

KAEG-I [INTL VERSION 2024]: ISA 600 (Revised) Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

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ISA 600 (Revised) Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

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ISA 600 (Revised) Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Introduction, Objectives and Definitions

International Standards on Auditing: ISA 600.01-15

Introduction

Scope of this ISA

1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements (a group audit). This ISA deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, the application of other relevant ISAs to a group audit, in particular ISA 220 (Revised),¹ ISA 230,² ISA 300,³ ISA 315 (Revised 2019),⁴ and ISA 330.⁵ (Ref: Para. A1-A2)

¹ ISA 220 (Revised), Quality Management for an Audit of Financial Statements

² ISA 230, Audit Documentation

³ ISA 300, Planning an Audit of Financial Statements

⁴ ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement

⁵ ISA 330, The Auditor's Responses to Assessed Risks

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 ISA 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, A27)

3. As explained in ISA 220 (Revised),⁶ this ISA, 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 ISA 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.

⁶ ISA 220 (Revised), paragraph A1

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 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 ISA, 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. ISA 220 (Revised)⁷ 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 ISA requires the group auditor to determine the nature, timing and extent of involvement of component auditors.

⁷ ISA 220 (Revised), paragraph 25

7. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this ISA. 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- A11)

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 ISA 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 ISA 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. A12- A13)

⁸ ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph A34

Professional Skepticism

9. In accordance with ISA 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 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 professional skepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A14-A18)

⁹ ISA 200, paragraphs 15–16

Scalability

10. This ISA is intended for all group audits, regardless of size or complexity. However, the requirements of this ISA 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 ISA 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 A119 and A120 also may be helpful in applying this ISA 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 ISA. The term "the group engagement partner shall take responsibility for..." or "the group auditor shall 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 ISA 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. A29)

Effective Date

12. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 2023.

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;

- 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;
- 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, as a basis for forming an opinion on the group financial statements.

Definitions

- 14. For purposes of the ISAs, the following terms have the meanings attributed below:
 - a. Aggregation risk - The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A19)
 - 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. A20)
 - 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. A21-A23)
 - d. Component management - Management responsible for a component. (Ref: Para. A24)
 - 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. A25)
 - 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 ISA, a consolidation process includes: (Ref: Para. A26-A28)
 - i. Consolidation, proportionate consolidation, or an equity method of accounting;

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- ii. The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or
 - iii. The aggregation of the financial information of entities or business units such as branches or divisions.
- I. 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.

¹⁰ ISA 220 (Revised), paragraph 12(d)

¹¹ ISA 220 (Revised), paragraph 12(a)

¹² ISA 320, *Materiality in Planning and Performing an Audit*, paragraphs 9 and 11

15. Reference in this ISA to "the applicable financial reporting framework" means the financial reporting framework that applies to the group financial statements.

ISA Application and Other Explanatory Material: ISA 600.A1-A28

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1-2)

A1. This ISA also deals with the special considerations for the group engagement partner or group auditor, as applicable, in applying the requirements and guidance in ISA 220 (Revised), including for the direction and supervision of component auditors and the review of their work.

A2. ISQM 1³⁴ addresses the engagements for which an engagement quality review is required to be performed. ISQM 2³⁵ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.

³⁴ International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

³⁵ ISQM 2, Engagement Quality Reviews

A3. An entity or business unit of a group may also prepare its own group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a sub-group). This ISA applies to an audit of the group financial statements of such sub-groups performed for statutory, regulatory or other reasons.

A4. A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is aggregated in preparing

the single legal entity's financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.

A5. In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA.

Groups and Components (Ref: Para. 4-5)

A6. The group's information system, including its financial reporting process, may or may not be aligned with the group's organizational structure. For example, a group may be organized according to its legal structure, but its information system may be organized by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes.

A7. Based on the understanding of the group's organizational structure and information system, the group auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the group auditor may decide to treat these three legal entities as one component.

A8. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group's financial reporting process, the group auditor may determine that the shared service center is a component.

A9. Another consideration that may be relevant to the group auditor's determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework.³⁶

³⁶ See, for example, International Financial Reporting Standard (IFRS) 8, Operating Segments

Involvement of Component Auditors (Ref: Para. 7-8)

A10. Component auditors may perform an audit of the financial statements of a component, whether for statutory, regulatory or other reasons, particularly when a component is a legal entity. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit. In addition, component auditors may adapt the work performed on the audit of the component financial statements to also meet the needs of the group auditor. In any event, the requirements of this ISA apply, including those relating to the direction and supervision of component auditors and the review of their work.

A11. In accordance with ISA 220 (Revised),³⁷ the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. Paragraph A76 provides examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work, and may be helpful in circumstances when the group auditor plans to use the audit work from an audit of component financial statements that has already been completed.

³⁷ ISA 220 (Revised), paragraph 30(b)

A12. As explained in ISA 200,³⁸ detection risk relates to the nature, timing and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. Detection risk is a function not only of the effectiveness of an audit procedure but also the application of that procedure by the auditor. Therefore, detection risk is influenced by matters such as adequate planning, the assignment of appropriate resources to the engagement, the exercise of professional skepticism, and the supervision and review of the audit work performed.

³⁸ ISA 200, paragraph A45

A13. Detection risk is a broader concept than aggregation risk as described in paragraphs 14(a) and A19. In a group audit, there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole because audit procedures may be performed separately on the financial information of components across the group. Accordingly, component performance materiality is set by the group auditor to reduce aggregation risk to an appropriately low level.

Professional Skepticism (Ref: Para. 9)

A14. ISA 220 (Revised)³⁹ provides examples of the impediments to the exercise of professional skepticism at the engagement level, including unconscious auditor biases that may impede the exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. ISA 220 (Revised) also provides possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level.

³⁹ ISA 220 (Revised), paragraphs A34–A36

A15. Requirements and relevant application material in ISA 315 (Revised 2019),⁴⁰ ISA 540 (Revised)⁴¹ and other ISAs address the exercise of professional skepticism, and include examples of how documentation may help provide evidence of the auditor's exercise of professional skepticism.

⁴⁰ ISA 315 (Revised 2019), paragraph A238

⁴¹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

A16. All members of the engagement team are required to exercise professional skepticism throughout the group audit. The group auditor's direction and supervision of engagement team members, including

component auditors, and the review of their work, may inform the group auditor about whether the engagement team has appropriately exercised professional skepticism.

A17. The exercise of professional skepticism in a group audit may be affected by matters such as the following:

- Component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.
- The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex organizational structure may be a fraud risk factor in accordance with ISA 240⁴² and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units.
- The nature and extent of intra-group transactions (e.g., transactions that involve multiple entities and business units within the group or multiple related parties), cash flows or transfer pricing agreements may give rise to additional complexities. In some cases, such matters may also give rise to fraud risk factors.
- When the group audit is subject to tight reporting deadlines imposed by group management, this may put pressure on engagement team members when completing the work assigned. In these circumstances, the engagement team may need to take additional time to appropriately question management's assertions, make appropriate judgments, or appropriately review the audit work performed.

⁴² ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, Appendix 1

A18. The exercise of professional skepticism by the group auditor includes remaining alert for inconsistent information from component auditors, component management and group management about matters that may be significant to the group financial statements.

Definitions

Aggregation Risk (Ref: Para. 14(a))

A19. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team.

Component (Ref: Para. 14(b))

A20. The group auditor uses professional judgment in determining components at which audit work will be performed. Paragraph A7 explains that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. However, the group auditor's responsibility for the identification and assessment of the risks of material misstatement of the group financial statements encompasses all of the entities and business units whose financial information is included in the group financial statements.

Component Auditor (Ref: Para. 14(c))

A21. References in this ISA to the engagement team include the group auditor and component auditors.

Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor's firm (e.g., another office within the group auditor's firm).

A22. In some circumstances, the group auditor may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

A23. Paragraph 24 requires the group auditor to 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. Paragraph A58 provides guidance for circumstances in which the component auditor is unable to provide such a confirmation.

Component Management (Ref: Para. 14(d))

A24. Component management refers to management responsible for the financial information or other activity (e.g., processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group auditor considers the financial information of certain entities or business units together as a component or determines that a shared service center is a component (see paragraphs A7–A8), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component. In some circumstances, there may not be separate component management and group management may be directly responsible for the financial information or other activities of the component.

Group Engagement Partner (Ref: Para. 14(j))

A25. When joint auditors conduct a group audit, the joint engagement partners and their engagement teams collectively constitute the "group engagement partner" and "engagement team" for the purposes of the ISAs. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor for purposes of the group audit.

Group Financial Statements (Ref: Para. 2, 14(k))

A26. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that have no parent but are under common control or entities under common management.

A27. The term "consolidation process" as used in this ISA is not intended to have the same meaning as "consolidation" or "consolidated financial statements" as defined or described in financial reporting frameworks. Rather, the term "consolidation process" refers more broadly to the process used to prepare group financial statements.

A28. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a

consolidation process involves considerations such as the elimination of intra-group transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Leadership Responsibility for Managing and Achieving Quality on a Group Audit

International Standards on Auditing: ISA 600.16

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

16. In applying ISA 220 (Revised),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 shall: (Ref: Para. A29-A30)

- a. Take responsibility for creating an environment for the group audit engagement that emphasizes the expected behavior of engagement team members. (Ref: Para. A31)
- 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.

¹³ ISA 220 (Revised), paragraph 13

ISA Application and Other Explanatory Material: ISA 600.A29-A31

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 11, 16)

A29. It may not be possible or practical for the group engagement partner to solely deal with all requirements in ISA 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, ISA 220 (Revised)⁴³ permits the engagement partner to assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign procedures, tasks or actions to other members of the engagement team and these members may assign procedures, tasks or actions further. In such circumstances, ISA 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement.

⁴³ ISA 220 (Revised), paragraph 15

A30. Policies or procedures established by the firm, or that are common network requirements or network services,⁴⁴ may support the group engagement partner by facilitating communication between the group auditor and component auditors and supporting the group auditor's direction and supervision of those component auditors and the review of their work.

⁴⁴ ISQM 1, paragraphs 48-52

A31. ISA 220 (Revised)⁴⁵ explains that a culture that demonstrates a commitment to quality is shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement. In addressing the requirement in paragraph 16(a), the group engagement partner may communicate directly to other members of the engagement team (including component auditors) and reinforce this communication through personal conduct and actions (e.g., leading by example).

⁴⁵ ISA 220 (Revised), paragraph A28

How do we comply with the Standards?

[ISA | KAEGHDWC]

1 Determine whether the audit is a group audit [ISA | 8161]

8161]

What do we do?

Determine whether the audit is a group audit.

Why do we do this?

We determine whether the audit is a group audit because special considerations apply to a group audit, including in those circumstances when component auditors are involved.

Execute the audit

[What is a group audit?](#) [ISA | 8161.160207]

A group audit is an audit of group financial statements prepared for a group (i.e. the reporting entity and its entities or business units).

[What are group financial statements?](#) [ISA | 8161.160208]

Group financial statements are financial statements that include the financial information of more than one entity or business unit through a consolidation process.

[What is the consolidation process?](#) [ISA | 8161.1300]

The consolidation process is one part of the financial reporting process. The consolidation process includes:

- Consolidation, proportionate consolidation, or an equity method of accounting in accordance with a financial reporting process;
- the presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or
- the aggregation of the financial information of entities or business units such as branches or divisions.

The term consolidation process as used in this activity is not intended to have the same meaning as consolidation or consolidated financial statements as defined or described in financial reporting frameworks. Rather, the term consolidation process refers more broadly to the process used to prepare group financial statements.

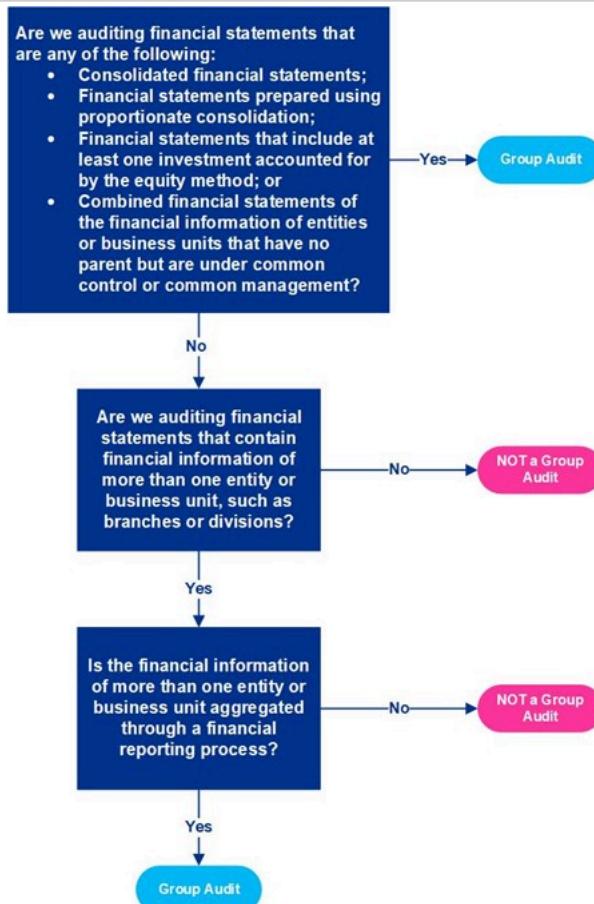
[Who is a component auditor?](#) [ISA | 8161.160190]

A component auditor is an auditor who performs work on the financial information of a component that will be used as audit evidence for the group audit. They are also a type of 'other auditor'.

Component auditors may be from another KPMG firm, a non-KPMG firm, or the group auditor's firm (e.g. another office within the group auditor's firm). In some circumstances, the group auditor may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

[How do we determine whether the audit is a group audit?](#) [ISA | 8161.160209]

We determine whether the audit is a group audit by using the decision tree below:



Can an audit of a single legal entity be a group audit? [ISA | 8161.160211]

Yes, an audit of a single legal entity can be a group audit when the financial information of more than one business unit are aggregated through a financial reporting process.

For example, a single legal entity may be organized with more than one business unit, such as a bank with operations in multiple branches.

When those business units have characteristics such as:

- separate locations,
- separate management,
- separate information systems,
- or separate general ledgers with the same information system

and the financial information of the business units are aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of group financial statements, because they include the financial information of more than one entity or business unit through a financial reporting process.

In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one

entity or business unit through a financial reporting process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions).

[Are standalone parent entity financial statements, where investments in subsidiaries are accounted for using the equity method, considered group financial statements?](#) [ISA | 8161.160210]

Standalone parent entity financial statements where investments in subsidiaries are accounted for using the equity method are group financial statements for the purpose of this topic and the auditing standards, because they include the financial information of more than one entity through a consolidation process.

Under certain financial reporting frameworks, the group's parent entity may prepare standalone parent entity financial statements presented either with group financial statements or instead of group financial statements (as defined in the financial reporting framework). Different financial reporting frameworks allow or require standalone parent entity financial statements to be prepared using one or more methods to account for investments in subsidiaries (i.e., controlled entities). For example, under IFRS, investments in subsidiaries may be accounted for at cost, at fair value, or using equity accounting in parent entity standalone financial statements.

For the purpose of determining component performance and group materiality, we use amounts as if the subsidiaries had been fully consolidated rather than the actual amounts reported in the standalone parent entity financial statements to determine the amounts of relevant metrics/benchmarks.

2 Take overall responsibility for managing and achieving quality on the audit

[ISA | 8006]

What do we do?

The engagement partner takes overall responsibility for managing and achieving quality in the audit.

Why do we do this?

The engagement partner takes overall responsibility to manage quality at the engagement level to obtain reasonable assurance that we have fulfilled our responsibilities and conducted an audit in accordance with the professional standards and applicable legal and regulatory requirements and that the auditor's report is appropriate. The engagement partner's overall responsibility includes fulfilling leadership responsibilities, supporting engagement performance (including taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed) and standing back to determine they have taken overall responsibility for managing and achieving quality in the audit.

Execute the audit

[How does the engagement partner take overall responsibility for managing and achieving quality on the engagement?](#) [ISA | 8006.157329]

The engagement partner takes responsibility for managing and achieving a quality audit by creating an environment for the engagement that emphasizes the firm's culture and expected behavior of the engagement team members. This engagement partner's responsibility is supported by KPMG culture that demonstrates a commitment to quality and the actions of the engagement team members when performing the engagement.

The engagement partner takes responsibility for clear, consistent and effective actions being taken that reflect KPMG's commitment to quality (e.g. leading by example) and that establish and communicate the expected behavior of engagement team members, including emphasizing:

- that all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
- the importance of professional ethics, values and attitudes to the members of the engagement team;
- the importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear or reprisal; and
- the importance of each engagement team member exercising professional skepticism throughout the engagement by performing the activity '[Apply professional skepticism](#)'.

