



Proposed- Statement on Auditing Standards, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors -and Audits of Referred-to Auditors)*

(Turnaround Draft: January 26, 2022 Draft Marked from the Draft Discussed on January 25, 2022)

Introduction

Scope of this Proposed SAS

1. Generally accepted auditing standards (GAAS) apply to an audit of group financial statements (a group audit). This proposed Statement on Auditing Standards (SAS) applies to all group audits. It addresses special considerations that apply to a group audit, including in those circumstances when component auditors are involved or when the group auditor makes reference to the audit of a referred-to auditor. The requirements and guidance in this proposed SAS refer to, or expand on, the application of other relevant AU-C sections to a group audit, in particular proposed SAS *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (proposed QM SAS),¹ AU-C section -230, *Audit Documentation*,² AU-C section -300, *Planning an Audit*,³ AU-C section 315, ~~*Identifying-Understanding the Entity and Its Environment*~~ and *Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*,⁴ and AU-C section -330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.⁵ (Ref: Para. A1–A2)
2. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in paragraph 14(k). The term consolidation process as used in this proposed SAS refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also 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. (Ref: Para. A3–A5, A25)
- 2.1. Government entities frequently prepare group financial statements. The AICPA Audit and Accounting Guide, *State and Local Governments* provides guidance to assist auditors in auditing and reporting on those financial statements in accordance with GAAS, including the requirements of this section.
3. As explained in proposed QM SAS,⁶ this proposed SAS, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this proposed SAS may be useful when involving such an individual to attend a physical inventory count, inspect property, plant, and equipment, or perform audit procedures at a shared service center at a remote location.

Groups and Components

4. A group may be organized in various ways. For example, a group may be organized by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments

¹ Proposed QM SAS, *Quality Management for an Engagement Performed/Conducted in Accordance with Generally Accepted Auditing Standards*

² AU-C section 230, *Audit Documentation*

³ AU-C section -300, *Planning an Audit*

⁴ AU-C section 315, ~~*Identifying-Understanding the Entity and Its Environment*~~ and *Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*

⁵ AU-C section- 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

⁶ Paragraph A1 of proposed QM SAS

accounted for by the equity method). Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by functions or business activities. In this proposed SAS, these different forms of organization are collectively referred to as "entities or business units." (Ref: Para. A6)

5. The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgment in determining the components at which audit work will be performed. This determination is based on the group auditor's understanding of the group and its environment, and other factors such as the ability to perform audit procedures centrally, the presence of shared service centers, or the existence of common information systems and internal control. (Ref: Para. A7–A9)

Involvement of Component Auditors

6. Proposed QM SAS⁷ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. In a group audit, such resources may include component auditors. Therefore, this proposed SAS requires the group auditor to determine the nature, timing, and extent of involvement of component auditors.
7. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this proposed SAS. Component auditors may have greater experience with, and a more in-depth knowledge of, the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit. (Ref: Para. A10–A10A)
8. Audit risk is a function of the risks of material misstatement and detection risk.⁸ Detection risk in a group audit includes the risk that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this proposed SAS requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, this proposed SAS explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A11–A12)

Making Reference to the Audit of a Referred-To Auditor

- 8.1 This proposed SAS also describes the procedures to be followed to obtain sufficient appropriate audit evidence when the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements. ~~A referred-to auditor is not a component auditor, and accordingly, a referred-to auditor is not part of the engagement team.~~ Reference in the auditor's report on the group financial statements to the fact that part of the audit was conducted by a referred-to auditor communicates the source of audit evidence with respect to those components for which such reference is made. ~~When component auditors are involved, no reference is made to the component auditor in the auditor's report on the group financial statements.~~

Commented [Author1]: Added based on suggestions of board.

⁷ Paragraph 25 of proposed QM SAS

⁸ Paragraph A38 of AU-C section –200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Generally Accepted Auditing Standards on Auditing*

Professional Skepticism

9. In accordance with AU-C section- 200,⁹ the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate exercise~~maintenanc~~e of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising~~maintaining~~ professional skepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise~~maintenanc~~e of professional skepticism. (Ref: Para. A13–A17)

Commented [Author2]: To conform to current conventions.

