

CANADIAN AUDITING STANDARDS

CAS 600

special considerations – audits of group financial statements (including the work of component auditors)

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving [CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements](#).

45. The group auditor shall request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A144)
- (h) Fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component or others where the fraud resulted in a material misstatement of the component financial information;
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 shall 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. A160)
57. The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by CAS 260.30 and other CAs: (Ref: Para. A163)
- (d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.
59. In accordance with CAS 230.32 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 CAS 230.33 the group auditor shall include in the audit documentation: (Ref: Para. A166-A169, A179-A182)
- (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.
- A92. The discussion provides an opportunity to:
- Share knowledge of the components and their environments, including which components' activities are centralized.
 - Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
 - Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. [CAS 240.72 requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.](#)
 - Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.
 - Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
 - Consider the risk that group or component management may override controls.
 - Discuss fraud that has been identified, or information that indicates existence of a fraud.
 - Identify risks of material misstatement relevant to components where there may be impediments to the exercise of professional skepticism.

- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, if not, how differences in accounting policies are identified and adjusted (when required by the applicable financial reporting framework).
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Discuss events or conditions identified by group management, component management or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management or component management, and any other related parties of which the engagement team is aware.

A113. In applying CAS 240, 79 the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risk that the group financial statements may be materially misstated due to fraud.
- Group management's process for identifying and responding to the risks of fraud in the group financial statements, including any specific fraud risks identified by group management, or classes of transactions, account balances, or disclosures for which a risk of fraud is higher.
- Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and when appropriate, component management, the component auditors, and others) to the group auditor's inquiry about whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

A136. Incorporating an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁸⁵

A144. Although the matters required to be communicated in accordance with paragraph 45 are relevant to the group auditor's conclusion with regard to the group audit, certain matters may be communicated during the course of the component auditor's procedures. In addition to the matters in paragraphs 32 and 50, such matters may include, for example:

- Information about breaches of relevant ethical requirements, including identified breaches of independence provisions;
- Information about instances of non-compliance with laws or regulations;
- Newly arising significant risks of material misstatement, including risks of fraud;
- Identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial statements; or
- Significant and unusual transactions.

A160. CAS 24091 contains requirements and guidance on the communication of fraud to management and, when management may be involved in the fraud, to those charged with governance.

Appendix 2 (Ref: Para. A88)

The Group's Risk Assessment Process

3. The group auditor's understanding of the group's risk assessment process may include matters such as 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. It may also include an understanding of how sophisticated the group's risk assessment process is and the involvement of entities and business units in this process.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 570, Going Concern.

Appendix 1
(Ref: Para. A45)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., CAS 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in CAS 210.
- The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group auditor did not have access to the accounting records, management, or auditor of the component.
- The group auditor has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.¹
- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with CAS 701.²
- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of revisions to *IAS 1 Presentation of Financial Statements*, which were published in Part 1 of the CPA Canada Handbook – Accounting in June 2021. The revisions require entities to disclose material accounting policy information rather than significant accounting policies.

Appendix 1
(Ref: Para. A45)

Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Footnotes

30. CAS 260, *Communication with Those Charged with Governance*

32 CAS 230, paragraph 8

33 CAS 230, paragraphs 1-3, 9-11, A6-A7 and Appendix

72 CAS 240, paragraph 16

79 CAS 240, paragraphs 26, 31

85 CAS 240, paragraph 30(c)

91 CAS 240, paragraphs 41-43

1. If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with **CAS 705**.

2. [CAS 701, Communicating Key Audit Matters in the Independent Auditor's Report](#)

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