In addition, engagement partner's sufficient and appropriate involvement throughout the engagement is fundamental to achieving high quality audits. This involvement provides the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement.

[Who is an engagement partner?](#) [ISA | 8006.160164]

An engagement partner is the partner or other appropriate person (e.g. managing directors, directors) in the firm who is responsible for the audit engagement. The engagement partner is responsible for the direction, supervision, and the review of the work performed, and for the auditor's report that is issued on behalf of the firm. The engagement partner is responsible for compliance of relevant professional, legal and regulatory body requirements.

When joint auditors conduct an audit, the joint engagement partners collectively constitute the "engagement partner".

In a group audit, the engagement partner responsible for the group audit is referred to as the "group engagement partner."

[Who is the engagement partner for a group audit?](#) [ISA | 8006.1501]

The engagement partner for a group audit, referred to as the 'group engagement partner', is the partner or other appropriate person in the firm who is responsible for the group audit engagement and for the auditor's report on the group financial statements.

[Group Audit | What are the responsibilities of the group engagement partner?](#) [ISA | 8006.1800]

The responsibilities of a group engagement partner for managing and achieving quality on the group audit are the same as the engagement partner responsibilities in a stand-alone audit

Although component auditors can help the group auditor obtain sufficient appropriate audit evidence, the group engagement partner still has the overall responsibility for properly managing and achieving a quality group audit.

Who is an "other audit partner"? [ISA | 8006.1600]

An "other audit partner" is an audit partner or other appropriate person (e.g. managing director or director) who is a member of the engagement team, and to whom the engagement partner may delegate certain responsibilities, including partner level review responsibilities. However, those responsibilities specifically required to be fulfilled by the engagement partner cannot be delegated and the ultimate responsibility for managing and achieving the overall quality on the engagement resides with the engagement partner.

Who comprises an engagement team? [ISA | 8006.1300]

The engagement team includes all those who perform audit procedures on the engagement and includes:

- all partners, managers, and staff
- employed KPMG specialists and specific team members
- any other individuals who perform audit procedures on the engagement, including:
 - individuals (including component auditors) from a KPMG member firm
 - individuals (including component auditors) from a non-KPMG member firm
 - individuals from service delivery centers or another service provider.

When joint auditors conduct an audit, the joint engagement teams collectively constitute the "engagement team".

The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of the location or employment status of such individuals, any individual who performs audit procedures on the engagement is a member of the engagement team.

The definition of an engagement team includes individuals who perform audit procedures on the audit engagement. Audit procedures comprise risk assessment procedures and further audit procedures. Audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry.

The engagement team does not include:

- engagement quality control (EQC) reviewer,
- limited scope quality control (LSQC) reviewer,
- other engagement reviewers,
- engaged KPMG specialists,
- accredited sampling professionals (ASP),
- management's specialists,
- individuals within the entity's internal audit function who provide direct assistance on an engagement,
- individuals whose involvement with the engagement is limited to consultation on specific matters.
In this case, we perform the activity '[Undertake appropriate consultations](#)'.
- other individuals who perform activities that are not audit procedures (e.g. performing extraction and processing of data from an entity's system but not evaluating the relevance and reliability of such data).

[Who is a 'service provider'? \[ISA | 8006.159667\]](#)

In the context of the definition of an engagement team, a service provider is an individual or organization external to the firm that provides a resource that is used in the system of quality management or in performing engagements. Service providers exclude the firm's network, other network firms, or other structures or organizations in the network.

[What do we consider when engaging individuals who are not personnel \(i.e. partners and staff in our member firm\) to perform audit procedures? \[ISA | 8006.159995\]](#)

Refer to Sections [9.8](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/81?jm=225> and [12.7](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=245> of the Global Quality & Risk Management Manual (GQ&RMM) for policies and procedures when engaging third parties (including individuals from other KPMG member firms or affiliates) to perform audit procedures on the engagement.

[How does the engagement partner take responsibility for communicating the expected behavior of the engagement team members? \[ISA | 8006.157330\]](#)

Communication is the means for the engagement team to share relevant information on a timely basis, thereby contributing to the achievement of quality on the audit engagement. The engagement partner's actions and communications depend on a variety of factors, including the size, structure, geographical dispersion and complexity of the engagement team, and the nature and circumstances of the engagement.

For example, to support appropriate direction, supervision and review, KPMG may use IT applications (e.g. KPMG Clara Exchange Space for group audits) to facilitate the communication between the members of the engagement team when they are performing work across geographical locations.

In a smaller engagement, direct interaction with the engagement team members may be sufficient, but in larger engagements, a more formal communication may be necessary.

The risk assessment and planning discussion (RAPD) is an example communication for the engagement partner to emphasize the expected behavior of the engagement team.

[Can the engagement partner assign the design or performance of procedures, tasks or actions to other members of the engagement team? \[ISA | 8006.157331\]](#)

Yes. Appropriate engagement team member(s) can assist the engagement partner in fulfilling the engagement partner's responsibilities. Those team members comply with the same requirements as the engagement partner with respect to the procedures, tasks or actions related to managing and achieving a quality audit. However, the engagement partner retains overall responsibility for managing and achieving quality at the engagement level through direction and supervision of those members of the engagement team, and review of their work, regardless of who performs the work and where it is performed.

[What procedures, tasks or actions can the engagement partner assign to other members of the engagement team? \[ISA | 8006.14050\]](#)

Activities explicitly stated as 'performed by the engagement partner' are performed by the engagement partner. Other activities that are indicated as 'being the responsibility of the engagement partner' may be delegated to appropriate members of the engagement team.

[Who might be considered to be an appropriate engagement team member?](#) [ISA | 8006.2000]

An appropriately skilled or suitably experienced member of the engagement team can be considered as an appropriate engagement team member for purpose of assisting the engagement partner with their responsibilities. This is an experienced auditor having practical audit experience and a reasonable understanding of audit processes, applicable legal and regulatory requirements, business environment in which the entity operates and auditing and financial reporting issues relevant to the entity's industry.

[When does the engagement partner determine they have taken overall responsibility for managing and achieving quality on the engagement?](#) [ISA | 8006.157333]

The engagement partner takes overall responsibility for the quality on audits throughout the engagement. In addition, the engagement partner 'steps back' at the end of the audit, prior to dating the auditor's report, to determine that they have taken overall responsibility for managing and achieving quality on the audit.

[How does the engagement partner determine they have taken overall responsibility for managing and achieving quality on the engagement?](#) [ISA | 8006.157462]

The engagement partner takes overall responsibility for managing and achieving quality on the engagement by determining that:

- their involvement has been sufficient and appropriate throughout the audit such that they have a basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement, and
- the nature and circumstances of the audit, any changes during the audit, and the firm's related policies or procedures were taken into account.

[What does it mean to be sufficiently and appropriately involved throughout the engagement?](#) [ISA | 8006.157335]

This overall responsibility includes fulfilling leadership responsibilities and supporting engagement performance and can be demonstrated in various ways, including:

- taking responsibility for the nature, timing and extent of direction, supervision and review of the work performed, and
- varying the nature, timing and extent of such direction, supervision and review in the context of the nature and circumstances of the engagement.

This also includes standing back at the end of the engagement to determine whether the involvement was sufficient and appropriate.

[Are there indicators for the engagement partner to determine they have been sufficiently and appropriately involved in the audit?](#) [ISA | 8006.157336]

Indicators that the engagement partner has been sufficiently and appropriately involved include, for example:

- timely review of audit planning, including reviewing the assessment of risks of material misstatement and the design of responses to those risks
- evidence that those whom tasks, actions or procedures have been assigned were adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and necessary instructions and relevant information were provided
- evidence of the engagement partner's direction and supervision of other engagement team members and review of their work.

One of the key questions to ask when making this determination is "How does the audit documentation evidence the engagement partner's involvement throughout the engagement?"

How may the engagement partner demonstrate sufficient and appropriate involvement when some procedures, tasks or actions are assigned to others? [ISA | 8006.157337]

When procedures, tasks or actions are assigned to other members of the engagement team, the engagement partner may demonstrate their sufficient and appropriate involvement in different ways, including:

- informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and providing any other necessary instructions and relevant information
- direction and supervision of the assignees
- review of the assignees' work to evaluate the conclusions reached.

What may the engagement partner do if they determine their level of involvement does not provide a basis for determining that significant judgments made and the conclusions reached are appropriate?

[ISA | 8006.157338]

Actions the engagement partner may take when they determine their level of involvement does not provide a basis for determining that significant judgments made and the conclusions reached are appropriate, include, for example:

- updating and changing the audit plan;
- reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase their involvement; or
- communicate with the individual assigned operational responsibility for the relevant aspect of the firm's system of management, see question '[When does the engagement partner consider the information from the KPMG member firm's monitoring and remediation process?](#)'.

Acceptance and Continuance

International Standards on Auditing: ISA 600.17-21

Acceptance and Continuance

17. Before accepting or continuing the group audit engagement, the group engagement partner shall 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. (Ref: Para. A32-A35)

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 engagement partner shall consider the possible effects on the group audit. (Ref: Para. A36)

Terms of the Engagement

19. In applying ISA 210,¹⁴ the group auditor shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A37)

- 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.

¹⁴ ISA 210, Agreeing the Terms of Audit Engagements, paragraphs 6(b) and 8(b)

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 shall consider the possible effects on the group audit. (Ref: Para. A38-A46)

Restrictions on Access to Information or People Imposed by Group Management

21. If the group engagement partner concludes that: (Ref: Para. A43-A46)

- 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,
- c. the group engagement partner shall 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 law or regulation prohibit an auditor from declining an engagement or when withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements.

ISA Application and Other Explanatory Material: ISA 600.A32-A46

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained (Ref: Para. 17-18)

A32. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:

- The group structure, including both the legal and organizational structure.
- Activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
- The use of service organizations.
- The use of shared service centers.
- The consolidation process.
- Whether the group auditor:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management and component information, including of those components that are accounted for by the equity method; and
 - Will be able to perform necessary work on the financial information of the components when applicable.
- Whether sufficient and appropriate resources are assigned or will be made available.

A33. In the case of an initial group audit engagement, the group auditor's understanding of the matters in paragraph A32 may be obtained from:

- Information provided by group management;
- Communication with group management;
- Communication with those charged with governance of the group; and
- When applicable, communication with component management or the predecessor auditor.

A34. For a recurring engagement, the ability to obtain sufficient appropriate audit evidence may be affected by significant changes in, for example:

- The group structure (e.g., acquisitions, disposals, joint ventures, reorganizations, or changes in how the group financial reporting system is organized).
- Components' activities that are significant to the group.
- The composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
- The group auditor's understanding of the integrity and competence of group or component management.
- The applicable financial reporting framework.

A35. There may be additional complexities with obtaining sufficient appropriate audit evidence in a group audit when components are located in jurisdictions other than the group auditor's jurisdiction because of cultural and language differences, and different laws or regulations. For example, law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction, or war, civil unrest or outbreaks of disease may restrict the group auditor's access to relevant component auditor audit documentation. Paragraph A180 includes possible ways to address these situations.

A36. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

- The group auditor's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group auditor) (see paragraphs 20 and 21); or
- The work to be performed on the financial information of components.

Paragraphs A45-A46 explain the possible effect of such restrictions on the auditor's report on the group financial statements.

Agreeing the Terms of Audit Engagements (Ref: Para. 19)

A37. ISA 210⁴⁶ requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate. The terms of engagement identify the applicable financial reporting framework. Additional matters that may be included in the terms of a group audit engagement include:

- Communications between the group auditor and component auditors should be unrestricted to the extent possible under laws or regulations;
- Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group auditor;
- Communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit should be communicated to the group auditor; and
- The group auditor should be permitted to perform work, or request a component auditor to perform work, at the component.

⁴⁶ ISA 210, paragraph 9 and 10(d)

Restrictions on Access to Information or People (Ref: Para. 20-21)

A38. Restrictions on access to information or people do not eliminate the requirement for the group auditor to obtain sufficient appropriate audit evidence.

A39. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease. Paragraph A180 describes how the group auditor may be able to overcome restrictions on access to component auditor audit documentation.

A40. In some circumstances, the group auditor may be able to overcome restrictions on access to information or people, for example:

- If access to component management or those charged with governance of the component is restricted, the group auditor may request group management or those charged with governance of the group to assist with removing the restriction or otherwise request information directly from group management or those charged with governance of the group.

- If the group has a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may determine whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity and request group management to exercise such rights.
- If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, the group auditor may inquire whether they can provide financial and other information available to them in these roles.

A41. If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may be able to obtain information to be used as audit evidence regarding the entity's financial information, for example:

- Financial information that is available from group management, as group management also needs to obtain the non-controlled entity's financial information in order to prepare the group financial statements.
- Publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity.

It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.⁴⁷

⁴⁷ ISA 330, paragraph 7(b)

A42. If the group has a non-controlling interest in an entity that is accounted for by the equity method and access to information or people at the entity is restricted, the group auditor may consider whether such restrictions are inconsistent with group management's assertions regarding the appropriateness of the use of the equity method of accounting.

A43. When the group auditor is unable to obtain sufficient appropriate audit evidence due to restrictions on access to information or people, the group auditor may:

- Communicate the restrictions to the group auditor's firm to assist the group auditor in determining an appropriate course of action. For example, the group auditor's firm may communicate with group management about the restrictions and encourage group management to communicate with regulators. This may be useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.
- Be required by law or regulation to communicate with regulators, listing authorities, or others, about the restrictions.

A44. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management's responses to the group auditor's inquiries and whether the restrictions call into question group management's integrity.

Effect of Restrictions on Access to Information or People on the Auditor's Report on Group Financial Statements (Ref: Para. 20-21)

A45. ISA 705 (Revised)⁴⁸ contains requirements and guidance about how to address situations when the group auditor is unable to obtain sufficient appropriate audit evidence. Appendix 1 contains an example of an auditor's report containing a qualified group audit opinion based on the group auditor's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

⁴⁸ ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement (Ref: Para. 20-21)

A46. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA still apply to the group audit, and the effect of the group auditor's inability to obtain sufficient appropriate audit evidence is addressed in ISA 705 (Revised).

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Meet the preconditions of the audit [ISA | 7608]

What do we do?

Meet the preconditions of the audit.

Why do we do this?

The preconditions are the minimum conditions for performing an audit. Without this foundation, we cannot start the audit.

Execute the audit

What are the preconditions of the audit of the financial statements? [ISA | 7608.12586]

The preconditions of the audit of the financial statements are events that happen before we accept to perform an audit. We:

- obtain agreement from management and those charged with governance that they acknowledge and understand their responsibility; and
- determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable

What are the responsibilities of management and, where appropriate, those charged with governance? [ISA | 7608.12583]

Management and, where appropriate, those charged with governance are responsible for:

- the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

They are also responsible for providing us with:

- access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
- additional information that we may request from management for the purpose of the audit; and
- unrestricted access to persons within the entity from whom we intend to obtain audit evidence.

How do we meet the preconditions of the audit of the financial statements? [ISA | 7608.159751]

How do we obtain agreement of management and, where appropriate, those charged with governance that they acknowledge and understand their responsibility? [ISA | 7608.12588]

We obtain this agreement that they acknowledge and understand their responsibility by obtaining a signed engagement letter.

Group Audit | How do we obtain agreement from group management and, where appropriate, those charged with governance that they acknowledge and understand their responsibility? [ISA | 7608.159584]

We obtain this agreement that they acknowledge and understand their responsibility by obtaining a signed engagement letter. See activity '[Establish an understanding of the terms of the audit](#)' for further information.

How do we determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable? [ISA | 7608.12584]

We determine the appropriateness of the financial reporting framework to be applied in preparing the financial statements through CEAC, as part of our client and engagement continuance process.

Factors that are relevant to this determination include the following.

Relevant factors	Examples
Nature of the entity	Whether it is a business enterprise, a public sector entity or a not for profit organization.
Purpose of the financial statements	Whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users.

Nature of the financial statements	Whether the financial statements are a complete set of financial statements or a single financial statement
Law or regulation prescribes the applicable financial reporting framework	Whether local laws or regulations determine the applicable financial reporting framework

What do we do if management or those charged with governance impose a limitation on the scope of our work on the financial statements? [ISA | 7608.12589]

Management or those charged with governance may impose a limitation on the scope of our work on the financial statements for the proposed engagement.

We may believe that the limitation will result in us disclaiming an opinion on the financial statement. In this case, we don't accept the engagement, unless required by law or regulation to do so.