Scalability

10. This proposed SAS is intended for all group audits, regardless of size or complexity. However, the requirements of this proposed SAS are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely by the group auditor, some requirements in this proposed SAS are not relevant because they are conditional on the involvement of component auditors. This may be the case when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A117 and A118 also may be helpful in applying this proposed SAS in these circumstances. The requirements in paragraphs 50.1–50.13 and the related application material are specific to referred-to auditors. Therefore, when the group engagement partner plans to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements these requirements, in addition to other requirements, are relevant.

Alternative to Existing Para 10

10. This proposed SAS is intended for all group audits, regardless of size or complexity. However, the requirements of this proposed SAS are intended to be applied in the context of the nature and circumstances of each group audit. For example:

Commented [Author3]: Proposed alternative drafting as a replacement to existing para 10.

- The requirements in paragraphs 50.1–50.13 and the related application material in paragraphs A147.2–A147.14 are specific to referred-to auditors. Therefore, when the group engagement partner plans to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements these requirements, in addition to other requirements, are relevant.
- If component auditors are not involved in the group audit, the following requirements are not relevant:
 - Paragraphs 23-29
 - Paragraphs 31-32
 - Paragraph 34
 - Paragraph 36
 - Paragraphs 41-48
 - Paragraph 50
 - Paragraph 56.
- If component auditors are not involved in a group audit, however, the group engagement partner plans to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements, the following requirements are relevant:
 - Paragraphs 16-22
 - Paragraph 30
 - Paragraph 33
 - Paragraph 35

⁹ Paragraphs 17-18 and A24-A28 of AU-C section -200

- o Paragraphs 37-40
 - o Paragraph 49
 - o Paragraphs 50.1-55
 - o Paragraphs 57-59.
 - When a group audit involves component auditors and the group engagement partner plans to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, the requirements in paragraphs 16-59 are relevant.
 - When a group audit is carried out entirely by the group auditor (and therefore neither component auditors are involved in the group audit nor will the group engagement partner make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements), the requirements in the following paragraphs are not relevant:
 - o Paragraphs 23-29
 - o Paragraphs 31-32
 - o Paragraph 34
 - o Paragraph 36
 - o Paragraphs 41-48
 - o Paragraphs 50-50.13
 - o Paragraph 56.
- This may be the case when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A117 and A118 also may be helpful in applying this proposed SAS in these circumstances.

Responsibilities of the Group Engagement Partner and Group Auditor

11. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this proposed SAS. The term "the group engagement partner should take responsibility for..." or "the group auditor should take responsibility for..." is used for those requirements when the group engagement partner or group auditor, respectively, 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. For other requirements, this proposed SAS expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable, and the group engagement partner or group auditor may obtain information from the firm or other members of the engagement team. (Ref. Para. A17.1-A17.3, A27)

Effective Date

12. This proposed SAS is effective for audits of group financial statements for periods beginning on or after December 15, 2025.

Objectives

13. The objectives of the auditor are to:
- (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;
 - ~~(a.1) Determine whether to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, and if so, report in accordance with this proposed SAS;~~
 - (b) Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks;

Commented [Author4]: Moved (a.1) lower in the list to (b.1) and expanded to include determining whether to involve component auditors

(b.1) Determine whether to involve component auditors or to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, and if so, report in accordance with this proposed SAS:

- (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work; and
- (d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, or through making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, as a basis for forming an opinion on the group financial statements.

Definitions

14. For purposes of- GAAS, the following terms have the meanings attributed as follows:
- (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A18)
 - (b) Component – 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. (Ref: Para. A19-A19.1)
 - (c) Component auditor – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team¹⁰ for a group audit. (Ref: Para. A20–A21A)
 - (d) Component management – Management responsible for a component. (Ref: Para. A22)
 - (e) Component performance materiality – An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
 - (f) Group – A reporting entity for which group financial statements are prepared.
 - (g) Group audit – The audit of group financial statements.
 - (h) Group auditor – The group engagement partner and members of the engagement team other than component auditors. The group auditor is responsible for:
 - (i) Establishing the overall group audit strategy and group audit plan;
 - (ii) Directing and supervising component auditors and reviewing their work;
 - (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
 - (i) Group audit opinion – The audit opinion on the group financial statements.
 - (j) Group engagement partner – The engagement partner¹¹ who is responsible for the group audit. (Ref: Para. A23)
 - (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 proposed SAS, a consolidation process includes the following: (Ref: Para. A24–A26)

