, being developed include an implementation tool and an audit client briefing.

Visit the CPA Canada website for updates on these upcoming resources.

⁴ CAS 600 paragraph 3

About this publication

Chartered Professional Accountants of Canada (CPA Canada) through its Research, Guidance and Support group, undertakes initiatives to support practitioners and their clients in the implementation of standards. CPA Canada's Advisory Group on Implementation of Canadian Auditing Standards (AGICAS) provides advice on the identification of issues related to the implementation of Canadian Auditing Standards (CAS) and on the development of non-authoritative implementation guidance related to these issues.

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Appendix

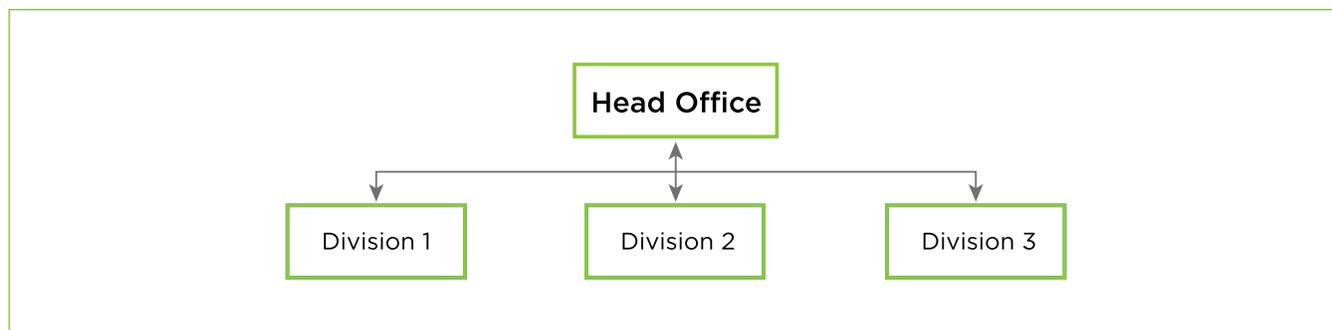
Some examples of the identification of components

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.
- Example 3 illustrates a structure in which the entity consists of a parent company holding an equity investment in another company.

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

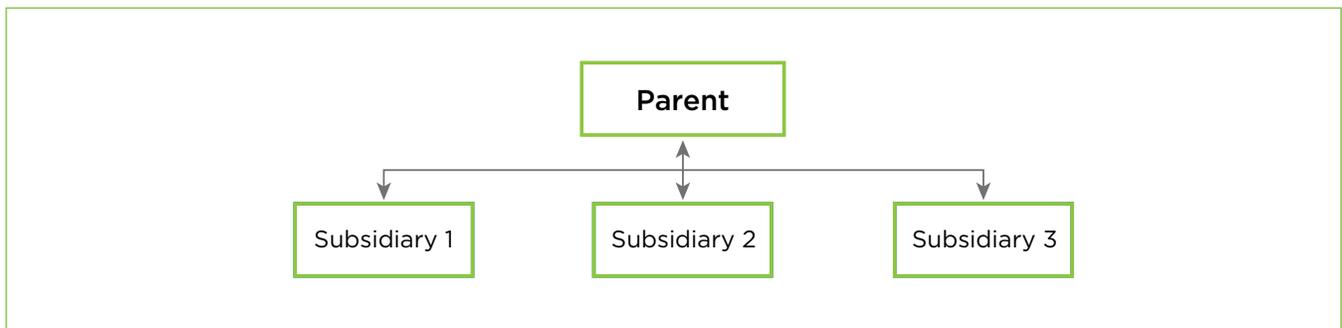


Facts

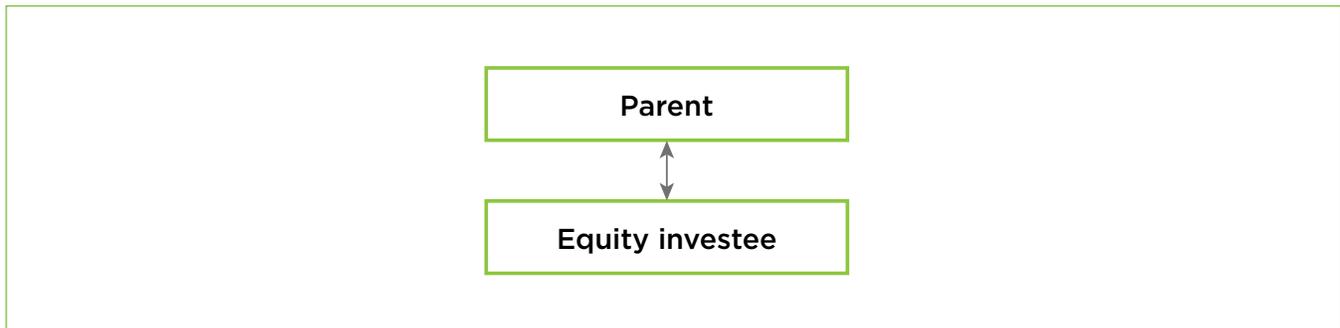
- Divisions 1 and 2 have similar business risks.
- Operations of Divisions 1 and 2 are managed as one division (i.e., there is one management that performs the same controls and the operations are analyzed on a consolidated basis).
- Divisions 1 and 2 prepare financial information on a combined basis.
- 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 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 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 common system of internal control. • 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. • Management of the parent entity have access to and act in concert with the respective management and decision-makers of each subsidiary (because the subsidiaries do not have employees of their own).
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 four components.</p>	<p>The analysis of the facts and circumstances could lead to the conclusion that the financial statements are prepared through a consolidation process and that they are group financial statements for the purposes of CAS 600.</p>

Example 3 — Parent and equity investee

<p>Facts</p>	<ul style="list-style-type: none"> • The equity investee and the parent company prepare separate financial information. • Each company has its own manager who analyzes the results. • The equity investee and parent company have different business risks. • A parent-subsidary relationship does not exist. • The parent company requests copies of the equity investee's (audited) annual financial statements, but the equity investee appoints its own auditor.
<p>Analysis</p>	<p>Considering the factors outlined in Table 1 in Q5, the facts and circumstances indicate that:</p> <ul style="list-style-type: none"> • The equity investee and parent company could each be a separate component because: <ul style="list-style-type: none"> — Management prepares financial information for each company separately. — Management analyzes the results of each company separately. — The equity investee and the parent company have different business risks.
<p>Conclusion</p>	<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 two components.</p>

Remember to document your analysis in your file to support the conclusion reached. This applies even if you conclude that you do not have a group audit.