For engagements performed in the US, see [US RMM 20.6.4.3.2](https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_RMM_000/toc/US_DPP_MANUALS_RMM_020?tocref=US_DPP_MANUALS_RMM_000&x=0) for additional guidance.

What do we do if the preconditions of the audit of the financial statements are not met? [ISA | 7608.12590]

If the preconditions of the audit of the financial statements are not met, then we discuss this matter with management and those charged with governance. Unless, required by law or regulation, we do not accept the proposed audit engagement if:

- the financial reporting framework is unacceptable, except as provided in ISA 210.19 (see activity '[Perform certain procedures when law or regulation of the relevant jurisdiction impacts our auditor's report and consult](#)'); or
- the agreement of management and those charged with governance that they acknowledge and understand their responsibility has not been obtained.

For audit engagements performed in the US, see [US RMM 20.6.4.3.1](https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_RMM_000/toc/US_DPP_MANUALS_RMM_020?tocref=US_DPP_MANUALS_RMM_000&x=0) for additional guidance.

2 Perform preliminary engagement activities [ISA | 956]

What do we do?

Perform preliminary engagement activities before starting the audit.

Why do we do this?

As we start planning, we perform some preliminary engagement activities. These provide information that helps us:

- decide whether we can continue the client relationship and accept the audit engagement;
- establish our audit strategy;
- develop our detailed audit plan; and
- perform our risk assessment procedures.

Execute the Audit

What are preliminary engagement activities and in what order do we perform them? [ISA | 956.10828]

Preliminary engagement activities include the following and are performed in the following order:

- [perform procedures over client and engagement continuance](#)
- [determine compliance with independence and ethics](#)
- [establish an understanding of terms of the audit](#)
- [meet the preconditions of an audit](#)

For a group audit, we also [determine whether to act as the lead group auditor](#).

Group Audit | What additional preliminary engagement activities do we perform for a group audit? [ISA | 956.1500]

We, as the group engagement team, also [determine whether to act as the group engagement team and report on the group financial statements](#).

2.1 Group Audit | Determine whether to act as the lead group auditor [ISA | 1466]

What do we do?

Determine whether to act as the lead group auditor.

Why do we do this?

We, as the lead group auditor, consider the client relationship and evaluate the specific audit engagement. Before we can accept to perform a group audit, we evaluate whether we can fulfill that commitment. Our goal is to evaluate not only the client and specific audit engagement, but also our ability to perform the group audit with competence.

Execute the Audit

How do we determine whether to act as the lead group auditor and report on the group financial statements? [ISA | 1466.1300]

As the lead group auditor, we consider whether we can obtain sufficient appropriate audit evidence (through our work or use of the work of component auditors) by:

- performing procedures over client and engagement [acceptance and continuance](#); and
- when we plan to use the work of component auditors, considering whether [we including the group engagement partner, will be able to be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors to the extent necessary](#).

If we determine that it will not be possible to obtain sufficient appropriate audit evidence, we [consider implications and consult, when necessary](#).

We also consider the impact on our client and engagement acceptance when non-KPMG component auditors audit more than 30% of consolidated total assets or revenues and/or a non-KPMG component auditor "plays a substantial role" in the group audit (see activity [Consult when non-KPMG component auditors audit more than 30% of consolidated total assets or revenues and/or a non-KPMG auditor "plays a substantial role"](#)).

Who is the lead group auditor? [\[ISA | 1466.160051\]](#)

The lead group auditor is:

- the firm issuing the auditor's report on the group financial statements and, if applicable, internal control over financial reporting; and
- the group engagement partner and other group engagement team members who both:
 - are partners, principals, shareholders, or employees of that firm (or individuals who work under that firm's direction and control and function as the firm's employees, e.g. a secondee) and
 - assist the group engagement partner in fulfilling their planning or supervisory responsibilities on the group audit, which includes:
 - establishing the overall group audit strategy and group audit plan;
 - directing and supervising component auditors and reviewing their work;
 - evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

Can there be more than one lead group auditor who is responsible for the group audit opinion? [\[ISA | 1466.1700\]](#)

No. There is only one lead group auditor responsible for the group audit opinion. In a joint audit, we treat the joint auditors as one lead group auditor.

Who is a component auditor? [\[ISA | 1466.160190\]](#)

A component auditor is an auditor who performs work on the financial information of a component that will be used as audit evidence for the group audit. They are also a type of 'other auditor'.

Component auditors may be from another KPMG firm, a non-KPMG firm, or the group auditor's firm (e.g. another office within the group auditor's firm). In some circumstances, the group auditor may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

2.1.1 Group Audit | Evaluate whether we will be able to be involved in the work of component auditors [\[ISA | 1468\]](#)

What do we do?

Evaluate whether we will be able to be sufficiently and appropriately involved in the work of the component auditor.

Why do we do this?

As the group auditor, we are involved in the work of the component auditor for various reasons, including:

- since we bear responsibility for expressing the group audit opinion, it necessitates knowledge and understanding of the component auditors' work; and
- our involvement allows us to determine whether consistent and appropriate levels of audit quality are maintained across the group audit in accordance with the group audit instructions.

If we will not be able to be involved in the work of a component auditor, we may be unable to use the work of that component auditor. This may cause us to perform the work over that component ourselves or, in some cases, not even accept the group engagement.

Execute the Audit

How does group engagement partner evaluate whether the group auditor will be able to be involved in the component auditor's work? [ISA | 1468.159602]

The group engagement partner evaluates whether the group auditor will be able to be involved in the component auditor's work based upon confirmations obtained from the component auditor and by thinking about certain factors with respect to the group and component auditor.

What confirmations do we obtain to evaluate whether we will be able to be involved in the component auditor's work? [ISA | 1468.160166]

As the group auditor, we obtain written confirmation from the component engagement partner that the component auditor:

- will cooperate and communicate with us in connection with the group audit, including whether the component auditor will perform the work requested by the group auditor, and provide us with access to relevant audit documentation that has been prepared for the purposes of the group audit in accordance with the documentation retention period; and
- acknowledges that we may consider it necessary to be involved in the work we have requested the component auditor to perform on the financial information of the component.

What factors do we think about when evaluating whether we will be able to be involved in the work of the component auditor? [ISA | 1468.1400]

The group engagement partner may think about the following factors, among others, when evaluating whether we, as the group auditor, will be able to be involved in the work of the component auditors:

Factors	Considerations
Group structure, including geographical locations of the components	We think about the group structure and the nature and size of components when determining whether we will be able to be involved in the work of the component auditors. For example, being involved in the work of the component auditor who performs audit procedures over

	<p>a subsidiary may be easier than one who audits an equity method investment.</p> <p>Also, where the component and the component auditor are located in a remote location, it may be more challenging to be involved in the work of that component auditor.</p>
Whether KPMG or non-KPMG component auditors will perform procedures on the financial information of components	<p>Non-KPMG component auditors apply the auditing standards, but do not apply KPMG's methodology or KPMG's system of quality management. As such, we do more to understand their competence and capabilities, be involved in their work and evaluate their work. There may also be restrictions on our involvement which will be more formalized.</p>
Whether we will have unrestricted access to component information and component auditors	<p>Our access to information may be restricted by circumstances that cannot be overcome by group management, for example, by laws relating to confidentiality and data privacy or the component auditor denying us access to relevant audit documentation.</p> <p>In situations where access to information could be restricted, we consider the implications on the acceptance of the group audit.</p>
Whether we will be able to communicate with the component auditors, including obtaining relevant audit documentation from the component auditor	<p>Communications with component auditors may be challenging due to language barriers or due to cultural differences.</p>

[When do we evaluate whether we will be able to be involved in the component auditor's work? \[ISA | 1468.1500\]](#)

As the group auditor, we evaluate whether we will be able to be involved in the component auditor's work during planning.

2.1.2 Group Audit | Consult when non-KPMG component auditors audit more than 30% of consolidated total assets or revenues and/or a non-KPMG auditor "plays a substantial role" [ISA | 3748]

What do we do?

IF non-KPMG component auditors will audit more than 30% of consolidated total assets or revenues
AND/OR when a non-KPMG component auditor is expected to "play a substantial role" in the group audit
of an entity with a high public profile, THEN consult with the RMP.

Why do we do this?

When non-KPMG component auditors perform procedures over significant parts of the group audit, the lead group auditor's participation in the audit may not be sufficient to act as the lead group auditor and report as such on the group financial statements. In these cases, we, as the lead group auditor, consult with appropriate parties, which helps us to consider these matters before we are engaged to perform the group audit.

Execute the Audit

[When do we consult when planning to involve non-KPMG component auditors? \[ISA | 3748.1300\]](#)

Before we agree to report on the group financial statements, we, as the lead group auditor, consult with risk management partner when:

- non-KPMG component auditors collectively will perform audit procedures for group audit purposes for over 30 percent of either consolidated total assets or consolidated total revenues, as reported in the group financial statements, and/or
- a non-KPMG component auditor is expected to play a substantial role in the group audit of an entity with a high public profile.

For example, if entities comprising 31% of consolidated total assets are subject to audit procedures by non-KPMG component auditors, then the lead group auditor consults before agreeing to report on the group financial statements.

[What does the term "audit procedures" mean in the context of determining whether to consult because non-KPMG auditors will audit more than 30% of the group? \[ISA | 3748.12472\]](#)

The term "audit procedures" in this context means the performance of audit procedures by the non-KPMG component auditors for the purpose of supporting the group auditor's opinion on the group financial statements. The procedures performed may be risk assessment procedures or further audit procedures.

[Group Audit | Do we consider equity method investments when determining the percentage audited? \[ISA | 3748.12571\]](#)

Yes. As the lead auditor, we include the group's share of investments accounted for under the equity method as part of the consolidated total assets when determining the percentage of assets audited if we identify the equity method investment as a component if we consider equity method investment a component.

There could also be situations where the share of profit of equity method investment could be a significant portion of the PBTCO of the group. In this case, we also consider whether we can act as a lead auditor and may consult in this circumstance.

[What does the term "play a substantial role" mean? \[ISA | 3748.12352\]](#)

The term "play a substantial role" means either where the component auditor performs:

- material services that a group auditor uses or relies on in issuing all or part of its audit report, or
- the majority of the audit procedures with respect to a subsidiary or component that are necessary for the group auditor to issue an audit report. In this case, the assets or revenues of that subsidiary or component would constitute 20 percent or more of the consolidated assets or revenues of the group.

When determining whether a component auditor plays a substantial role in the group audit, we, as the group auditor, think about the following:

Consideration	What does this mean?
"material services"	The term "material services" means services, for which the component auditor's engagement hours or fees constitute 20 percent or more of the total engagement hours or fees, respectively, provided by KPMG auditors (i.e. the group auditor and KPMG component auditors) in connection with the issuance of all or part of its audit report. This term does not include non-audit services provided to non-audit clients.
"subsidiary or component"	The phrase "subsidiary or component" includes any subsidiary, division, branch, office or other component, regardless of its form or organization and/or control relationship with the group.
"20 percent or more of the consolidated assets or revenues"	For purposes of determining "20 percent or more of the consolidated assets or revenues", this determination is made at the beginning of the group's fiscal year using prior year group audit information and is made only once during the group's fiscal year.

[What is the definition of a high public profile entity? \[ISA | 3748.14805\]](#)

Entities with a high public profile include listed entities. There is a rebuttable presumption that the following entities are also entities with a high public profile:

- significant entities whose principal activity is to pool and manage a portfolio of investments and that makes their shares or units available to the public by filing a prospectus or equivalent

- document with a regulator (this includes significant open ended investment companies or significant mutual funds required to file a prospectus with a regulatory body);
- significant entities whose principal activity is to buy and sell securities for themselves and others and that are required to register with a regulator (e.g. broker-dealers required to be registered with a regulator);
 - significant entities whose principal activity is to take deposits and to borrow for the purpose of lending and investing in the retail market (this includes banks, building societies, credit unions, friendly societies, savings and loan associations and thrift institutions);
 - significant entities whose principal activity is to assist others in raising capital by underwriting and/or acting as an agent in the issuance of securities (i.e. investment banks);
 - significant entities whose principal activity is to underwrite insurance in the retail or employee benefit markets;
 - significant pension plans;
 - significant unions;
 - governments and other significant entities in the public sector, such as municipalities, schools, school boards, universities, and hospitals; and
 - significant not-for-profit organizations (i.e. entities without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose whose members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization).

"Significant" is determined by using the measures and/or criteria that are relevant to the jurisdiction in which the KPMG member firm operates.

In addition, the following entities may be considered high public profile depending on the circumstances:

- those planning to list in the foreseeable future
- an affiliate or subsidiary of a listed entity
- those having control/significant influence over listed entities
- high profile individuals associated with the engagement.

2.1.3 Group Audit | Determine whether sufficient appropriate audit evidence can be obtained [ISA | 1472]

What do we do?

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.

Why do we do this?

The inability to obtain access to persons within the group or necessary information may have serious implications for the audit and our ability to obtain sufficient appropriate audit evidence. Due to the complexities and the interaction of jurisdictional laws and regulations, any instances that give rise to concerns that the necessary access to people or information may not be obtained are considered on a case by case basis. Therefore, it is beneficial if we, as the group auditor, make this assessment based

on our client circumstances as early as possible. This will enable us to have discussions with group management with respect to any anticipated difficulties so that these matters can be considered before agreeing on the terms of the engagement.

Execute the Audit

How do we determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained? [\[ISA | 1472.160180\]](#)

Before accepting or continuing the group audit engagement, the group engagement partner determines whether sufficient appropriate audit evidence can reasonably be expected to be obtained based upon their understanding of matters such as the following:

- The group structure, including both the legal and organizational structure
- Activities that are significant to the group, including the industry and regulatory, economic, and political environments in which those activities take place
- The use of service organizations
- The use of centralized services
- The consolidation process
- Whether we, as the lead group auditor:
 - will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, and component information, including of those components that are accounted for by the equity method, and
 - will be able to perform necessary work on the financial information of the components when applicable
- Whether sufficient and appropriate resources are assigned or will be made available

The understanding of the above matters may be obtained through the following:

- Knowledge from prior year audits,
- The terms of our engagement,
- information provided by and communications with group management, component management or those charged with governance, and
- information provided by and communications with component auditors.

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 engagement partner considers the possible effects on the group audit.

When may the group engagement partner conclude that it is not possible to obtain sufficient appropriate audit evidence? [\[ISA | 1472.1300\]](#)

As the group auditor, we may not be able to obtain sufficient appropriate audit evidence when our access to people or information is restricted. Access to people or information may be restricted due to:

- restrictions imposed by group management
- other circumstances that are outside of the group management's control. For example:
 - laws relating to confidentiality and data privacy

- denial by the component auditor to allow access to relevant audit documentation sought by us
- war, civil unrest or outbreaks of disease we may not have access to those charged with governance, management, or the auditor (including relevant audit documentation sought by us) of an equity method investment.

Can we still obtain sufficient appropriate audit evidence if access to people or information is restricted?

[ISA | 1472.12485]

We may be able to obtain sufficient appropriate audit evidence when access to people or information is restricted, but we understand the reasons for the restrictions before reaching a conclusion.

What do we do when access to people or information is restricted? [ISA | 1472.1400]

As the group auditor, we consider whether, despite the restriction of our access to information, we are able to obtain sufficient appropriate audit evidence. We may still be able to obtain sufficient appropriate audit evidence; however, it is less likely as the assessed risk of material misstatement or the importance and materiality of the component, associated with the restriction to access, increases.

We discuss with group management any anticipated difficulties to obtaining sufficient appropriate audit evidence, including potential restrictions to access to people or information, so that these matters can be considered before agreeing to the terms of the engagement.

We may also request group management or those charged with governance of the group to assist with removing the restriction.

When the restrictions are imposed by group management, we think about how it may affect:

- the reliability of group management's responses to our inquiries, and
- whether the restrictions call into question group management's integrity.

We document 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.

What if laws or regulations prohibit access to the component auditor's relevant audit documentation?

[ISA | 1472.12488]

When the component auditor cannot confirm that they will provide us with access to relevant audit documentation because law or regulation prohibits access to such audit documentation outside of its jurisdiction, as the group auditor, we may overcome this for example, by:

- Visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation;
- Reviewing the relevant audit documentation remotely through the use of technology (e.g. Microsoft Teams), when not prohibited by law or regulation;
- Requesting the component auditor to prepare and provide a memorandum that addresses the relevant information and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum; or
- Discussing with the component auditor the procedures performed, the evidence obtained and the conclusions reached by the component auditor.

In this situation, the memorandum prepared by the component auditor or discussions with the component auditor are detailed enough to allow us to review the component auditor's relevant work.