¹⁰ Paragraph 12 of proposed QM SAS

¹¹ Paragraph 12 of proposed QM SAS

- (i) Consolidation, proportionate consolidation, inclusion, or an equity method of accounting;
 - (ii) The presentation in combined financial statements of the financial information of entities or business units that 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.
- (l) Group management – Management responsible for the preparation of the group financial statements.
- (m) Group performance materiality – Performance materiality¹² in relation to the group financial statements as a whole, as determined by the group auditor.
- (m.1) Referred-to auditor – An auditor who performs an audit of the financial statements of a component to which the group engagement partner makes reference in the auditor’s report on the group financial statements. ~~(Ref: Para. A26.1) A referred-to auditor is not a component auditor, and accordingly, is not part of the engagement team for a group audit.~~
15. Reference in this proposed SAS to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements. (Ref: Para. A26.2)

Commented [Author5]: Moved from AM to the definition, per multiple suggestions.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

16. In applying proposed QM SAS,¹³ the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner should: (Ref: Para. A27–A28)
- (a) Take responsibility for creating an environment for the group audit engagement that emphasizes the expected behavior of engagement team members. (Ref: Para. A29)
 - (b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.

Acceptance and Continuance

17. Before accepting or continuing the group audit engagement, the group engagement partner should determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained. ~~(including through involving component auditors or through making reference to the audit of a referred-to auditor in the auditor’s report.)~~ to provide a basis for forming an opinion on the group financial statements. (Ref: Para. A30–A33.2)
- 17.1 When the group engagement partner plans to obtain audit evidence through making reference to the audit of a referred-to auditor, ~~the group engagement partner should apply the specific requirements additional procedures~~ in paragraphs 50.1-50.13 ~~related to making reference should be performed.~~ (Ref: Para. A33.1-A33.2)
18. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group

Commented [Author6]: Expanded to include component auditors, as well as put into parentheses, given that the sentence was complex.

The phrase in parentheses isn’t critical to the requirement, especially given it’s also covered in the AM; however, the board did want explicit acknowledgement in the requirements.

Additionally, if we were to delete, 17.1 would seem out of place.

Commented [Author7]: Per board discussion, removed the phrase “group engagement partner” as not all the requirements in 50.1-50.13 are required to be performed by the partner. Included the concept of “additional” to add clarity that these are incremental to other requirements.

¹² Paragraphs 9 and 11 of AU-C section 320, *Materiality in Planning and Performing an Audit*

¹³ Paragraph 13 of proposed QM SAS

engagement partner should consider the possible effects on the group audit. (Ref: Para. A34)

Terms of the Engagement

19. In applying AU-C section 210, *Terms of Engagement*¹⁴ the group auditor should obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A35)

- (a) 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;
- (b) Additional information that the engagement team may request from group management or component management for the purpose of the group audit; and
- (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

Restrictions on Access to Information or People Outside the Control of Group Management

20. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner should consider the possible effects on the group audit. (Ref: Para. A36–A43)

Restrictions on Access to Information or People Imposed by Group Management

21. If the group engagement partner concludes that: (Ref: Para. A41–A43)

- (a) It will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
- (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,

the group engagement partner should either:

- (i) In the case of an initial engagement, not accept the engagement, or, in the case of a recurring engagement, withdraw from the engagement, when withdrawal is possible under applicable law or regulation; or
- (ii) When the entity is required by law or regulation to have an audit, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements.

