

# Audit Client Briefing

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

MARCH 2024

## How Can Group Management Support Quality Audits of Group Financial Statements?

### **Purpose of this publication**

This *Audit Client Briefing* provides auditors involved in audits of group financial statements with a document for discussion with their clients (i.e., client management). This *Briefing* aims to help group auditors promote effective interaction among all those involved in audits of group financial statements: the group auditor, group management, those charged with governance of the group, component auditors and, where applicable, component management. The following questions are directed to client management and are intended to help group auditors explain to their clients that effective interaction among all of these participants is critical to ensuring a high-quality audit. With that in mind, the *Briefing* provides examples of interactions among the key players in an audit of the group financial statements, 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 provide the group auditor to enhance audit quality.

Use this *Briefing* with other non-authoritative material, including the following:

- August 2022 – *CAS 600, Basis of Conclusions* (CPA Canada Guidance Collection)
- August 2022 – [Audit & Assurance Alert CAS 600: Revised standard coming into effect](#)
- December 2022 – [FAQ: Are you sure you don't have to apply CAS 600?](#)
- September 2023 – [Implementation Guide: Determining the Group Auditor's Responsibilities](#)

Terminology used in this *Briefing* is consistent with the terms contained and defined in the Glossary of Terms in the *CPA Canada Handbook – Assurance*.

Reading this document does not replace the need to read the entire Canadian Auditing Standard (CAS) 600, including the application and other explanatory material.

## Audit Client Briefing: What you need to know as group management

The revised CAS 600, *Special considerations – audits of group financial statements (including the work of component auditors)*, is effective for audits of group financial statements for periods beginning on or after December 15, 2023.

The revised CAS 600 continues to emphasize the need for two-way communication between client management and the auditor throughout the audit engagement.

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

Audits of group financial statements may need to consider specific complexities, including those related to the consolidation process.

This *Briefing* will be important to you, as an audit client, if you are the preparer or management group responsible for the group financial statements being audited. Appropriate communication among all the parties involved is crucial to a high-quality audit of the group financial statements. For example, you or component management may be preparing financial information to be included in your group financial statements for various entities or business units which could be organized in a variety of forms including by:

- jurisdictions having different local laws and regulations, such as different tax laws
- legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures or investments accounted for by the equity method)
- branches, divisions or other economic units which might be defined by specific functions or business activities

Another complicating factor is that these entities or business units may have stand-alone financial statements which are already audited by either the auditor of the group financial statements (the group auditor) or other auditors such as component auditors.

As group management, you can play an important [role](#) in facilitating that communication between you, your group auditor, component management (where applicable) and the component auditors.

You can also take specific actions to help your group auditor perform a high-quality group audit, allowing you to issue group financial statements that meet user needs. Find these [specific actions](#) in this *Briefing*.

## How are group financial statements defined in CAS 600?

The standard defines group financial statements to 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 in reference to:

- the preparation of consolidated financial statements in accordance with the applicable financial reporting framework
- the preparation of financial statements prepared under proportionate consolidation or an equity method of accounting
- the preparation of combined financial statements of the financial information of entities or business units that are under common control or common management
- the aggregation of the financial information of entities or business units such as branches or divisions

[CAS 600 para. 14(k)]