Refer to activity '[Review the component auditor's audit documentation in their audit file](#)' for further information regarding access to relevant audit documentation in the component auditor's audit file.

For an equity method investment, refer to activity '[Determine the approach to obtain audit evidence for equity method investments](#)'

What do we do when the group engagement partner concludes that we will not be able to obtain sufficient appropriate audit evidence due to restrictions imposed by group management? [ISA | 1472.1500]

When there are restrictions imposed by group management to our ability to obtain sufficient appropriate audit evidence, it is considered to be a scope limitation. As the group auditor, we think about whether this inability to obtain sufficient appropriate audit evidence will result in a disclaimer of opinion ([ISA 705](#), [AU-C 705](#), [AS 3105](#)) on the group financial statements.

If our inability to obtain sufficient appropriate audit evidence will result in a disclaimer of opinion on the group financial statements, we can either:

- in the case of the *initial engagement*, not accept the engagement; or
- in the case of the *recurring engagement*, withdraw from the engagement, where possible under applicable law or regulation.

What do we do when law or regulation prohibits us from declining an engagement or withdrawing from an engagement? [ISA | 1472.12491]

Even though we may not be able to obtain sufficient appropriate audit evidence due to restrictions imposed by group management, [law or regulation may prohibit the group engagement partner from declining an engagement or withdrawing from an engagement](#).

For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period.

In these situations, group audit specific requirements in this KPMG Audit Execution Guide still apply to this engagement. As the group auditor, we consider whether our inability to obtain sufficient appropriate audit evidence results in a disclaimer of our opinion in the group auditor's report ([AS 3105](#), [ISA 705](#), [AU-C 705](#)).

What do we do when restrictions are imposed by group management after we have accepted the group audit engagement? [ISA | 1472.12492]

As the group auditor, we assess the extent of restrictions and our ability to obtain sufficient appropriate audit evidence when management has imposed a limitation on the scope of the group audit after we have accepted the engagement. We also perform engagement re-evaluation procedures in accordance with [GQ&RMM policy 9.3.1](#) <https://www.gqmm-prod.kworld.kpmg.com/G/0/Content/81?jm=220>-policy or [Risk Management Manual - U.S. 9.3.1](#) https://alex.kpmg.com/AROWeb/document/lfc/US_DPP_MANUALS_QRMM_TP/toc/US_DPP_MANUALS_QRMM_009?tocref=US_DPP_MANUALS_QRMM_TP&x=0 in response to these changes.

We consider withdrawing from the engagement (unless it is not possible under law or regulation), if we cannot obtain sufficient appropriate audit evidence.

What do we do when the group engagement partner concludes that we will not be able to obtain sufficient appropriate audit evidence due to restrictions by "other circumstances"? [ISA | 1472.12493]

As the group auditor, we consider whether our inability to obtain sufficient appropriate audit evidence results in a modification of our opinion in the group auditor's report ([ISA 705](#), [AU-C 705](#), [AS 3105](#)).

Under what circumstances do we consult when considering whether it may not be possible to obtain sufficient appropriate audit evidence due to restrictions imposed by group management or other circumstances? [ISA | 1472.12494]

As the group auditor, we consult when we are not able to obtain sufficient appropriate audit evidence because our access to information or access to persons is restricted by circumstances that cannot be overcome by group management and, therefore, we will not be able to comply with the requirements relevant in the circumstances of the group audit.

As part of this consultation, we discuss the implications for our audit, including whether to accept or withdraw from the audit engagement.

Who do we consult with when there are restrictions imposed by group management or other circumstances? [ISA | 1472.12495]

International (non-US) teams	US teams
We consult with DPP or, in circumstances concerning the acceptance of withdrawal from the audit engagement, the risk management partner.	We consult with DPP.

2.2 Establish an understanding of the terms of the audit [ISA | 1224]

What do we do?

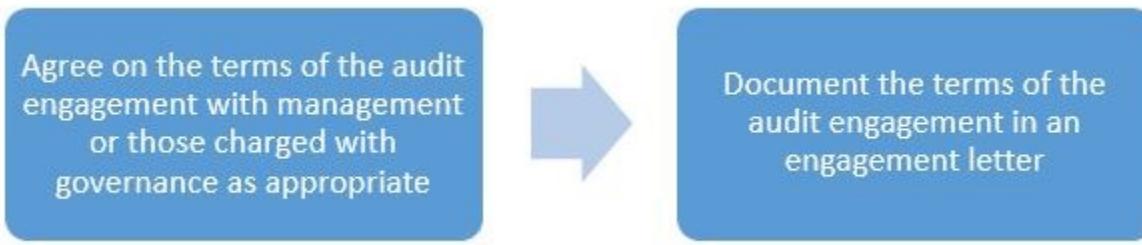
Agree on the terms of the audit engagement with management or those charged with governance, as appropriate AND record the required items in an engagement letter.

Why do we do this?

We agree on the terms of the audit with management or those charged with governance, as appropriate, and record them in an engagement letter because it helps in establishing a clear understanding of the roles and responsibilities of both parties and avoids a misinterpretation of their needs and expectations.

Execute the Audit

How do we establish an understanding of the terms of the audit with management or those charged with governance, as appropriate? [ISA | 1224.159770]



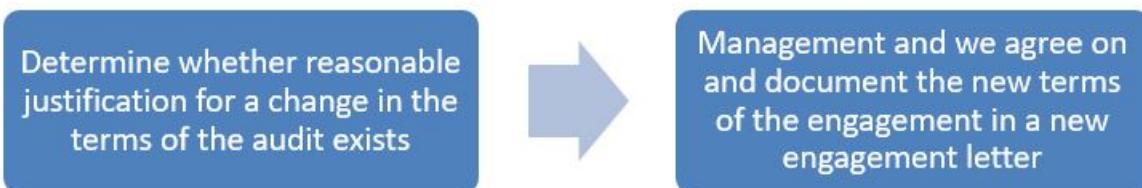
To establish an understanding of the terms of the audit with management or those charged with governance, as appropriate, we:

- on recurring audits, assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the engagement.
- agree on the terms of the audit engagement with management or those charged with governance, as appropriate.
- use the applicable standard template engagement contracts and standard terms and conditions that are provided by the KPMG member firm.

Where can we find information on establishing an understanding of the terms of the audit? [ISA | 1224.1300]

Refer to [Chapter 9.5 of the Global Quality & Risk Management Manual](#) <https://www.gqmm-prod.kworld.kpmg.com/G/0/Content/81> for requirements and guidance about engagement letters together with any local policies, procedures and guidance. Refer to your local member firm engagement letter templates.

What do we do when the terms of the audit engagement change? [ISA | 1224.159771]



When the terms of the audit engagement change, management and we agree on and document the new terms of the engagement in a new engagement letter or other suitable written agreement, for example, an addendum to the original engagement letter. However, we do not agree to a change in the terms of the audit engagement when no reasonable justification exists.

When management requests a change to the terms of the audit engagement to an engagement with a lower level of assurance - e.g., a review or agreed upon procedures, we also assess any legal or contractual implications of the change.

What do we do when we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement?

[ISA | 1224.159772]

When we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we:

- withdraw from the audit engagement when possible under applicable law or regulation; and

- determine whether any obligation, either contractual or otherwise, exists to report the circumstances to other parties - e.g. those charged with governance, owners or regulators.

Group Audit | Do we establish an understanding of the terms of the engagement with component auditors? [ISA | 1224.159586]

The group audit instructions are the terms of the agreement between the lead group auditor and the component auditor. We do not have engagement letters with component auditors.

Refer to [Section 9.8 of the Global Quality & Risk Management Manual](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for guidance about engagement letters in a multi-firm engagements.

Group Audit | Does the component auditor establish a separate understanding of the terms of the engagement with management of the entity or business unit? [ISA | 1224.159587]

Once we, as the lead group auditor, have signed the group engagement letter with the client, separate engagement letters for the work performed by a KPMG component auditor on the financial information of the component for the group audit purposes may not be necessary. However, the component auditor establishes separate agreements for statutory audits, statutory reviews and other stand-alone reports for the component.

We may request the KPMG component auditor to obtain a separate engagement or a fee letter for the work performed on the financial information of the component as part of the group audit (e.g., when fees are billed by the KPMG component auditor directly to management of the entity or business unit).

Refer to [Chapter 9 of the Global Quality & Risk Management Manual](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/81> (GQ&RMM) for guidance about engagement letters.

Where do we file the engagement letter? [ISA | 1224.157428]

We include the signed engagement letter and any other documents relevant to understanding the terms of the audit in the current year audit file.

What additional procedures do we perform for multi-firm engagements? [ISA | 1224.8815]

Certain audit technologies are hosted in third-party cloud environments, such as KPMG Clara workflow. In addition, engagement teams may use third-party service providers within and outside of their home country (e.g. offshore IT support).

If multi-firm engagements intend to host and use client data in the cloud and to permit access by third party service providers to such data, originating auditor and other auditors determine if the engagement terms allow them do so.

We refer to our local member firm engagement letter template.

Who is an originating auditor? [ISA | 1224.8901]

In relation to multi-firm engagements, an originating auditor is an auditor that uses the work of another auditor from another KPMG member firm.

What are examples of other auditors that we use from another KPMG member firm? [ISA | 1224.8902]

Examples of other auditors are:

- a KPMG component auditor undertaking work for a group audit,

- a KPMG participating auditor undertaking work at a location, or
- a KPMG [auditor undertaking work in a multi-firm audit involving entities registered for statutory purposes in a jurisdiction different than the location of the entities' business activities](#) https://alex.kpmg.com/AROWeb/document/lfc/KAEG5_INTL_2023.

What additional procedures do we perform as an originating auditor in a multi-firm engagement? [\[ISA | 1224.8829\]](#)

We communicate to other auditors, before those other auditors set up their audit engagement files, the terms (or lack of terms) in our engagement letter related to the other auditors hosting data in the cloud and use of third party service providers, including any restrictions.

We refer to our local member firm example communication template.

What additional procedures do we perform as an other auditor in a multi-firm engagement when we have a local engagement letter? [\[ISA | 1224.8830\]](#)

We perform the following procedures based upon the scenarios below:

Scenario	Procedures
Our local engagement letter does not provide us with the permissions related to hosting client data in the cloud and/or access by third party service providers.	Prior to setting up our engagement file, we consider our member firm's guidance in assessing how to obtain consent to use client data in the cloud and permit access by third party service providers.
Our local engagement letter contains terms inconsistent with terms in the originating auditor's engagement letter in relation to hosting client data in the cloud and/or access by third party service providers.	Consult with the originating auditor, and local DPP, Risk Management and/or Office of General Counsel, as appropriate.
We have no local engagement letter and receive communication from the originating auditor that provides consent to use client data in the cloud and use third party service providers.	Prior to setting up our engagement file, we consider local member firm guidance regarding legal requirements in our local jurisdiction.

3 Group Audit | Determine the approach for obtaining audit evidence for equity method investments

[\[ISA | 8133\]](#)

What do we do?

IF the group has an investment accounted for under the equity method for which there is a risk of material misstatement to the group financial statements, THEN determine the approach for obtaining sufficient appropriate audit evidence.

Why do we do this?

If there is a reasonable possibility of a material misstatement to the group financial statements related to a group's noncontrolling interest in an entity that is accounted for by the equity method, we, as the group auditor, perform audit procedures over the relevant assertions relating to accounting for the equity method investment, which includes include obtaining sufficient appropriate audit evidence over the financial results of the investee.

Execute the audit

Where can we find information about determining the approach for obtaining audit evidence for equity method investments? [ISA | 8133.160333]

See the document '[Equity Method Investments'](https://alex.kpmg.com/AROWeb/document/lfc/ALL_8133_EMI_2024) https://alex.kpmg.com/AROWeb/document/lfc/ALL_8133_EMI_2024 for information about determining the approach for obtaining audit evidence for equity method investments.

Overall Group Audit Strategy and Group Audit Plan

International Standards on Auditing: ISA 600.22-29

Overall Group Audit Strategy and Group Audit Plan

22. In applying ISA 300,¹⁵ the group auditor shall establish, and update as necessary, an overall group audit strategy and group audit plan. In doing so, the group auditor shall determine: (Ref: Para. A47- A50)

- a. The components at which audit work will be performed; and (Ref: Para. A51)
- b. The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved. (Ref: Para. A52-A56)

¹⁵ ISA 300, paragraphs 7-10A

Considerations When Component Auditors Are Involved

23. In establishing the overall group audit strategy and group audit plan, the group engagement partner shall evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor. (Ref: Para. A57)

24. As part of the evaluation in paragraph 23, the group auditor shall 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. A58)

Relevant Ethical Requirements, Including Those Related to Independence

25. In applying ISA 220 (Revised),¹⁶ the group engagement partner shall take responsibility for: (Ref: Para. A59-A60, A87)

- 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
- c. 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.

¹⁶ ISA 220 (Revised), paragraph 17

Engagement Resources

26. In applying ISA 220 (Revised),¹⁷ the group engagement partner shall: (Ref: Para. A61-A68)

- a. Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component; and
- c. 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).

¹⁷ ISA 220 (Revised), paragraphs 25-26

27. The group auditor shall 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. A69-A70)
- b. The group engagement partner has serious concerns about the matters in paragraphs 23-26. (Ref: Para. A71)

¹⁸ ISA 200, paragraph 14

Engagement Performance

28. In applying ISA 220 (Revised),¹⁹ the group engagement partner shall 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. A72-A77)

- a. Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA 315 (Revised 2019); and
- b. Areas in the audit of the group financial statements that involve significant judgment.

¹⁹ ISA 220 (Revised), paragraph 29

Communications with Component Auditors

29. The group auditor shall 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. A78-A87)

ISA Application and Other Explanatory Material: ISA 600.A47-A87

Overall Group Audit Strategy and Group Audit Plan

The Continual and Iterative Nature of Planning and Performing a Group Audit (Ref: Para. 22)

A47. As explained in ISA 300,⁴⁹ planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. For example, due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and group audit plan, and the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The group auditor may also modify the determination of the components at which to perform audit work as well as the nature, timing and extent of the component auditors' involvement. ISA 300⁵⁰ requires the auditor to update and change the overall audit strategy and audit plan as necessary during the course of the audit.

⁴⁹ ISA 300, paragraph A2

⁵⁰ ISA 300, paragraph 10

Establishing the Overall Group Audit Strategy and Group Audit Plan (Ref: Para. 22)

A48. In an initial group audit engagement, the group auditor may have a preliminary understanding of the group and its environment, the applicable financial reporting framework and the entity's system of internal control based on information obtained from group management, those charged with governance of the group and, when applicable, communication with component management or the predecessor auditor. In a recurring group audit engagement, the group auditor's preliminary understanding may be obtained through prior period audits. This preliminary understanding may assist the group auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant.

A49. The group auditor may also use information obtained during the engagement acceptance and continuance process in establishing the overall group audit strategy and group audit plan, for example, in relation to the resources needed to perform the group audit.

A50. The process of establishing the overall group audit strategy and group audit plan and initial expectations about the classes of transactions, account balances and disclosures that may be

significant at the group financial statement level may assist the group auditor in developing a preliminary determination of matters such as:

- Whether to perform audit work centrally, at components or a combination thereof; and
- The nature, timing and extent of audit work to be performed with respect to the financial information of components (e.g., design and perform risk assessment procedures, further audit procedures, or a combination thereof).

Components at Which to Perform Audit Work (Ref: Para. 22(a))

A51. The determination of components at which to perform audit work is a matter of professional judgment. Matters that may influence the group auditor's determination include, for example:

- The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example:
 - Newly formed or acquired entities or business units.
 - Entities or business units in which significant changes have taken place.
 - Significant transactions with related parties.
 - Significant transactions outside the normal course of business.
 - Abnormal fluctuations identified by analytical procedures performed at the group level, in accordance with ISA 315 (Revised 2019).⁵¹
- The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.
- Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.
- The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.
- The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralizes activities relevant to financial reporting.

⁵¹ ISA 315 (Revised 2019), paragraph 14(b)

Resources (Ref: Para. 22(b))

A52. Matters that influence the group auditor's determination of the resources needed to perform the group audit and the nature, timing and extent to which component auditors are to be involved are a matter of professional judgment and may include, for example:

- The understanding of the group, the components within the group at which audit work is to be performed and whether to perform work centrally, at components or a combination thereof.
- The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. In addition, the involvement of auditor's experts may be needed on complex matters.

- The initial expectations about the potential risks of material misstatement.
- The amount or location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations.
- Access arrangements. For example, when the group auditor's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
- The nature of the components' activities, including their complexity or specialization of operations.
- The group's system of internal control, including the information system in place, and its degree of centralization. For example, the involvement of component auditors may be more likely when the system of internal control is decentralized.
- Previous experience with the component auditor.