Overall Group Audit Strategy and Group Audit Plan

22. In applying AU-C section 300,¹⁵ the group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan. In doing so, the group auditor ~~shall~~should determine: (Ref: Para. A44–A47)

- (a) The components at which audit work will be performed; (Ref: Para. A48)
- (b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved; and (Ref: Para. A49–A53)
- (b.1) The components for which, if any, the auditor's report on the group financial statements will make reference to the audit of a referred-to auditor, ~~as discussed in~~ (see paragraphs

¹⁴ Paragraphs 6(b) and 8(b) of AU-C section 210, *Terms of Engagement*

¹⁵ Paragraphs 7-10 of AU-C section 300

50.1-50.13-~~1~~

Considerations When Component Auditors Are Involved

23. In establishing the overall group audit strategy and group audit plan, the group engagement partner should evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor. (Ref: Para. A54)
24. As part of the evaluation in paragraph 23, the group auditor should request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. (Ref: Para. A55)

Relevant Ethical Requirements, Including Those Related to Independence

25. In applying proposed QM SAS,¹⁶ the group engagement partner should take responsibility for: (Ref: Para. A56–A57, A84)
 - (a) Component auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; and
 - (b) Confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.

Engagement Resources

26. In applying proposed QM SAS,¹⁷ the group engagement partner should: (Ref: Para. A58–A65)
 - (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component; and
 - (b) If information about the results of the monitoring and remediation process or external inspections related to the component auditor has been provided by the group auditor's firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination in paragraph 26(a).
27. The group auditor should obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor if:
 - (a) The component auditor does not comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;¹⁸ or (Ref: Para. A66–A67)
 - (b) The group engagement partner has serious concerns about the matters in paragraphs 23–26. (Ref: Para. A68)

Engagement Performance

28. In applying proposed QM SAS,¹⁹ the group engagement partner should take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account: (Ref: Para. A69–A74)
 - (a) Areas of higher assessed risks of material misstatement of the group financial statements,

¹⁶ Paragraph 17 of proposed QM SAS

¹⁷ Paragraphs 25-26 of proposed QM SAS

¹⁸ Paragraph 16 of AU-C section 200

¹⁹ Paragraph 29 of proposed QM SAS

or significant risks identified in accordance with AU-C section 315; and

- (b) Areas in the audit of the group financial statements that involve significant judgment.

Communications with Component Auditors

29. The group auditor should communicate with component auditors about their respective responsibilities and the group auditor's expectations, including an expectation that communications between the group auditor and component auditors take place at appropriate times throughout the group audit. (Ref: Para. A75–A84)

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

30. In applying AU-C section 315,²⁰ the group auditor should take responsibility for obtaining an understanding of the following: (Ref: Para. A85–A89)

- (a) The group and its environment, including: (Ref: Para. A90–A92)
 - (i) The group's organizational structure and its business model, including:
 - a. The locations in which the group has its operations or activities;
 - b. The nature of the group's operations or activities and the extent to which they are similar across the group; and
 - c. The extent to which the group's business model integrates the use of IT;
 - (ii) Regulatory factors impacting the entities and business units in the group; and
 - (iii) The measures used internally and externally to assess the entities or business units' financial performance;
- (b) The applicable financial reporting framework and the consistency of accounting policies and practices across the group; and
- (c) The group's system of internal control, including:
 - (i) The nature and extent of commonality of controls; (Ref: Para. A93–A97, A100)
 - (ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A98–A100)
 - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - (iv) How group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the group's system of internal control to management of entities or business units. (Ref: Para. A101–A103)

Considerations When Component Auditors Are Involved

31. The group auditor should communicate to component auditors on a timely basis: (Ref: Para. A104)

- (a) Matters that the group auditor determines to be relevant to the component auditor's design or performance of risk assessment procedures for purposes of the group audit, including identified significant risks ~~of material misstatement of the group financial statements;~~

Commented [Author8]: Deleted "of material misstatement" as convention is not to have this phrase when referring to a significant risk (because "significant risk" is a defined term).

²⁰ Paragraphs 19-31 of AU-C section 315

- (b) In applying AU-C section 550,²¹ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor; and (Ref: Para. A105)
- (c) In applying AU-C section 570 (Revised),²² events or conditions identified by group management or the group auditor, that ~~may cast significant raise substantial~~ doubt ~~enabout~~ the group's ability to continue as a going concern for a reasonable period of time that are relevant to the work of the component auditor.

Commented [Author9]: To conform to current wording in 570.

32. The group auditor should request component auditors to communicate on a timely basis:

- (a) Matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error;
- (b) Related party relationships not previously identified by group management or the group auditor; and
- (c) Any events or conditions identified by the component auditor that may cast significant raise substantial doubt ~~enabout~~ the group's ability to continue as a going concern: for a reasonable period of time.