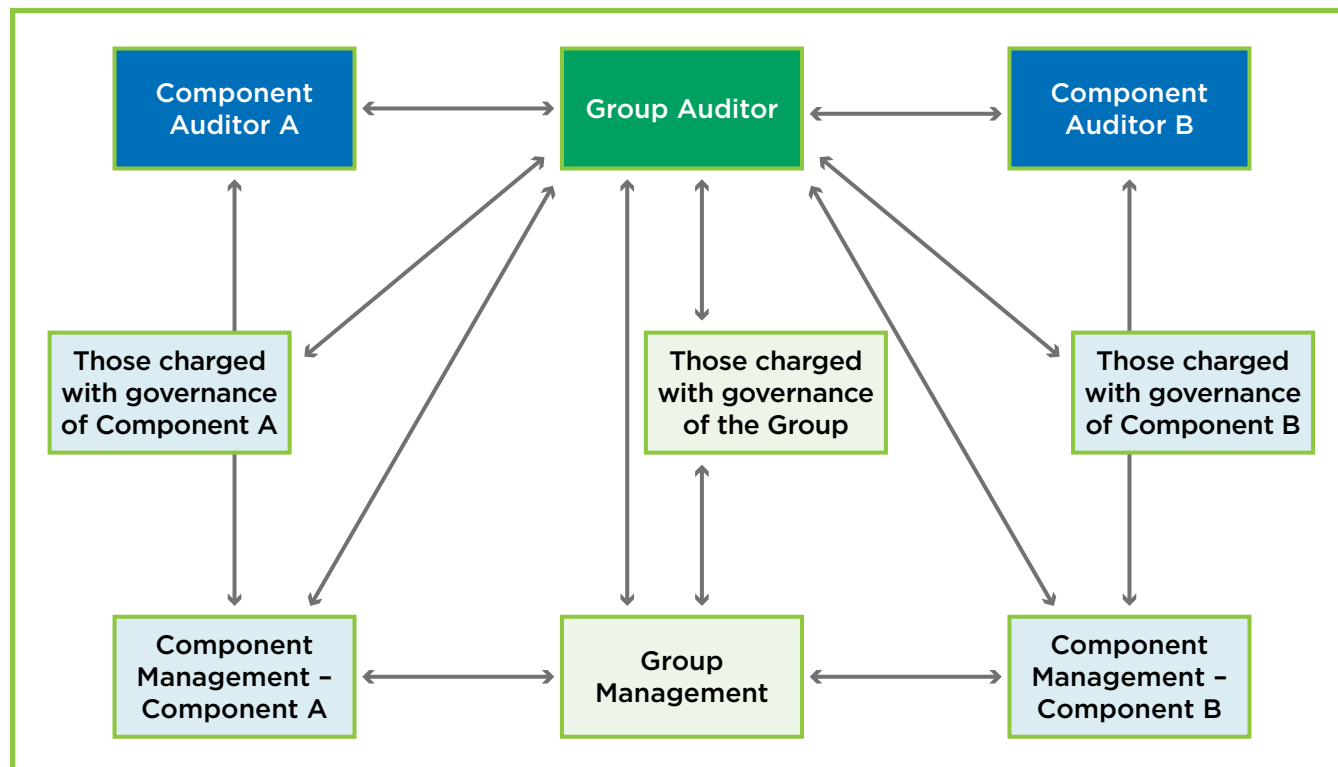
The group auditor determines the components<sup>1</sup> at which audit work will be performed and the resources needed to perform the group audit engagement. The group auditor may wish to involve component auditors in conducting the group audit engagement. Discussions between group management and the auditor will be needed throughout the engagement, starting with the planning phase, with respect to the nature, timing and extent of assistance required from group management, component management and others within the client entity group.

Looking for more information about the changes to CAS 600? Read [Audit & Assurance Alert CAS 600: Revised standard coming into effect.](#)

<sup>1</sup> CAS 600 paragraph 14(b) – 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.

## What are the interrelationships between key players in an audit of group financial statements?

To obtain sufficient appropriate audit evidence to draw reasonable conclusions on which to base the auditor's opinion on the group financial statements, 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 an audit of group financial statements can sometimes be complex. For example, when auditors other than the group auditor, such as component auditors, audit the financial information of components, the group auditor is required to be involved in their work. Your group auditor will need to:

- obtain an understanding of the component auditors' professional competence and capabilities and whether 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

- decide how the work of component auditors supports the group audit conclusions and whether further procedures are required to be performed by the group auditor or another auditor (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)

[CAS 600 paras. 45-48]

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 how the group auditor addressed the concern
- any limitations on the scope of the group audit (e.g., access to information that has been restricted)
- identified fraud or suspected fraud

[CAS 600 para. 57]

In addition to the above listed points, you can expect your group auditor to communicate with you on specific matters related to your group audit, such as:

- identified deficiencies in the group's system of internal control
- identified fraud or suspected fraud
- deficiencies in internal control at components and in group-wide internal control
- instances when the group auditor needs access to component management, records or other information related to the group audit:
  - when a component is a non-controlling interest or an investee recorded under the equity method, group management and those charged with governance of the group may need to be involved to provide audit access to the investee entity's records
  - where the component has restrictions on who can access their information which are outside of the control of group management (e.g. legislated matters and national security issues) and mitigating actions are needed to provide evidence to the group auditor

[CAS 600 paras. 54-56, 58]

Clear, consistent and timely communication between you, your group auditor, those charged with governance of the group, component management and component auditors is critical to enhancing audit quality.

## What are the main roles and responsibilities of the key players in an audit of group financial statements?

Depending on the circumstances of your organization and the related group audit engagement, the audit of components may be performed by either your group auditor or other auditors, such as component auditors. 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 an audit of group financial statements**

Key players	Roles and responsibilities, as outlined in CAS 600
Those charged with governance of the group [CAS 600 paras. 20, 57, 58]	<ul style="list-style-type: none"> <li>• oversee the group financial reporting process</li> <li>• assist the group auditor in removing restrictions at the component level or by requesting information from the component directly</li> <li>• take appropriate and timely actions in response to any matters raised by the group auditor</li> </ul>
Group management [CAS 600 paras. 14(l), 19, 30, 54, 55]	<ul style="list-style-type: none"> <li>• prepare the group financial statements</li> <li>• prepare 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>• determine internal control necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error</li> <li>• provide 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> <li>• assist the group auditor in removing restrictions at the component level or by requesting information from the component directly</li> </ul>
Group auditor [CAS 600 paras. 14(h), 28, 29, 31, 37, 45, 53, 58]	<ul style="list-style-type: none"> <li>• direct, supervise and perform the group audit engagement</li> <li>• direct, supervise and review the work of component auditors</li> <li>• communicate clearly and timely with component auditors</li> <li>• obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion on the group financial statements</li> <li>• form and express an opinion on the group financial statements without referring to the component auditors in the group auditor's report</li> </ul>

Key players	Roles and responsibilities, as outlined in CAS 600
Component management <sup>2</sup> [CAS 600 paras. 14(d), 56]	<ul style="list-style-type: none"> <li>prepare a component's financial information in accordance with the applicable financial reporting framework (as per instructions from group management)</li> <li>provide the group and/or component auditor with access to all information relevant for the purpose of the group audit, as well as unrestricted access to persons within component operations needed to obtain audit evidence</li> </ul>
Component auditor <sup>3</sup> [CAS 600 paras. 14(c), 32, 41-44]	<ul style="list-style-type: none"> <li>per instructions communicated by the group auditor, design and perform risk assessment and further audit procedures on financial information related to a component for the group audit</li> <li>communicate clearly and timely throughout with others involved in the group audit</li> <li>report overall findings or conclusions to the group auditor</li> </ul>

### What actions can you take to support a high-quality group audit?

Auditing standards require your group auditor to obtain an understanding of your group and its environment, the applicable financial reporting framework and the consistency of accounting policies and practices across the group, and the group's system of internal control including your consolidation process. To help your group auditor obtain this understanding, you can provide 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)
- component's activities that are significant to the group
- the composition of those charged with governance of the group, group management and key management of components
- group-wide controls
- the applicable financial reporting framework, of one or more components

<sup>2</sup> Group management may also act as component management and be responsible for the financial information or activity at an entity or business unit that is part of the group [CAS 600 paragraphs 14(d) & A24].

<sup>3</sup> The group auditor may also be the component auditor, in the case when the group auditor performs audit work related to a component for the purposes of the group audit [CAS 600 paragraph 14(c)].