A53. Component auditors may be involved in different phases of an audit, for example, component auditors may design or perform:

- Risk assessment procedures; and
- Procedures to respond to the assessed risks of material misstatement.

A54. The nature, timing and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase. When the group auditor does not intend to involve component auditors in risk assessment procedures, the group auditor may still discuss with component auditors whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements.

A55. ISA 300⁵² requires the engagement partner and other key members of the engagement team to be involved in planning the audit. When component auditors are involved, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the group audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. The group engagement partner uses professional judgment in determining which component auditors to involve in planning the audit. This may be affected by the nature, timing and extent to which the component auditors are expected to be involved in designing and performing risk assessment or further audit procedures.

⁵² ISA 300, paragraph 5

A56. As described in ISQM 1,⁵³ there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal or regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required, may be a special consideration for group audit engagements. For example, in a group audit, the firm's financial and operational priorities may place constraints on the determination of the components at which audit work will be performed, as well as the resources needed, including the involvement of component auditors. In such circumstances, these constraints do not override the group engagement partner's responsibility for achieving quality at the engagement level

or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

⁵³ ISQM 1, paragraph A74

Considerations When Component Auditors Are Involved

Sufficient and Appropriate Involvement in the Work of the Component Auditor (Ref: Para. 23-24)

A57. In evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.

A58. If the component auditor is unable to cooperate with the group auditor, the group auditor may:

- Request the component auditor to provide its rationale.
- Be able to take appropriate action to address the matter, including adjusting the nature of the work requested to be performed. Alternatively, in accordance with paragraph 27, the group auditor may need to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 25)

A59. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit engagement. Such requirements may be different from or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.

A60. In making the component auditors aware of relevant ethical requirements, the group auditor may consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.

Engagement Resources (Ref: Para. 26)

A61. ISA 220 (Revised)⁵⁴ 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. When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may discuss the matter with the component auditor, group management or the group auditor's firm and may subsequently request the component auditor or the group auditor's firm to make sufficient and appropriate resources available.

⁵⁴ ISA 220 (Revised), paragraph 25

Competence and capabilities of the component auditors

A62. ISA 220 (Revised)⁵⁵ provides guidance regarding matters the engagement partner may take into consideration when determining the competence and capabilities of the engagement team. This determination is particularly important in a group audit when the engagement team includes component auditors. ISA 220 (Revised)⁵⁶ indicates that the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether a component auditor from another firm has the appropriate competence and capabilities to perform the audit engagement.

⁵⁵ ISA 220 (Revised), paragraph A71

⁵⁶ ISA 220 (Revised), paragraph A24

A63. Determining whether component auditors have the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement. This determination influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work.

A64. In determining whether component auditors have the appropriate competence and capabilities to perform the assigned audit procedures at the component, the group engagement partner may consider matters such as:

- Previous experience with or knowledge of the component auditor.
- The component auditor's specialized skills (e.g., industry-specific knowledge).
- The degree to which the group auditor and component auditor are subject to a common system of quality management, for example, whether the group auditor and a component auditor:
 - Use common resources to perform the work (e.g., audit methodologies or IT applications);
 - Share common policies or procedures affecting engagement performance (e.g., direction, supervision and review of work or consultation);
 - Are subject to common monitoring activities; or
 - Have other commonalities, including common leadership or a common cultural environment.
- The consistency or similarity of:
 - Laws or regulations or legal system;
 - Language and culture;
 - Education and training;
 - Professional oversight, discipline, and external quality assurance; or
 - Professional organizations and standards.
- Information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.

A65. The procedures to determine the component auditor's competency and capability may include, for example:

- An evaluation of the information communicated by the group auditor's firm to the group auditor, including:

- The firm's ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm.⁵⁷
 - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.⁵⁸
 - Information obtained from professional body(ies) to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.
- Discussing the assessed risks of material misstatement with the component auditor.
 - Requesting the component auditor to confirm their understanding of the matters referred to in paragraph 25 in writing.
 - Discussing the component auditor's competence and capabilities with colleagues in the group engagement partner's firm that have worked directly with the component auditor.
 - Obtaining published external inspection reports.

⁵⁷ ISQM 1, paragraph 47

⁵⁸ ISQM 1, paragraph 51(b)

A66. The group engagement partner's firm and the component auditor may be members of the same network and may be subject to common network requirements or use common network services.⁵⁹ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training or recruitment, or that require the use of audit methodologies and related implementation tools. In accordance with ISQM 1,⁶⁰ the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management.

⁵⁹ ISQM 1, paragraphs A19, A175

⁶⁰ ISQM 1, paragraph 48-49

Using the work of an auditor's expert

A67. ISA 220 (Revised)⁶¹ requires the engagement partner to determine that members of the engagement team, and any auditor's external experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. If an auditor's expert is used by a component auditor, the group engagement partner may need to obtain information from the component auditor. For example, the group auditor may discuss with the component auditor the component auditor's evaluation of the competence and capabilities of the auditor's expert.

⁶¹ ISA 220 (Revised), paragraph 26

Automated tools and techniques

A68. When determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools and techniques. For example, as described in ISA 220 (Revised)⁶² when the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may communicate with component auditors that the use of such automated tools and techniques need to comply with the group auditor's instructions.

⁶² ISA 220 (Revised), paragraph A65

Application of the Group Auditor's Understanding of a Component Auditor (Ref: Para. 27)

A69. ISA 220 (Revised)⁶³ requires the engagement partner to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. This includes the firm's policies or procedures that address circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches. The firm's policies or procedures also may address breaches of independence requirements by component auditors, and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements. In addition, relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances when breaches of independence requirements have been identified.⁶⁴

⁶³ ISA 220 (Revised), paragraph 17

⁶⁴ ISA 260 (Revised), paragraph A31

A70. If there has been a breach by a component auditor of the relevant ethical requirements that apply to the group audit engagement, including those related to independence, and the breach has not been satisfactorily addressed in accordance with provisions of the relevant ethical requirements, the group auditor cannot use the work of that component auditor.

A71. Serious concerns are those concerns that in the group auditor's professional judgment cannot be overcome. The group engagement partner may be able to overcome less than serious concerns about the component auditor's professional competency (e.g., lack of industry-specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by the group auditor being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: Para. 28)

A72. ISA 220 (Revised)⁶⁵ requires the engagement partner to determine that the nature, timing and extent of direction, supervision and review is planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements, and is responsive to the nature and circumstances of the audit engagement and the resources assigned or

made available to the engagement team. For a group audit, the approach to direction, supervision and review will generally include a combination of addressing the group auditor's firm policies or procedures and group audit engagement-specific responses.

⁶⁵ ISA 220 (Revised), paragraph 30

A73. For a group audit, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations, the group engagement partner may assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the group engagement partner in fulfilling the responsibility for the nature, timing and extent of the direction and supervision of component auditors and the review of their work (see also paragraph 11).

A74. If component auditors are from a firm other than the group auditor's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network (e.g., in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors). ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.⁶⁶

⁶⁶ ISA 220 (Revised), paragraph A24-A25

A75. The nature, timing and extent of direction and supervision of component auditors and review of their work may be tailored based on the nature and circumstances of the engagement and, for example:

- The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, an increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's audit documentation may be appropriate.
- The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions, increase the frequency of discussions or other interactions with the component auditor, or assign more experienced individuals to oversee the component auditor as the work is performed.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including when service delivery centers are used.
- Access to component auditor audit documentation. For example, when law or regulation precludes component auditor audit documentation from being transferred out of the component auditor's jurisdiction, the group auditor may be able to review the audit documentation at the component auditor's location or remotely through the use of technology, when not prohibited by law or regulation (see also paragraphs A179-A180).

A76. There are different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work, for example:

- Communications with component auditors throughout the course of the group audit, including communications required by this ISA.
- Meetings or calls with component auditors to discuss identified and assessed risks, issues, findings and conclusions.
- Reviews of the component auditor's audit documentation in person or remotely when permitted by law and regulation.
- Participating in the closing or other key meetings between the component auditors and component management.

A77. In applying ISA 220 (Revised),⁶⁷ the group engagement partner is required to review audit documentation at appropriate points in time during the audit engagement, including audit documentation relevant to the group audit relating to:

- Significant matters;
- Significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
- Other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

The review of such audit documentation by the group engagement partner often takes place during the course of the group audit, including the review of relevant component auditor audit documentation (also see paragraph A148).

⁶⁷ ISA 220 (Revised), paragraphs 31, A92-A93

Communications with Component Auditors (Ref: Para. 29)

A78. Clear and timely communication between the group auditor and the component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors and facilitates the group auditor's direction and supervision of them and the review of their work. Such communication also provides an opportunity for the group engagement partner to reinforce the need for component auditors to exercise professional skepticism in the work performed for purposes of the group audit.

A79. Other factors that may also contribute to effective two-way communication include:

- Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies or procedures of the group auditor's firm.
- A mutual understanding that the component auditor may discuss the audit work requested to be performed, based on the component auditor's knowledge and understanding of the component.
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.

- A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding particular matters.
- The process for the component auditor to take action and report back on matters communicated by the group auditor.

A80. The communications between the group auditor and component auditors depend on the facts and circumstances of the group audit engagement, including the nature and extent of involvement of the component auditors and the degree to which the group auditor and component auditors are subject to common systems of quality management or common network requirements or network services.

Form of communications

A81. The form of the communications between the group auditor and component auditors may vary based on factors such as the nature of the audit work the component auditors have been requested to perform, and the extent to which communication capabilities are integrated into the audit tools used for the group audit.

A82. The form of communications also may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter has been or is expected to be communicated to group management and those charged with governance of the group.

A83. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor's verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters. In addition, the group auditor may meet with the component auditor to discuss significant matters or to review relevant parts of the component auditor's audit documentation.

A84. Paragraph 45 requires the group auditor to request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. As explained in paragraph A146, the form and content of the component auditor's deliverables are influenced by the nature and extent of the audit work the component auditor has been requested to perform.

A85. Regardless of the form of communication, the documentation requirements of this and other ISAs apply.

Timing of communications

A86. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial group audit, may be made as part of agreeing the terms of the engagement.

Non-compliance with laws or regulations (Ref: Para. 25, 29)

A87. In applying ISA 250 (Revised),⁶⁸ the group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁶⁹ The obligation of the group

engagement partner to communicate non-compliance or suspected non-compliance may extend to auditors of the financial statements of entities or business units for which an audit is required by statute, regulation or for another reason, but for which no audit work is performed for purposes of the group audit.

⁶⁸ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁶⁹ See, for example, Paragraphs R360.17 and R360.18 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

How do we comply with the Standards? [ISA | KAEHDWC]

1 Group Audit | Plan the group audit [ISA | 1476]

What do we do?

Establish an overall group audit strategy and group audit plan.

Why do we do this?

Establishing an overall group audit strategy and group audit plan underpins the entire group audit process, helping us, as the lead group auditor, perform an effective and efficient audit. Audit planning matters regardless of the group's size or complexity, or our experience with it. A well-considered and documented overall group audit strategy and group audit plan helps us clearly understand what to do throughout the audit and promotes effective two-way communication with component auditors.

Execute the Audit

How do we establish the overall group audit strategy and the group audit plan? [ISA | 1476.1300]

As the lead group auditor, we establish the overall group audit strategy and the group audit plan by:

- [establishing an overall audit strategy by taking specific matters into account](#), including the resources needed and determining the following:
 - [the components at which audit work will be performed](#)
 - [for components that are accounted for under the equity method, whether to use audited financial statements as audit evidence regarding the noncontrolled entity's financial results](#)
- [developing the audit plan](#), and
- [planning the use of SATs and end-user routines](#)

What are the benefits of properly planning our group audit? [ISA | 1476.1400]

Successful group audit planning helps us, as the lead group auditor, be our best throughout the audit and devote the right attention to the right activities at the right time. Specifically, it helps us to:

- better perform our risk identification and assessment activities across the group, including identifying the components where we will perform procedures;
- identify issues or other matters earlier in the audit that may affect our group audit;
- better coordinate our audit activities with the group;
- better coordinate the involvement of the component auditors in the group audit;

- use our resources effectively; and
- respond to changes that occur or new information that we identify throughout the group audit.

1.1 Establish the overall audit strategy by taking specific matters into account [ISA | 964]

What do we do?

Establish an overall audit strategy that sets the scope, timing, and direction of the audit and guides the development of the audit plan, by taking specific matters into account.

Why do we do this?

Establishing an audit strategy is like preparing a conceptual outline for a research paper or article. The audit strategy focuses on:

- identifying the important characteristics of the engagement that define the audit's overall scope; and
- considering significant matters that will be important when we develop our detailed audit plan.

Once we have established this conceptual outline - i.e. the audit strategy - we then develop and document a detailed audit plan, which focuses on the details of the procedures we plan to perform during the audit.

Execute the Audit

What matters do we take into account in establishing our overall audit strategy? [ISA | 964.1300]

In establishing our overall audit strategy, we take into account the information obtained from complying with either [ISA 220](#) or [AU-C 220](#), respectively, and:

- the characteristics of the engagement that define its scope;
- the reporting objectives of the engagement, which affect the timing of the audit and the nature of the communications required;
- the factors that are significant in directing our efforts;
- the results of preliminary engagement activities, including whether knowledge gained on our other engagements for the entity is relevant; and
- the nature, timing and extent of resources to perform the engagement.

What information do we focus on when establishing the overall audit strategy? [ISA | 964.1400]

When we start to establish our overall audit strategy, we identify the key characteristics that will influence how we develop our audit plan and how we will execute the plan.

We focus on the information we'll use to build our detailed audit plan effectively. To help identify those key characteristics, we think back to the [matters we evaluated during planning](#) and ask ourselves questions such as:

- What are the key elements of the engagement (e.g. audit standards, financial reporting framework, laws and regulations, type of audit opinion(s))?

- On which key audit areas do we expect to focus more of our attention?
- What key audit areas have more risk and therefore warrant more of our focus?
- What audit areas will involve more specialized skills or knowledge, and the involvement of specialists and specific team members?
- Do we have the right people on the engagement team before we move into risk assessment and planning?
- What information have we learned from other engagements we have performed for the entity?
- What is the overall timetable and when will we perform certain audit activities?
- Are there any significant issues to keep in mind when we put together our audit plan?
- Are there changes in our materiality levels that would cause changes in the accounts or disclosures for which we will perform procedures?
- What are our preliminary decisions about which locations we will include in our audit scope?

Our objective is to identify and appropriately consider the important decisions and issues that may affect us more broadly when we develop the detailed audit plan.

[What is the difference between the audit strategy and the audit plan?](#) [ISA | 964.1505]

Our audit strategy differs from our audit plan, primarily in the level of detail. The audit strategy focuses less on the key details in performing the audit and more on identifying the key factors that will influence how we develop and execute our audit plan.

These key factors include:

- the basic terms of the engagement, such as the auditing standards we will follow and the entity's financial reporting framework;
- the overall scope and timing of key activities, including our risk assessment procedures; and
- who we will use to conduct the audit, including whether specialists and specific team members are needed.

Establishing the overall audit strategy and the detailed audit plan may not be discrete or sequential processes. Both activities, along with performing our risk assessment procedures, are interrelated - changes in one may result in changes to the other.

[Who reviews and approves the overall audit strategy?](#) [ISA | 964.157422]

The engagement partner reviews and approves the overall audit strategy.

[Can the engagement partner delegate the review and approval of the overall audit strategy?](#) [ISA | 964.157423]

No. The engagement partner reviews and approves the overall audit strategy as part of fulfilling their responsibility for the direction of the audit engagement.

However, the engagement partner may involve others on the engagement team in the direction, supervision and performance of the audit engagement - including helping to review parts of the audit strategy.

[To whom do we communicate the audit strategy?](#) [ISA | 964.1600]

We communicate an overview of our audit strategy to those charged with governance (see chapter on communications with those charged with governance ([AS 1301](#), [ISA 260](#), [AU-C 260](#))).

Our communication includes the planned timing and scope of the audit as well as the significant risks we identified during our risk assessment procedures.

Group Audit | What do we take into account when establishing an overall group audit strategy? [ISA | 964.1610]

As the lead group auditor, we establish an overall group audit strategy in the same way as in a stand-alone audit, but take into account additional factors specific to group audits:

- the group structure
- the components where audit work is to be performed
- the resources to perform the group audit, including the nature, timing and extent to which components auditors are involved
- the extent to which we (as the lead group auditor) expect to obtain sufficient appropriate audit evidence on which to base our group auditor's opinion, from the work we perform;
- the extent to which components are required by statute, regulation or any other reason to be audited by a component auditor; and
- when that audited financial information will be made available to us.