Commented [Author10]: To conform to current wording in 570.

Identifying and Assessing the Risks of Material Misstatement

33. In applying AU-C section 315,²³ based on the understanding obtained in paragraph 30, the group auditor should take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process. (Ref: Para. A106–A111)

Considerations When Component Auditors Are Involved

34. In applying AU-C section 315,²⁴ the group auditor should evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A112–A113)

Materiality

35. In applying AU-C section 320²⁵ and AU-C section 450,²⁶ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, for those components on which the group auditor or component auditor will perform audit procedures, the group auditor should determine:

- (a) Component performance materiality. To address aggregation risk, such amount should be lower than group performance materiality. (Ref: Para. A114–A118)
- (b) The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold should not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A119)

Considerations When Component Auditors Are Involved

36. The group auditor should communicate to the component auditor the amounts determined in

²¹ Paragraph 19 of AU-C section 550, *Related Parties*

²² AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

²³ Paragraphs 32-38 of AU-C section 315

²⁴ Paragraph 39 of AU-C section 315

²⁵ Paragraph 11 of AU-C section 320

²⁶ Paragraph 5 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit*

accordance with paragraph 35. (Ref: Para: A120–A121)

Responding to the Assessed Risks of Material Misstatement

37. In applying AU-C section 330,²⁷ the group auditor should take responsibility for the nature, timing, and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing, and extent of the work to be performed at those components. (Ref: Para. A122–A137)

Consolidation Process

38. The group auditor should take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This should include: (Ref: Para. A138)
- (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations;
 - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications; (Ref: Para. A139)
 - (c) Evaluating whether management's judgments made in the consolidation process give rise to indicators of possible management bias; and
 - (d) Responding to assessed risks of material misstatement due to fraud arising from the consolidation process.
39. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor should evaluate whether the financial information has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework.
40. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor should take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.²⁸

Considerations When Component Auditors Are Involved

41. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor should communicate with the component auditor about matters that the group auditor or component auditor determine to be relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.
42. For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with AU-C section 315, on which a component auditor is determining the further audit procedures to be performed, the group auditor should evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: Para. A140)
43. When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group auditor should determine the nature and extent of direction and supervision of component auditors and the review of their work. (Ref: Para. A141)
44. The group auditor should determine whether the financial information identified in the component auditor's communication (see paragraph 45(a)) is the financial information that is incorporated in

²⁷ Paragraphs 6-7 of AU-C section 330

²⁸ See, for example, *FASB Accounting Standards Codification Manual (ASC) 810, Consolidation*

Commented [Author11]: Added this footnote based on a comment that additional application material would be helpful. This ASC reference addresses different time periods.

the group financial statements.

Evaluating the Component Auditor's Communications and the Adequacy of Their Work

45. The group auditor should request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication should include: (Ref: Para. A142)
- (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures;
 - (b) Whether the component auditor has performed the work requested by the group auditor;
 - (c) Whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;
 - (d) Information about instances of non-compliance with laws or regulations;
 - (e) Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 36; (Ref: Para. A143)
 - (f) Indicators of possible management bias;
 - (g) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
 - (h) Fraud or suspected fraud involving component management, employees at entities or business units who have significant roles in the group's system of internal control at the component or others at entities or business units where the fraud resulted in a material misstatement of the component financial information;
 - (i) Other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component;
 - (j) Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in the written representations that the component auditor requested from component management; and
 - (k) The component auditor's overall findings or conclusions. (Ref: Para. A144)
46. The group auditor should:
- (a) Discuss significant findings and issues arising from communications with the component auditor, including those in accordance with paragraph 45, with the component auditor, component management or group management, as appropriate; and
 - (b) Evaluate whether communications with the component auditor are adequate for the group auditor's purposes. If such communications are not adequate for the group auditor's purposes, the group auditor ~~shall~~should consider the implications for the group audit. (Ref: Para. A144A)
47. The group auditor should determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation. In making this determination, the group auditor should consider: (Ref: Para. A145–A146)
- (a) The nature, timing and extent of the work performed by the component auditor;
 - (b) The competence and capabilities of the component auditor as determined in accordance with paragraph 26(a); and

(c) The direction and supervision of the component auditor and review of their work.