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 that may be included in the document
Group financial reporting procedures manual	<p><i>The group financial reporting procedures manual may include:</i></p> <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</li> </ul> </li> </ul> </li> <li>• a reporting timetable</li> </ul>
Description of the group-wide controls	<p><i>The description of the group-wide controls may include:</i></p> <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</li> <li>• assigning authority and responsibility to component management</li> </ul>



Document	Example of elements that may be included in the document
Description of the consolidation process	<p data-bbox="578 310 1432 369"><i>The description of the group management's consolidation process may include:</i></p> <ul data-bbox="578 390 1451 1470" style="list-style-type: none"> <li data-bbox="578 390 1360 449">• the process for obtaining an understanding of the accounting policies used by components</li> <li data-bbox="578 470 1393 588">• 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 data-bbox="578 609 1419 806">• the process for identifying: <ul data-bbox="620 646 1419 806" style="list-style-type: none"> <li data-bbox="620 646 1419 705">— reportable segments for segment reporting in accordance with the applicable financial reporting framework</li> <li data-bbox="620 726 1419 806">— related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework</li> </ul> </li> <li data-bbox="578 827 1409 945">• 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 data-bbox="578 966 1386 1054">• the procedures for addressing financial activity of a component whose financial year differs from the group's year end (non-coterminous reporting periods)</li> <li data-bbox="578 1075 1451 1134">• the procedures for identifying, measuring and reporting acquisitions, disposals or reorganizations</li> <li data-bbox="578 1155 1393 1213">• the process for ensuring complete, accurate and timely financial reporting by the components for the consolidation</li> <li data-bbox="578 1234 1386 1293">• the process for translating the financial information of foreign components into the currency of the group financial statements</li> <li data-bbox="578 1314 1432 1402">• how IT is organized for the consolidation, including the manual and automated stages of the process and the related controls in place at various stages of the consolidation process</li> <li data-bbox="578 1423 1380 1470">• the process for obtaining information about subsequent events material to the group financial statements</li> </ul>

Document	Example of elements that may be included in the document
Description of the consolidation adjustments process	<p data-bbox="578 310 1425 373"><i>The description of the group's management consolidation adjustments process may include:</i></p> <ul data-bbox="578 390 1430 863" style="list-style-type: none"><li data-bbox="578 390 1430 453">• the process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries</li><li data-bbox="578 470 1430 533">• the consolidation adjustments required by the applicable financial reporting framework</li><li data-bbox="578 550 1430 613">• the required knowledge and experience of personnel responsible for the consolidation</li><li data-bbox="578 630 1430 714">• the procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits and intra-group account balances</li><li data-bbox="578 730 1430 793">• the business rationale for the events and transactions that gave rise to the consolidation adjustments</li><li data-bbox="578 810 1430 863">• the frequency, nature and size of intra-group transactions (i.e., between components)</li></ul>

## About this publication

The Research, Guidance and Support group of Chartered Professional Accountants of Canada (CPA Canada) undertakes initiatives to support practitioners and their clients in understanding the impact of new and revised standards. As part of these initiatives, the CPA Canada Advisory Group on the Implementation of the Canadian Auditing Standards (Advisory Group) provides advice on the identification of issues related to the implementation of CAS and on the development of non-authoritative implementation guidance related to these issues. The Advisory Group includes volunteers from the following Canadian firms: BDO, Deloitte, EY, Grant Thornton, KPMG, MNP and PwC.

This paper was developed and reviewed with the support of several volunteers, including CPA Canada's Advisory Group on the Implementation of the CAS and certain Auditing and Assurance Standards Board (AASB) technical staff. CPA Canada expresses its appreciation to all of the volunteers for their support in preparing this publication.

## Comments

Comments on this *Briefing*, or suggestions for future publications should be sent to:

### **Kaylynn Pippo, CPA, CA**

Director, Research, Guidance and Support  
Audit & Assurance  
Chartered Professional Accountants of Canada  
277 Wellington Street West  
Toronto ON M5V 3H2  
Email: [research@cpacanada.ca](mailto:research@cpacanada.ca)

## DISCLAIMER

This *Briefing* was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance. CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material. This *Briefing* has not been issued under the authority of the Auditing and Assurance Standards Board.

Copyright © 2024 Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact [permissions@cpacanada.ca](mailto:permissions@cpacanada.ca).