Group Audit | Who reviews and approves the overall group audit strategy? [ISA | 964.1620]

In a group audit, the group engagement partner reviews and approves the overall group audit strategy.

Group Audit | Can the group engagement partner delegate the review and approval of the overall group audit strategy? [ISA | 964.10894]

No. The group engagement partner reviews and approves the overall group audit strategy as part of fulfilling their responsibility for the [direction of the group audit engagement](#).

However, the group engagement partner may involve others from the lead group auditor in the direction, supervision and performance of the group audit engagement - including helping to review parts of the group audit strategy.

Examples

What are some examples of matters we commonly take into account that may significantly affect the audit strategy? [ISA | 964.1700]

The following table provides examples of matters we commonly consider that may significantly affect the audit strategy.

Type of consideration	Examples of matters we may consider
The characteristics of the engagement that define its scope	<ul style="list-style-type: none">• The financial reporting framework used to prepare the financial information we are auditing, including any need for reconciliations to other financial reporting frameworks and applicable legislative or regulatory requirements (e.g. US GAAP, IFRS, accounting and reporting policies issued by a parent company to its locations or business units)

- Auditing standards (e.g. PCAOB, U.S. GAAS, ISA, auditing standards of a specific jurisdiction or country)
- The type of audit we are performing (i.e. financial statement audit only or integrated audit) and the reports we will issue as part of the audit engagement (including our report on the audit of ICFR for an integrated audit)
- Legislative or regulatory requirements (e.g. SEC rules and regulations)
- The internal control framework on which management bases its assessment of the effectiveness of the entity's ICFR (e.g. COSO 2013)
- Industry-specific reporting requirements (e.g. reports mandated by industry regulators)
- Other information included with the financial statements in the annual report
- Information management may plan to disclose in the financial statements we plan to audit, which is not required to be prepared by the financial reporting framework
- Number of components and/or locations where procedures are expected to be performed
- The nature of control relationships between a parent and its components that determine how the group is to be consolidated
- The extent to which components are audited by component auditors
- The nature of the business lines or segments to be audited, including specialized skills or knowledge we may need
- The reporting currency to be used, including any need for currency translation for the financial information we are auditing
- The need for statutory audit of stand-alone financial statements in addition to an audit for consolidation purposes
- The availability of the work of the entity's internal auditors and the extent of our potential reliance on such work
- The entity's use of service organizations and how we might obtain evidence over the design and operating effectiveness of controls they perform
- The expected use of audit evidence obtained in previous audits (e.g. benchmarking of certain automated process control activities)

	<ul style="list-style-type: none"> The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques The coordination of the timing and execution of audit procedures with any interim reviews and the effect on the audit of information we may obtain through these reviews The availability of entity personnel and information, including whether the entity can provide the right information in the right way
Reporting objectives of the engagement and nature of communications required by the relevant auditing standard	<ul style="list-style-type: none"> The entity's timetable for both interim and final reporting The planning of meetings with management and those charged with governance to discuss the planned scope and timing of the audit, including significant risks Discussion with management and those charged with governance about the expected type and timing of reports to be issued and other required communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance Discussion with management about the expected communications on the status of audit work throughout the engagement Communications with component auditors about the expected types and timing of reports to be issued and other communications connected with the audit of components The expected nature and timing of communications with other auditors, including other KPMG offices/member firms or non-KPMG firms The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed Whether any communications with third parties are expected, including any statutory or contractual reporting responsibilities arising from the audit
Factors that are significant in directing the activities of the engagement team	<ul style="list-style-type: none"> Preliminary identification of areas that may present a higher risk of material misstatement The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review

	<ul style="list-style-type: none"> How we emphasize to engagement team members to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence
Results of preliminary engagement activities and our evaluation of matters important to the financial statements and ICFR	<ul style="list-style-type: none"> Preliminary determination of materiality, including: <ul style="list-style-type: none"> determination of performance materiality for components and communication to component auditors; and preliminary identification of components and significant accounts balances and disclosures of the group financial statements Risks identified through our client continuance process How we may direct engagement personnel, use specialists and specific team members, and supervise and review the audit Results of previous audits involving evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them Information learned from other engagements performed for the entity, including interim reviews, other assurance engagements and agreed-upon procedures Discussion of matters that may affect the audit with KPMG professionals who provide other services to the entity, which may include: <ul style="list-style-type: none"> identifying other services (e.g. tax and advisory services) provided by KPMG or its member firms; discussing findings that could be relevant to the audit; and reviewing reports or correspondence generated during these other services Evidence of the entity's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control Volume of transactions, which may lead us to decide it is more efficient for us to rely on internal controls Importance attached to internal control throughout the entity for the successful operation of the business Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers, and divestments

	<ul style="list-style-type: none"> • Significant industry developments, including changes in industry regulations and new reporting requirements • Changes within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures • The processes management uses to identify and prepare the disclosures required by the applicable financial reporting framework, including disclosures containing information obtained from outside of the general and subsidiary ledgers • Other significant relevant developments, including changes in the legal environment affecting the entity
Nature, timing, and extent of resources needed to perform the engagement	<ul style="list-style-type: none"> • Engagement budgeting, which includes considering the appropriate amount of time to set aside for areas that may involve higher CAR assessment for RMMs • Selection of the engagement team (including specialists and specific team members, if needed), the appointment of an engagement quality control reviewer if applicable, and the process for assigning audit work to team members, including assigning appropriately experienced team members to areas that we believe may have higher risks of material misstatement • Locations and business units for which we may use the work of other auditors (including other KPMG offices/ member firms or non-KPMG firms) and our initial plans for coordination and supervision • Timetable for deploying resources, including whether at an interim audit stage or at key cut-off dates

1.2 Group Audit | Determine components at which audit procedures will be performed [ISA | 1492]

What do we do?

Determine components at which audit procedures will be performed.

Why do we do this?

Doing this helps us identify and assess the risks of material misstatement (RMMs) of the group financial statements that arise at components and perform appropriate procedures to address those RMMs to support the group audit opinion.

Execute the Audit

How do we determine at which components audit procedures will be performed? [ISA | 1492.1300]

As the lead group auditor, to determine components at which audit procedures will be performed, we:

- [identify quantitatively significant components](#)
- [identify additional components considering factors](#)
- [evaluate remaining financial information](#)

What types of work can be performed at a component? [ISA | 1492.160263]

The following types of work may be performed at components:

- (1) [Risk assessment procedures](#)
- (2) [Further audit procedures](#)

Can we use the work performed for a statutory audit for group audit purposes? [ISA | 1492.160264]

An audit of a component may be performed for statutory, regulatory or other reasons. As the group auditor, we may decide to use that work to respond to RMMs of the group financial statements for the group audit. When this is the case, we apply the relevant KPMG Audit Execution Guide related to group audits for this component and the component auditor. Our responsibilities to direct and supervise the component auditor and review their work is no different than a component auditor who performs work only for the purpose of the group audit.

Factors that may affect our decision whether to use work from the statutory audit to provide audit evidence for the group audit include:

Factor	Considerations
Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements	The extent of differences between the financial reporting frameworks will affect whether we can use their audit. If the volume or amount of adjustments is small and a simple reconciliation can be performed to adjust the statutory financial statements for the purposes of the group financial statements, we may be able to use the statutory audit, with limited additional procedures performed by us or the component auditor.
Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements	We use audit work when it is in accordance with the auditing standards that we report under. The greater the differences between the auditing standards the less likely we are to use their work.

1.3 Develop the audit plan [ISA | 967]

What do we do?

Develop an audit plan that describes our planned procedures

Why do we do this?

Once we have set our overall audit strategy, we can start to shape our detailed audit plan, which will guide the engagement team throughout the audit. Because of the plan's impact on how we conduct the audit overall, we devote appropriate attention to developing it. When we enlist the engagement partner and other key members of the engagement team in developing this plan, we can achieve a much more effective and efficient audit.

Execute the Audit

[What is an audit plan?](#) [ISA | 967.1300]

An audit plan describes the nature, timing and extent of the:

- planned direction and supervision of engagement team members and the review of their work; and
- audit procedures we plan to perform in the audit including:
 - risk assessment procedures;
 - our audit responses for identified risks of material misstatement; and
 - other procedures that the auditing standards require.

We don't create the plan all at once. We create it as we move through the planning and risk assessment procedures, so we can base our plan on everything we learn in that process.

[What is the difference between the audit strategy and the audit plan?](#) [ISA | 967.1505]

Our audit strategy differs from our audit plan, primarily in the level of detail. The audit strategy focuses less on the key details in performing the audit and more on identifying the key factors that will influence how we develop and execute our audit plan.

These key factors include:

- the basic terms of the engagement, such as the auditing standards we will follow and the entity's financial reporting framework;
- the overall scope and timing of key activities, including our risk assessment procedures; and
- who we will use to conduct the audit, including whether specialists and specific team members are needed.

Establishing the overall audit strategy and the detailed audit plan may not be discrete or sequential processes. Both activities, along with performing our risk assessment procedures, are interrelated - changes in one may result in changes to the other.

[What are the benefits to having an audit plan?](#) [ISA | 967.1400]

Planning the nature, timing and extent of our audit procedures, and describing them in an audit plan, allows us to:

- organize and manage the audit engagement, including working with the entity so it can provide us the right information at the right time and help us perform the audit effectively and efficiently;

- improve audit quality, since we will gain input from more experienced team members, including the engagement partner, before we devote time and attention to performing those procedures;
- order our audit activities in the right way, helping us make better judgments earlier in the audit, and identify and resolve issues that arise on a timelier basis;
- thoughtfully identify and assess the risks of material misstatement and design audit procedures that specifically respond to those risks;
- consider unexpected changes in the audit and have enough time to design appropriate responses;
- involve the right people, including specific team members or specialists, with appropriate levels of capabilities and competence to respond to anticipated risks, and properly assign work to them;
- facilitate the direction and supervision of engagement team members and the review of their work; and
- help coordinate work performed by other auditors (when appropriate), including other KPMG offices and member firms, non-KPMG firms, and those specific team members or specialists.

By contrast, if we don't determine the details of our audit procedures until we perform them, there's more of a chance they won't be sufficient, or we won't perform them efficiently.

[How do we develop our audit plan?](#) [ISA | 967.1500]

To develop our audit plan, we first develop our overall audit strategy. This involves:

- identifying the important characteristics of the engagement that define our overall audit scope; and
- considering significant matters that will be important to develop a detailed audit plan.

We then use this strategy as the outline for the audit plan. When we establish the plan, we focus on:

- developing the nature, timing and extent of the procedures we will perform; and
- addressing the matters identified in the overall audit strategy.

At a minimum, our audit plan covers procedures for risk assessment and testing controls, substantive procedures, and any other relevant procedures.

Completing our audit plan includes completing all relevant audit programs, and planning all the procedures we will conduct throughout the audit.

[Who reviews the audit plan?](#) [ISA | 967.157424]

The engagement partner reviews and approves the audit plan.

[Can the engagement partner delegate the review and approval of the audit plan?](#) [ISA | 967.157425]

No. The engagement partner's review of the audit plan is a key part of fulfilling their responsibility for directing the audit engagement.

However, they may involve other members of the engagement team in the direction, supervision and performance of the audit engagement - including helping to review parts of the audit plan.

[Group Audit | How do we develop our audit plan when performing a group audit?](#) [ISA | 967.1510]

As the lead group auditor, we develop our group audit plan in the same way as in a stand-alone audit. However, some considerations in a stand-alone audit plan are different in the group audit plan.

For example, in developing the group audit plan, we focus more on:

- identifying the components where we expect RMMs to exist;
- determining how we'll identify and respond to those RMMs that are relevant to the group financial statements; and
- for audits performed under PCAOB and US GAAS, determining whether we intend to make reference to the audit of a referred-to auditor.

Often, we will accomplish this by identifying the resources to perform the group audit engagement, including the nature, timing, and extent to which component auditors are to be involved.

We also plan to identify and respond to RMMs at the group level.

[Group Audit | Who reviews and approves the group audit plan?](#) [ISA | 967.1530]

The group engagement partner reviews and approves the group audit plan.

[Group Audit | Can the group engagement partner delegate the review and approval of the group audit plan?](#) [ISA | 967.10940]

No. The group engagement partner's review of the group audit plan is a key part of fulfilling their responsibility for [directing the group audit engagement](#).

However, they may involve other members from the lead group auditor in the direction, supervision and performance of the group audit engagement - including helping to review parts of the group audit plan.

[Can we involve the entity in planning the audit?](#) [ISA | 967.1600]

Yes. We may decide to discuss elements of planning with the entity's management, to help us conduct and manage the audit engagement. This has many benefits, including the following.

Elements we may discuss with entity management	How this can help us
Leveraging the entity's work	We may be able to coordinate some of our planned audit procedures with work performed by the entity's own personnel.
Gathering the information to perform our audit	Coordinating with the entity helps us gather the right information at the right time in our audit.
Understanding the entity's internal controls	Upfront planning and conversations with management can help us deepen our understanding of the design of their controls, as well as how the entity evidences controls that we plan to rely on in the audit. If we delay exploring this with the entity, we may identify deficiencies late in the audit.

	<p>The entity may then be unable to remediate deficient controls before the end of the period - e.g. by improving the control's precision or maintaining sufficient appropriate evidence of its operation.</p>
How we plan to perform our procedures	<p>Improper planning can affect our ability to execute the planned procedures.</p> <p>For example, obtaining audit evidence through observation may only be possible by upfront planning and coordinating with the entity, so that we are present when the entity executes a control.</p>

[What are the risks if we involve the entity in planning the audit? \[ISA | 967.10941\]](#)

Coordinating our audit planning with the entity involves identifying the information they can provide us. As a result, the entity may learn too much about the details of our audit plan.

To avoid compromising our audit's effectiveness or making our audit procedures predictable while still realizing the benefits of coordination, we thoughtfully consider what information to share with the entity.

Examples

[How might developing an audit plan upfront make us more effective and efficient? \[ISA | 967.1800\]](#)

Fact pattern

Before planning the nature, timing, and extent of our audit procedures over accounts receivable, the engagement team decides to prepare and send accounts receivable confirmations as of an interim date, similar to prior periods.

An associate and senior associate spend 50 hours obtaining the necessary data, preparing and sending the confirmations, reviewing confirmation responses, following up and performing alternative procedures for unreturned items, and documenting the test work.

Later, while documenting the details of the audit procedures in the audit program, the engagement team observes a significant risk identified during risk assessment, but not included in the audit planning documentation. This significant risk leads the engagement team to conclude it should have sent accounts receivable confirmations as of a date closer to the period end.

Analysis

Because it did not adequately plan the nature, timing, and extent of audit procedures for accounts receivable, the engagement team now has to repeat the confirmation procedures. The engagement team could have allocated the 50 hours spent on the interim accounts receivable confirmation procedures to other tasks, which would have increased our effectiveness and reduced the overall time worked by the associate and senior associate.

Repeating the confirmation procedures also increases the burden for the entity, which management may find inefficient and could adversely affect our client relationship.

How might coordinating better with the entity improve our effectiveness and efficiency? [\[ISA | 967.1900\]](#)

[Example 1 | Evidence used to test manual controls](#) [\[ISA | 967.10943\]](#)

Fact pattern

The entity has a robust process for projecting financial information - i.e. future operating results - and updates its projections semi-annually. The entity uses these projections in many of the impairment tests it performs.

In this process, management performs various, highly detailed analyses, reconciliations, and reviews. Management uses these procedures and analyses - i.e. management review controls - to support and validate the amounts in the projections, and meets monthly to discuss and review the projections.

Management does not keep the documentation produced in preparing these analyses and investigating significant differences from expectations identified during the process. Management only retains the final approved budget.

Analysis

Involving the engagement team early may help management understand that preserving and organizing all the supporting documentation is important evidence for the operating effectiveness of the controls. Without this understanding, management might spend significant effort identifying and retrieving discarded documents that support the controls - or fail to support that the controls work, potentially leading to a control deficiency.

[Example 2 | Evidence used to test automated control activities](#) [\[ISA | 967.10944\]](#)

Fact pattern

At an interim date, the engagement team performs walkthroughs to understand the flow of transactions, including several automated control activities within the entity's enterprise resource planning (ERP) system.

The walkthroughs provide the engagement team with sufficient evidence to conclude that certain automated control activities relevant to the audit are designed effectively.

When the engagement team returns at period end to perform procedures to evaluate the operating effectiveness of the automated control activities, the entity informs them that, based on the nature of its ERP system, some information the engagement team needs as of a date earlier in the period is available only at a point in time and cannot be produced.