48. If the group auditor concludes that the work of the component auditor is not adequate for the group auditor's purposes, the group auditor should determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.

Subsequent Events

49. In applying AU-C section 560,²⁹ the group auditor should take responsibility for performing procedures, including, as appropriate, requesting component auditors to perform procedures, designed to identify events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A147)

Considerations When Component Auditors Are Involved

50. The group auditor should request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A147)

Additional Procedures When Making Reference to the Audit of a Referred-to Auditor in the Auditor's Report on the Group Financial Statements

Understanding the Referred-To Auditor

Relevant Ethical Requirements, Including Those Related to Independence, for Referred-To Auditors

- 50.1 When making reference to the audit of a referred-to auditor, the group engagement partner should take responsibility for: (Ref: Para. ~~A56-A57, A84~~, A147.2, A147.13.3)

- (a) Referred-to auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; and
- (b) Confirming whether the referred-to auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence.

Competence and Capabilities of Referred-To Auditors

- 50.2 When making reference to the audit of a referred-to auditor, the group engagement partner should take responsibility for:

- (a) Determining that referred-to auditors have the appropriate competence and capabilities; and
- (b) If information about the results of the monitoring and remediation process or external inspections related to the referred-to auditor has been provided by the group auditor's firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination in paragraph 50.2(a). (Ref: Para. A147.3-A147.3.2)

- 50.3. The group auditor should obtain sufficient appropriate audit evidence relating to the work to be performed at the component without making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements if: (Ref: Para. ~~A67-A68~~A147.3.3-A147.3.4)

- (a) The referred-to auditor does not comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement; ~~;~~ or
- (b) The group engagement partner has serious concerns about the matters in paragraphs

Commented [Author12]: We received suggestions to clarify the headings in this section, so there have been minor changes throughout to headings.

There have also been minor editorial changes (e.g., reference fixes and conforming language changes) to this series of requirements.

²⁹ Paragraphs 9-10 of AU-C section -560, *Subsequent Events*

50.1-50.2.

The Consolidation Process Considerations for Referred-To Auditors

50.3.1 The group auditor should obtain an understanding of whether the group auditor will be able to obtain information affecting the consolidation process from group management or a referred-to auditor.

Determining Whether to Make Reference to the Audit of a Referred-To Auditor (Ref: Para. A147.4-A147.9.)

50.4. Having obtained an understanding of the referred-to auditor in paragraphs 50.1-50.3, the group engagement partner should determine whether to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements.

50.5 Reference to the audit of a referred-to auditor in the auditor's report on the group financial statements should not be made unless:

- (a) the group engagement partner has determined that the referred-to auditor has performed an audit of the financial statements of the component in accordance with the relevant requirements of GAAS (Ref: Para. .A147.5), and
- (b) the referred-to auditor has issued an auditor's report that is not restricted as to use.

50.5.1 If the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements, reference to the audit of a referred-to auditor in the auditor's report on the group financial statements should not be made unless

- (a) the measurement, recognition, presentation, and disclosure criteria that are applicable to ~~all~~ material items in the component's financial statements under the financial reporting framework used by the component are similar to the criteria that are applicable to ~~all~~ material items in the group's financial statements under the financial reporting framework used by the group, and
- (b) the group ~~engagement team~~ auditor has obtained sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to be involved in the work ~~of performed at the auditor component~~. (Ref: Para. A147.5-A147.9)

50.5.2 When the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, the group ~~engagement team~~ auditor should obtain sufficient appropriate audit evidence with regard to such components by ~~performing the following procedures~~:

- a. ~~The~~ Performing the procedures required by this proposed SAS related to making reference to the audit of a referred-to auditor.
- b. Reading the component's financial statements and the referred-to auditor's report thereon to identify significant findings and issues.

Making Reference to the Audit of a Referred-To Auditor (Ref: Para. A147.10-A147.~~12~~13.1)

50.6 When the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, the report on the group financial statements should clearly indicate

- (a) that the component was not audited by the group auditor but was audited by the referred-to auditor.