Analysis

The engagement team did not adequately develop its audit plan upfront, so did not identify the appropriate timing for the entity to provide the necessary audit evidence to test the automated control activities. The engagement team therefore did not appropriately deploy its resources or perform its audit procedures at the right time, and may not be able to obtain sufficient appropriate audit evidence to test the automated control activities (if alternative procedures are not possible).

[Example 3 | Information used to perform substantive testing](#) [\[ISA | 967.10945\]](#)

Fact pattern

The engagement team is performing substantive procedures to test certain high-risk manual journal entries that the entity made in the period. During its final fieldwork in late January, the engagement team requests an electronic file of all manual journal entries recorded during the period so it can run specific routines to identify high-risk journal entries to examine.

The engagement team meets with management several times over the next two weeks to discuss the required files, format, and data validation checks. The entity eventually provide the data in a useable format.

However, the engagement team is left with only three days to run its analysis and perform its test work, which may not be enough time.

Analysis

Had the engagement team planned and coordinated more effectively with the entity, it could have determined the appropriate format and received the data directly after the entity closed its books. The engagement team would then have had enough time to design and perform the appropriate audit procedures.

[What are examples of audit procedures that may be included in our audit plan? \[ISA | 967.2000\]](#)

The table below sets out common audit procedures we may consider as we develop our detailed audit plan.

Procedures	Types of planned procedures we may perform
Planned nature, timing, and extent of risk assessment procedures	<ul style="list-style-type: none"> Inquiring of those charged with governance, management, and others in the entity about the risks of material misstatement Performing analytical procedures Reading public information about the entity Discussing risks of material misstatement with engagement team members and other auditors Performing walkthroughs to understand the flow of transactions
Planned nature, timing, and extent of tests of controls and substantive procedures	<ul style="list-style-type: none"> Testing the operating effectiveness of a control by inquiring, observing, inspecting relevant documentation, and/or re-performing a control Performing substantive analytical procedures Performing tests of details of accounts and disclosures, for example, sending external accounts receivable confirmations or vouching property, plant and equipment purchases to underlying third-party invoices
Other planned audit procedures we perform so the engagement	<ul style="list-style-type: none"> Using other independent auditors to perform part of the audit Performing audit procedures over related parties, including relationships and transactions with related parties

complies with audit standards	<ul style="list-style-type: none"> • Performing audit procedures to evaluate an entity's ability to continue as a going concern • Performing audit procedures for identifying litigation, claims, and assessments; • Observing inventories • Performing audit procedures for the period after the balance-sheet date
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1.4 Group Audit or Component Audit | Plan the use of SATs and end-user routines [ISA | 3762]

What do we do?

Plan the use of software audit tools (SATs) and end-user routines.

Why do we do this?

The use of software audit tools in the audit enables us to leverage technology to enhance audit effectiveness. When we use a SAT or an end-user routine in an audit, we are relying on its design and consistent operation to produce output that is complete and accurate.

Execute the Audit

What are SATs? [ISA | 3762.12626]

SATs are programs, applications and ready-to-use routines that we use to examine, sort, filter or analyze transactions or other data used as audit evidence or which generate results that supplement our judgment.

SATs also include tools developed and/or used by specific team members, employed KPMG specialists and others at the direction of the engagement team in relation to their involvement in obtaining audit evidence or supplementing our judgment for our audit.

The following table illustrates examples of different SATs we may use:

Type of SATs	Examples
Routine-enabling applications Routine-enabling applications represent applications that contain end-user computing functionality that enables end-user routines to be developed.	<ul style="list-style-type: none"> • IDEA® • Microsoft Excel® • Microsoft Power BI® • Alteryx®
Ready-to-use routines	<ul style="list-style-type: none"> • IDEA® SmartAnalyzer

<p>Ready-to-use routines represent individual software audit tools, separate from the routine-enabling applications on which they run (if any), that typically use a series of formulas, functions, or instructions that are not visible to the end-user and are typically locked to prohibit end-users from accessing the program code.</p>	<ul style="list-style-type: none"> • KPMG Clara workflow KCw - Advanced Capabilities • Confirmation® • DataSnipper Excel Add-in®
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[What is end-user computing functionality?](#) [ISA | 3762.12627]

End-user computing functionality enables engagement teams to develop spreadsheets, databases, or automated techniques without the involvement of computer programmers outside of the engagement team.

[What are end-user routines?](#) [ISA | 3762.12628]

End-user routines are spreadsheets, databases, or automated techniques that we use in our audit to examine, sort, filter or analyze transactions or other data used as audit evidence or which generate results that supplement our judgment, which are either:

- developed by the engagement team (including specific team members and employed KPMG specialists) or by others at the direction of the engagement team using routine-enabling applications; or
- ready-to-use routines that have been customized by the engagement team to meet the specific circumstances of an audit engagement.

Examples of end-user routines include engagement specific Excel® macros or IDEA® or Alteryx® scripts. In applying this definition, automated techniques refers to the automation of all or a portion of an audit technique or procedure. For example, automating the match of subsequent cash receipts on an entity's bank statement to accounts receivable open at year-end using the remittance form and a relevant data element like invoice number.

[Group Audit | How do we plan the use of SATs and end-user routines in a group audit?](#) [ISA | 3762.12782]

When we, as the group auditor, plan the use of SATs and end-user routines at the group level, we:

- [consider whether each SAT is reliable](#);
- [create a list of SATs to be used on the engagement](#); and
- [consider whether each end-user routine is reliable](#).

[Component Audit | How do we plan to use a SAT as a component of a U.S. group?](#) [ISA | 3762.1500]

If a non-U.S. KPMG component auditor is performing work for the U.S. KPMG group auditor, then:

- [use the SATs on the US SAT List](#); and
- [complete the Non-US SAT Memo when performing work on certain components](#).

1.4.1 Consider whether each SAT is reliable [ISA | 525]

What do we do?

IF we intend to use a software audit tool on our engagement AND it is not included on the KPMG member firm SAT list THEN consider the reliability of the tool's output by evaluating its design and testing its consistent operation to the extent necessary before using the tool.

Why do we do this?

If a software audit tool (SAT) isn't on the KPMG member firm SAT List, then we assess the tool's reliability - i.e. the design and consistent operation - so that we can rely on its output.

Execute the Audit

[What is a KPMG member firm SAT List? \[ISA | 525.1300\]](#)

A "KPMG member firm SAT List" is a list of SATs that have been subjected to a centralized quality control assessment and approved by a KPMG member firm for use by engagement teams in that member firm, subject to appropriate consideration of users' competence and capabilities.

[Can member firms restrict the use of SATs that are not on their member firm SAT List? \[ISA | 525.12514\]](#)

Yes, member firms may restrict the use of SATs that are not on their member firm SAT List in order to regulate, limit or preclude engagement teams' use of those SATs.

[How do we determine the nature and extent of testing and related documentation over SATs that are not included in the KPMG member firm SAT list? \[ISA | 525.12515\]](#)

The nature and extent of testing of SATs that are not included in our KPMG member firm SAT List and the related documentation can vary depending on the SAT's complexity and how we use the SAT in the audit. When determining the extent of testing of such tools, we may refer to the [Global SAT Evaluation and Testing Guide](#) <https://spo-global.kpmg.com/b/r/sites/GO-GlobalSAT/Shared%20Documents/Global%20SAT%20Evaluation%20and%20Testing%20Guide.pdf?csf=1&web=1&e=xsmAvg>.

[Who can help us evaluate and test SATs that are not included in the KPMG member firm SAT list? \[ISA | 525.12516\]](#)

Depending on the complexity, we may consider the involvement of specific team members and employed KPMG specialists - for example, IT specific team members - to assist us in the evaluation and testing of a SAT that is not included in our KPMG member firm SAT List.

[Are there differences in considerations and definitions of technology tools used by specific team members, employed KPMG specialists and others at the direction of the engagement team? \[ISA | 525.12630\]](#)

No. Technology tools developed and/or used by specific team members, employed KPMG specialists (e.g. individuals with specialized skills in Actuarial, Forensics or Valuation) and others at the direction of the engagement team are considered SATs or end-user routines when they are used to facilitate obtaining audit evidence or supplement our judgment. Similarly, when the technology tools are not used to facilitate obtaining audit evidence or supplement our judgment, they are considered operational tools.

For example, a technology tool used by a specific team member with expertise in IT on the engagement to test the segregation of duties configuration of an entity's ERP system is a SAT. The

specific team member with expertise in IT determines whether such an application is included on the member firm's SAT list.

Group Audit | What do we think about in relation to the reliability of technology tools used by a non-KPMG component auditor? [ISA | 525.9349]

While technology tools used by non-KPMG component auditors are not considered KPMG SATs, we think about inquiring of the non-KPMG component auditor related to the use of software audit tools in the performance of the component auditor's testwork. While the non-KPMG component auditor is not expected to provide proprietary information relative to its own software audit tools, the group auditor may still think about the following inquiries to assist in evaluating how software audit tools are used by the non-KPMG component auditor and the system of quality management that govern the use of those tools at the non-KPMG firm:

- Where and how does the component auditor intend to use the software audit tool (e.g. risk assessment, control testing and/or substantive procedures)?
- Does the system of quality management address considerations around:
 - the design and consistent operation of the software audit tools used by the component auditor in the performance of its testwork, and
 - the competence of the component auditor to operate the technology tool

and is that process followed by the non-KPMG component auditor?

For example, as part of our evaluation of the component auditor's further audit procedures to respond to a significant risk of the group financial statements, we determined that they are using an internally developed technology tool. Given that the technology tool is being used to address a significant risk to the group financial statements, as part of our supervision of the non-KPMG component auditor, we make inquiries about how they will use the technology tool, the quality controls in place in relation to the design and consistent operation of the technology tool and the competence and capabilities of the component auditor to operate the technology tool. Based on the responses to the inquiries, we think about whether to perform any further procedures.

What do we think about when considering the reliability of SATs in work performed over a component?

[ISA | 525.1700]

The activities related to SATs used and/or relied upon in a stand-alone audit also apply to SATs used and/or relied upon when performing work on component financial information. These activities apply regardless of the type of work performed by KPMG component auditors.

Group Audit or Component Audit | What do we do differently for SATs used by KPMG component auditors? [ISA | 525.12518]

In relation to SATs used by KPMG component auditors, where special audit consideration is necessary to respond to a significant risk of the group financial statements, we, as the group auditor:

- request KPMG component auditors to communicate:

- the SATs and end-user routines (including those developed using common routine-enabling applications such as Excel® and IDEA®) that they plan to use in auditing the significant risk(s) of the group financial statements
 - whether they are on the member firm SAT list, and
 - whether they are being used in accordance with the member firm SAT policies
- consider this information in connection with our evaluation of the appropriateness of the further audit procedures to be performed by the component auditors related to the significant risks of the group financial statements, and our determination of whether it is necessary to be involved in those further audit procedures.

What SAT policies and KPMG member firm SAT List apply to the work the component auditor performs? [ISA | 525.12519]

SAT policies and SAT Lists in the component auditor's KPMG member firm are applicable for the work the component auditor performs. This may regulate, limit, or preclude component auditors from using or relying on SATs that are not on the component auditor's KPMG member firm SAT List (e.g. the component auditor is not able to use SATs provided by the group auditor).

In addition, the KPMG member firm of the group auditor may establish more restrictive policies that apply to component auditors that limit the component auditor's ability to use and/or rely on SATs that are not on the group auditor's member firm SAT List (e.g. a component auditor is not able to use a SAT on the component auditor's KPMG member firm SAT List).

For example, the group auditor's KPMG member firm determines that component auditors from other KPMG member firms can only use and/or rely on SATs on the group auditor member firm's SAT List.

When this is the case, the group auditor uses the group audit instructions to communicate restrictions or a communication/approval process for the use of or reliance on SATs by component auditors.

In a group audit, can we rely on the output of a SAT that has been used by another auditor in a different KPMG member firm? [ISA | 525.12520]

Yes. However, the auditor relying on the output of that SAT determines whether additional information is necessary to support reliance on that tool.

For example, the group auditor in country A uses a SAT to perform central testing over revenue and shares the results with a component auditor in country B. The component auditor also plans to use that output for the purpose of its local statutory audit.

The component auditor may request the group auditor to confirm that the SAT used is listed on the group auditor KPMG member firm's SAT list (or that it has been evaluated in accordance with the chapter on Audit Evidence). This may be sufficient for them to rely on the output of the SAT, or they may decide to enquire further.

In a group audit, what do we think about when relying on the output of a SAT or end-user routine that has been used by another auditor in a different KPMG member firm? [ISA | 525.12521]

We may think about matters such as:

- the complexity and nature of the SAT/end-user routine;

- the purpose for which the SAT/end-user routine is used
- the reliability and/or appropriateness of the SAT/end-user routine;
- the competence and capability of the KPMG component auditor to use the SAT/end-user routine.

Group Audit or Component Audit | When the group auditor requests a KPMG component auditor to use a SAT and/or to use its output, what are the responsibilities of the KPMG component auditor regarding the reliability of that SAT for the purpose of the group audit? [ISA | 525.12522]

There may be instances where a group auditor may either:

- execute a SAT centrally and request KPMG component auditors to use the output of that SAT for the purpose of their work on the components, or
- provide a SAT to KPMG component auditors and request them to use it for the purpose of their work on the components.

In those instances, the component auditor does not have to consider the reliability of that SAT and/or its output. It is the group auditor's responsibility to appropriately evaluate those matters.

When the group auditor requests a KPMG component auditor to use a SAT and/or to use its output, what are the responsibilities of the KPMG component auditor regarding the reliability of that SAT when the component auditors uses that work to support their statutory audit? [ISA | 525.160195]

There may be instances where a group auditor may either:

- execute a SAT centrally and request KPMG component auditors to use the output of that SAT for the purpose of their work on the components, or
- provide a SAT to KPMG component auditors and request them to use it for the purpose of their work on the components.

When the component auditor is also performing a statutory audit on the component's financial information and plans to use that SAT and/or its output to support its statutory audit opinion, the component auditor obtains a sufficient understanding of the procedures performed and conclusions reached by the group auditor to assess the reliability of that SAT and/or its output and documents this in its statutory audit file.

What are the considerations related to SATs and end-user routines when we are a participating auditor?

[ISA | 525.9262]

The considerations related to SATs and end-user routines for a participating auditor are the same as that for a component auditor.

1.4.2 Create a list of SATs to be used on the engagement

[ISA | 527]

What do we do?

Create a list of SATs to be used on the engagement (engagement SAT list).

Why do we do this?

The engagement SAT list allows us to document the SATs that we are using in the audit and also assists us in identifying if we are using SATs that are not on the KPMG member firm SAT list.

When we use a SAT in an audit, the engagement team is relying on the output provided by the SAT; for this reason, we determine whether the SAT's output is reliable by performing procedures to evaluate its design and, to the extent necessary, test that it operates consistently.

Execute the Audit

Do we list all SATs that we plan to use on the engagement? [ISA | 527.8853]

For engagements performed using the KPMG Clara workflow - Enhanced, we create a complete and accurate engagement SAT list after we determine which SATs will be used in the engagement. As part of our list, we identify whether or not a SAT included on the engagement SAT list is included on the KPMG member firm SAT list.

For engagements performed using the KPMG Clara workflow - Standard or the KPMG Clara workflow - Small Entity, the engagement SAT list only includes those that are not on the KPMG member firm SAT list.

In all engagements, the engagement SAT list is created during audit planning before we use the tools and includes those SATs used by specific team members, employed KPMG specialists and others at the direction of the engagement team.

While KPMG Clara workflows are considered SATs, their use is implicit, and we don't include these in the engagement SAT list.

What if the list of SATs we plan to use on the engagement changes in response to a new circumstance?

[ISA | 527.1500]

If the actual or planned use of SATs on the engagement have or are expected to change, we modify the engagement SAT list accordingly.

How do engagement team members obtain the relevant competence and capabilities to use a SAT? [ISA | 527.1600]

The engagement partner is responsible for determining the engagement team, including specific team members and employed KPMG specialists, have relevant competence and capabilities to use SATs in the audit.

Examples of how engagement team members may obtain competence and capabilities to use SATs include:

- Completing relevant training for the SAT
- Using available instructions for the SAT; or
- On the job training by others experienced in using the tool.

What is the engagement partner responsible for? [ISA | 527.1700]

The engagement partner is responsible for making sure the engagement team, including specific team members, employed KPMG specialists and others at the direction of the engagement team, have

relevant competence and capabilities to use SATs in the audit and that the use of those SATs complies with any member firm policies, for example necessary trainings or restrictions to use.

[Group Audit | What SATs do we list on our engagement SAT list in a group audit?](#) [ISA | 527.1800]

When creating our engagement SAT list for a group audit we, as the group auditor, include the software audit tools directly used by us.