- (b) the magnitude of the portion of the financial statements audited by the referred-to auditor.
- (c) when the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements
 - (i) the financial reporting framework used by the component and
 - (ii) that the group auditor is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group in accordance with paragraph 39. (Ref: Para. A147.6)
- (d) when
 - (i) the referred-to auditor's report on the component's financial statements does not state that the audit of the component's financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, and
 - (ii) the group engagement partner has determined that the referred-to auditor performed additional audit procedures in order to meet the relevant requirements of GAAS
 - (a) the set of auditing standards used by the referred-to auditor and
 - (b) that additional audit procedures were performed by the referred-to auditor to meet the relevant requirements of GAAS.

50.7 If the group engagement partner determines to name a referred-to auditor in the auditor's report on the group financial statements:

- (a) the referred-to auditor's express permission should be obtained.
- (b) the referred-to auditor's report should be presented together with that of the auditor's report on the group financial statements.

50.8 If the opinion of a referred-to auditor is modified or that audit report includes an emphasis-of-matter paragraph, an other-matter paragraph, or a going concern section, the group auditor should determine the effect that this may have on the auditor's report on the group financial statements. When deemed appropriate, the group auditor should modify the opinion on the group financial statements or include an emphasis-of-matter paragraph, an other-matter paragraph, or a going concern section in the auditor's report on the group financial statements. (Ref. Para. [AA147A147.13](#))

50.8.1 When component auditors are involved in the group audit, no reference should be made to the component auditor in the auditor's report on the group financial statements. (Ref. Para. A147.13.1)

Communications With the Referred-To Auditor (Ref. Para. A147.13.2-A147.13.3)

50.9 The group auditor should communicate to a referred-to auditor on a timely basis:

- a. In accordance with paragraph 50.1, the ethical requirements that are relevant to the group audit engagement, including those related to independence.
- b. In applying AU-C section 550,³⁰ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the referred-to auditor.
- c. Identified significant risks ~~of material misstatement~~ of the group financial statements,

³⁰ Paragraph 19 of AU-C section 550, *Related Parties*

whether due to fraud or error, that are relevant to the work of the referred-to auditor.

- d. A request that the referred-to auditor communicate on a timely basis:
 - i. Confirmation that the referred-to auditor will cooperate with the group auditor.
 - ii. Related party relationships not previously identified by group management or the group auditor. Additionally, the group ~~engagement team~~auditor should ~~identify~~communicate such additional related parties to other component auditors and referred-to auditors, as applicable;
 - iii. If the group engagement partner decides to name a ~~component~~,
~~iv.—referred to auditor in the auditor's report on the group financial statements, the referred-to auditor's~~ express permission for the group engagement partner to name ~~at~~the referred-to auditor in the auditor's report on the group financial statements in accordance with paragraph 50.7(a).

50.10 The group auditor should request a referred-to auditor to communicate matters relevant to the group auditor's conclusion, with regard to the group audit. Such communication should include the following:

- a. Whether the referred-to auditor has complied with ethical requirements that are relevant to the group audit engagement, including independence
- b. Identification of the financial information of the component on which the referred-to auditor is reporting
- c. The referred-to ~~auditor's audit report and opinion.~~

Evaluating a Referred-To Auditor's Communication

50.11 The group auditor should evaluate a referred-to auditor's communication (see paragraph 50.9(d) and 50.10). The group auditor should discuss significant findings and issues arising from that evaluation with the referred-to auditor, component management, or group management, as appropriate.

50.12 The group auditor should determine whether the financial information identified in the referred-to auditor's communications (see paragraph 50.10(b)) is the financial information that is incorporated in the group financial statements.

Subsequent Events Considerations for Referred-To Auditors

50.13 ~~The~~ In applying AU-C section 560, the group auditor should take responsibility for performing procedures, including, as appropriate, requesting referred-to auditors, ~~as appropriate,~~ to perform procedures designed to identify events that may require adjustment of, or disclosure in, the group financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

51. In applying AU-C section 330,³¹ the group auditor should evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors or through making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements (paragraph 58.11-58.13), on which to base the group audit opinion. (Ref: Para. A148–A152)

52. The group engagement partner should evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by

Commented [Author13]: As the opinion is not an additional item (it's embedded in the auditors' report), it doesn't really make sense to refer to it in this manner. The auditor's report is what we want the referred-to auditor to provide/communicate (and this will automatically have the auditor's opinion in it).

Commented [Author14]: Edits made based on suggestions, to align closer to para 49 (as this is a similar requirement, just geared toward the referred to auditor).

³¹ Paragraph 28 of AU-C section 330

component auditors) and any instances when there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A153)

Communication with Group Management and Those Charged with Governance of the Group

Communication with Group Management

54. The group auditor should communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group. (Ref: Para. A156)
55. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 45(h)), or information indicates that a fraud may exist, the group auditor should communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A157)
56. When a component auditor has been engaged to express an audit opinion on the financial statements of an entity or business unit that forms part of the group, the group auditor should request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor should discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, should consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved and whether to withdraw from the engagement. (Ref: Para. A158–A159)

Communication with Those Charged with Governance of the Group

57. The group auditor should communicate the following matters with those charged with governance of the group, in addition to those required by AU-C section 260, *Communication with Those Charged with Governance*³² and other AU-C sections: (Ref: Para. A160)
 - (a) An overview of the work to be performed at the components of the group, including the basis for the decision to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A161)
 - (b) Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.
 - (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
 - (d) Fraud or suspected fraud involving group management, component management, employees at entities or business units who have significant roles in the group's system of internal control or others at entities or business units in which a material misstatement of the group financial statements has or may have resulted from fraud.

Communication of Identified Deficiencies in Internal Control

58. In applying AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*³³ the group auditor should determine whether any identified deficiencies in the group's system of internal control are required to be communicated to those charged with governance of

³² AU-C section -260-, *Communication with Those Charged with Governance*

³³ AU-C section -265, *Communicating Internal Control Related Matters Identified in an Audit* †

the group or group management. In making this determination, the group auditor should consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 45(g). (Ref: Para. A162)

Documentation

59. In accordance with AU-C section 230,³⁴ 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 nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying AU-C section 230,³⁵ the group auditor should include in the audit documentation the following: (Ref: Para. A163–A166, A176–A179)

- (a) Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
- (b) The basis for the group auditor’s determination of components for purposes of planning and performing the group audit. (Ref: Para. A167)
- (c) The basis for the determination of component performance materiality and the threshold for communicating misstatements in the component financial information to the group auditor.
- (d) 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 at the components. (Ref: Para. A168)
- (e) Key elements of the understanding of the group’s system of internal control in accordance with paragraph 30(c);
- (f) The nature, timing and extent of the group auditor’s direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor’s review of additional component auditor audit documentation in accordance with paragraph 47. (Ref: Para. A169–A175)
- (g) Matters related to communications with component auditors, including:
 - (i) Matters, if any, related to fraud, related parties, or going concern communicated in accordance with paragraph 32.
 - (ii) Matters relevant to the group auditor’s conclusion with regard to the group audit, in accordance with paragraph 45, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.

(g.1) Those components for which reference to the audit of referred-to auditors is made in the auditor’s report on the group financial statements, including the following for such components:

~~(g.2) For those components for which reference to the audit of referred-to auditors is made in the auditor’s report on the group financial statements~~

- i. the financial statements of the component and the report of the referred-to auditor thereon
- ii. when the referred-to auditor’s report on the component’s financial statements does

Commented [Author15]: Based on 2 comments, combined the documentation requirements together, given that the lead in to g.2 was essentially the same as g.1.

³⁴ Paragraph 8 of AU-C section 230

³⁵ Paragraphs 1-3, 9-12, A8-A9, and the Exhibit in AU-C section -230

not state that the audit of the component's financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, the basis for the group engagement partner's determination that the audit performed by the referred-to auditor met the relevant requirements of GAAS

- iii. The basis for the group auditor's determination that referred-to auditors have the appropriate competence and capabilities
 - iv. Matters related to communications with referred-to auditors communicated in accordance with paragraphs 50.9(d) and 50.10, including how the group auditor has addressed significant matters discussed with referred-to auditors, component management or group management.
- (h) The group auditor's evaluation of, and response to, findings or conclusions of the component auditors or referred-to auditors about matters that could have a material effect on the group financial statements.