The SATs used by the KPMG component auditors may not be included on the group auditor KPMG member firm's SAT list, unless the group auditor KPMG member firm's policies require that all SATs used by the KPMG component auditors are on the group auditor KPMG member firm's SAT list.

1.4.3 Consider whether each end-user routine is reliable [ISA | 529]

What do we do?

Consider the reliability of the output provided by end-user routines by evaluating the design and testing the consistent operation of end-user routines that the engagement team develops and uses to facilitate obtaining audit evidence or supplementing our judgment.

Why do we do this?

When we develop end-user routines, we are responsible for considering the reliability of the output by evaluating their design and testing their consistent operation to the extent necessary. Otherwise, we risk drawing conclusions that are inaccurate or not properly supported.

Execute the Audit

[What are end-user routines?](#) [ISA | 529.12628]

End-user routines are spreadsheets, databases, or automated techniques that we use in our audit to examine, sort, filter or analyze transactions or other data used as audit evidence or which generate results that supplement our judgment, which are either:

- developed by the engagement team (including specific team members and employed KPMG specialists) or by others at the direction of the engagement team using routine-enabling applications; or
- ready-to-use routines that have been customized by the engagement team to meet the specific circumstances of an audit engagement.

Examples of end-user routines include engagement specific Excel® macros or IDEA® or Alteryx® scripts. In applying this definition, automated techniques refers to the automation of all or a portion of an audit technique or procedure. For example, automating the match of subsequent cash receipts on an entity's bank statement to accounts receivable open at year-end using the remittance form and a relevant data element like invoice number.

[How do we evaluate whether each end-user routine is reliable?](#) [ISA | 529.9403]

We evaluate the reliability of an end-user routine by assessing its design and whether it operates consistently.

As the complexity of the end-user routine increases and the extent of planned audit evidence obtained from the routine increases, the more extensive the evaluation of the reliability of the end-user routine may become.

Our responsibility over the relevance and reliability of RDEs included in the information to perform an end-user routine is no different than when RDEs are used in other audit procedures (see activity '[Evaluate the relevance and reliability of information used as audit evidence](#)').

When an end-user routine imports data extracted from the entity's system, we evaluate the completeness and accuracy of the extract and import (see activity '[Evaluate the complete and accurate extract and import of data used in each SAT and EUR](#)').

Do we evaluate and test the design and consistent operation of end-user routines if we develop them by using routine-enabling SATs that are on the SAT List? [ISA | 529.12624]

Yes. Although we do not test the consistent operation of those routine-enabling applications that are on our member firm's SAT List, we are still responsible for evaluating the design and testing the consistent operation of the individual routines we develop.

For example, when using Excel® (a routine-enabling application) to develop a spreadsheet (an end-user routine) that sorts and filters data via a pivot table, we do not test the pivot feature of Excel®. We are, however, responsible for evaluating the design of the pivot table (i.e. that the appropriate filters and formulas have been applied to meet the intended purpose), and evaluating that the pivot table is completely and accurately capturing/including the underlying data. We may evidence this by a note or tickmark added to the Excel® file.

How do we evaluate the design of the end-user routine? [ISA | 529.1600]

When we evaluate the design of the end-user routine, we consider whether it is capable of effectively achieving its purpose. Evaluating the design of an end-user routine includes having sufficient understanding of, or access to, the formulas and functions used in the routine.

Excel® files obtained by the engagement team from various sources may include customized proprietary macros and programming code without sufficient documentation to understand the logic.

For example, a complex Excel® file used to calculate the historical volatility of a stock may require input of certain variables, connect to an external data source to download stock price information, execute a complex macro that is locked and then report a calculated historical volatility amount.

In such a case, the engagement team would be unable to understand the appropriateness of the formulas and functions used in the Excel® spreadsheet when it is used by the engagement team to obtain audit evidence in order to establish the appropriateness of the audit evidence provided by the spreadsheet. Thus the engagement team would not have a basis for relying on the output of this complex Excel® file as audit evidence. In particular, the engagement team would not be able to assess whether the macro is appropriately querying the external data source or whether

the historical volatility calculation embedded in the macro is appropriate for the purpose of the procedure.

Evaluating the design of the end-user routine entails:

- considering the end-user routine's purpose (e.g. the type of evidence to be obtained from it and the significant accounts and relevant assertions or risks of material misstatement that it claims to address and the timing of the use of the routine)
- assessing the appropriateness of its design (i.e. the algorithms, parameters and functionality of the end-user routine and the relevance of the data used) in achieving such purpose
- assessing whether its design enables compliance with KPMG Audit Execution Guide. For example, if we are using the end-user routine to assist us in the performance of substantive analytical procedures (SAPs), we assess whether the routine facilitates compliance with KPMG Audit Execution Guide in relation to the performance of SAPs (e.g. considers the appropriate level of precision and resulting acceptable difference).

When evaluating the design of the end-user routine, we may think about the competence and capabilities of the team member(s) who developed and executed the end-user routine, including the involvement of any employed KPMG specialists, specific team members or by others at the direction of the engagement team. This understanding may come from a variety of sources, including professional experience, and the relevance of the individual's competence and capabilities to the role (including, if applicable, trainings that have been completed).

[How do we consider whether the end-user routine operates consistently?](#) [ISA | 529.1700]

When we consider whether the end-user routine operates consistently, we are considering whether it is functioning as designed. When we evaluate whether the end-user routine functions as designed, we perform procedures to evaluate and test the results of the end-user routine output to demonstrate the output is consistent with the design of the routine. This may involve testing the end-user routine on multiple sets of data to test different conditions or variables to determine that the end-user routine operates consistently.

For example, an end-user routine uses logic such that when one condition is met, a certain calculation is performed and when another condition is met, a different calculation is performed. If we execute the routine on a set of data that only meets the first condition, we only have evidence that the first condition and calculation function as designed. Accordingly, we use another data set that meets the second condition in order to obtain evidence that the second condition and calculation function as designed.

[When do we evaluate the design and consistent operation of an end-user routine?](#) [ISA | 529.9404]

By nature, end-user routines are able to be modified by the end-user. For this reason, we evaluate the design and consistent operation of the routine each time the routine is used to obtain audit evidence or supplement our judgment. In order to evaluate the design of the routine and that the routine operates consistently, we either evaluate the design each time it is used or evaluate that the design remains appropriate and implement appropriate procedures to evidence the design has not been altered since the prior evaluation.

For example, if the routine itself does not require changes between periods, once we demonstrate the routine is functioning as designed we may benefit from such procedures as storing the routine in a secured location, securing the routine with a password, or identifying a last modified date to demonstrate that no changes have occurred. In this case, the combination of the original evaluation and evidence that the logic did not change after that evaluation may provide sufficient evidence that the routine operated consistently.

Alternatively, if we identify a change required in the design of the routine (e.g. a change in the format of the data provided by the entity), we make changes to the design of the routine. We then evaluate whether the routine operates consistently by testing that it functions as designed. This may be accomplished by executing the routine on a data set for each condition and comparing the output to our expectation based on the design of the routine.

How do we determine the extent of procedures necessary to test the reliability of the end-user routine?

[ISA | 529.9406]

Regardless of the complexity of the end-user routine, when we use an end-user routine to facilitate obtaining audit evidence or supplement our judgment, we evaluate its design and whether it operates consistently. The extent of this testing will depend on the complexity of the design of the end-user routine and the extent of planned audit evidence obtained from the end-user routine. In many cases, especially those that involve simple formulas and functionality, these considerations may be documented through the audit procedures applied to the output of the end-user routine and evidenced by the annotations and tickmarks added by the reviewer. In other cases, incremental documentation is added to evidence how the evaluation was performed.

When determining the extent of procedures necessary to test the reliability of the end-user routine, consider the following examples which increase in complexity from Routine A to Routine C.

End-user routine considerations	Routine A - a combination of sorting, filtering and vlookup functionality applied to data in Excel®, designed to summarize and compare to the entity's disclosure	Routine B - routine built in an Excel® workbook that includes multiple linked worksheets, manual inputs, and calculations (developed by an employed KPMG specialist)	Routine C - Alteryx workflow designed to join multiple source data files, transform data to create unique identifiers and match items recorded to revenue to internal settlement information, outputting items into various categories based on their attributes
Evaluation of the design of the end-user routine including: (i) its	The purpose of the end-user routine is documented sufficiently in the	The purpose of the routine is documented in the employed	The purpose of the routine is documented in the audit file.

<p>purpose, (ii) the appropriateness of the design in achieving the purpose, and (iii) whether the design enables compliance with KPMG Audit Execution Guide.</p>	<p>work paper that summarizes the use of the end-user routine.</p> <p>Given the simplicity of the end-user routine, our evaluation of the design is documented through the review of the output and evidenced by the procedures applied to the output (e.g. tickmark(s) or other documentation indicating review of the formular(s) used and the relevant reconciliation procedures performed over the data used). It may also be supplemented with annotations added to the Excel® workbook.</p>	<p>KPMG specialist deliverable.</p> <p>Example documentation: The routine is designed to provide audit evidence over the reasonableness of the capitalization rate used in the entity's valuation which in turn is used in its impairment analysis.</p> <p>The employed KPMG specialist deliverable documents the design of the end-user routine.</p> <p>Example documentation: The routine uses a combination of "vlookup", "min", and "max" functions in Excel® to identify the largest and smallest capitalization rates for the corresponding market from an external report (separately assessed for relevance and reliability).</p> <p>The routine then performs present value</p>	<p>Example documentation: The routine is designed to match revenue entries to external information to provide substantive evidence over the existence and accuracy of the recorded entries.</p> <p>We document the design of the end-user routine. Due to the complexity of the end-user routine and that the underlying logic of the routine is not visible in the output, we may document the evaluation of the design in a separate work paper and we may include screenshots from the Alteryx workflow with accompanying annotations describing the steps and evaluating how they are appropriately sequenced to achieve the objective of the end-user routine.</p> <p>When considering compliance with KPMG Audit Execution Guide, we identify that the D&A routine is an item matching routine for substantive test of details and perform the appropriate procedures to test the reliability of the internal information (see question 'What is a D&A item matching procedure?').</p>
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		<p>calculations using the capitalization rates and other entity-specific inputs subject to other procedures to calculate a minimum and maximum range of values. The routine then compares the calculated values to the entity's recorded value, using "if", "less than", and "greater than" functions to the range determined and outputs a "pass" or "fail" result.</p> <p>We compared each formula and function used in the routine to the intended design of the routine and determined the formulas were appropriate and the data being captured in the formulas was appropriate.</p> <p>We reviewed the formulas to determine the correct data was being completely and accurately captured from the various tabs within the Excel® workbook.</p>	
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Competence and capabilities	<p>The end-user functionality does not require specific competence or capabilities in excess of the core learning requirements of all KPMG professionals so we do not document any consideration of competence and capability.</p>	<p>We may think about the competence and capabilities of the employed KPMG specialist as contained in the Knowledge, Skill, and Ability (KSA) Work Paper.</p>	<p>We inspect the member firm SAT list and related policies and document how any indicated accreditation or required competencies for users and reviewers has been met.</p>
Evaluation of whether the end-user routine operates consistently by determining it functions as designed	<p>Since we do not test the consistent operation of the functionality of routine-enabling application, the procedures performed to assess the design of the end-user routine are sufficient to demonstrate that it functions as designed.</p>	<p>While we do not test the consistent operation of the individual formulas and functions used in the routine, due to the complexity of the design of the routine including the volume of functions, formulas, and dependencies, incremental procedures may be considered necessary to evaluate that the combination of all of the formulas and functions produce the expected results.</p> <p>The employed KPMG specialist provides documentation of the evaluation that the routine</p>	<p>To evaluate that the Alteryx workflow functions as designed, we may determine it appropriate to execute the end-user routine over test data and compare the output of the end-user routine to a manually prepared analysis without the use of the workflow. To do this, we may manually perform the analysis, without the use of the Alteryx workflow, using the test data set and compare the results of the analysis to the output from the workflow to determine the results are consistent. We may document this in the same work paper where we documented the design of the end-user routine.</p>

		<p>functions as designed.</p> <p>Example documentation: to evaluate that the routine functions as designed, we adjusted the capitalization rates to test all the conditions we would expect the routine to produce, including a "pass" or "fail" result and determined the results were consistent with our expectations.</p>	
Subsequent use considerations	If the same workbook is being used to test a subsequent disclosure, we consider whether any changes need to be made to the design (e.g. to accommodate changes to the data being used, or to the output). If no changes are necessary, we would perform the same procedures as when the routine was used previously (refer above).	If the employed KPMG specialist uses a routine previously evaluated, they consider whether any changes need to be made to the routine (e.g. changes to the data used in the routine, changes to the design of the linked worksheets). If no changes are necessary, they may document that the routine has not changed since the prior evaluation. This may be accomplished by inspecting the last modified date	If we evaluate the Alteryx workflow when we execute it during interim and use the same workflow during year-end, we consider whether any changes need to be made to the end-user routine (e.g. changes to the data used in the end-user routine, changes to the sequencing of functions). If no changes are necessary, we may document that the workflow has not been changed since the prior evaluation. This may be accomplished by inspecting the last modified date on the workflow, or by comparing the workflow

		<p>on the Excel® file. Alternatively, they may perform a comparison of the routines using Excel® Spreadsheet Compare functionality. This evaluation is documented in the employed KPMG specialist deliverable.</p> <p>If changes are made, we evaluate whether the design of the modified routine is appropriate to achieve its purpose and evaluate whether it functions as designed. This evaluation is documented in the employed KPMG specialist deliverable.</p>	<p>to the documentation of the workflow at the last evaluation. This evaluation is documented in the audit file.</p> <p>If changes are made, we evaluate whether the design of the modified routine is appropriate to achieve its purpose and evaluate whether it functions as designed. This documentation may be similar to that of our initial evaluation.</p>
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We may also refer to the [Global SAT Evaluation and Testing Guide](https://spo-global.kpmg.com/sites/GO-GlobalSAT/Shared%20Documents/Forms/AllItems.aspx?id=%2Fsites%2FGO%2DGlobalSAT%2FShared%20Documents%2FGlobal%20SAT%20Evaluation%20and%20Testing%20Guide%2Epdf&parent=%2Fsites%2FGO%2DGlobalSAT%2FShared%20Documents) <https://spo-global.kpmg.com/sites/GO-GlobalSAT/Shared%20Documents/Forms/AllItems.aspx?id=%2Fsites%2FGO%2DGlobalSAT%2FShared%20Documents%2FGlobal%20SAT%20Evaluation%20and%20Testing%20Guide%2Epdf&parent=%2Fsites%2FGO%2DGlobalSAT%2FShared%20Documents> for additional guidance on how to determine the extent of testing and facilitate the documentation of our evaluation and testing of an end-user routine.

What do we consider when an end-user routine is developed or used by a specific team member, an employed KPMG specialist, or others at the direction of the engagement team? [ISA | 529.9407]

When an end-user routine is used or developed by a specific team member, an employed KPMG specialist (e.g. an Excel® based valuation model used by an employed KPMG valuation specialist), or others at the direction of the engagement team, we agree the nature of the use of the routine and the roles and responsibilities for evaluating the reliability of the routine in planning, prior to its use.

If the specific team member, employed KPMG specialist, or others at the direction of the engagement team have the role of evaluating the reliability of the end-user routine, we review the documentation

provided by the specific team member, employed KPMG specialist, or others at the direction of the engagement team to determine if their procedures were sufficient.

Group Audit or Component Audit | In a group audit, when the group auditor develops an end-user routine and requests a KPMG component auditor to use that routine and/or to use its output, what are the responsibilities of the KPMG component auditor regarding the reliability of that routine for the purpose of the group audit? [ISA | 529.160197]

There may be instances where a group auditor may develop an end-user routine and either:

- execute it centrally and request KPMG component auditors to rely on the output of that routine for the purpose of their work on the components, or
- provide it to KPMG component auditors and request them to use it for the purpose of their work on the components.

In those instances, we consider who is responsible for evaluating:

- the design and consistent operation of the end-user routine
- the relevance and reliability of the information used by the end-user routine.

The responsibility of the KPMG component auditor with respect to the reliability of that end-user routine and/or its output is dependent on the agreement between the group auditor and the component auditor as to who assesses the reliability of that end-user routine and/or its output.

When the assessment of the routine is performed by the group auditor, the component auditor does not have to consider the reliability of the routine and/or its output (unless necessary under their member firm's policies or procedures) since the group auditor is assuming responsibility to appropriately evaluate those matters.

In a group audit, when the group auditor develops an end-user routine and requests a KPMG component auditor to use that routine and/or to use its output, what are the responsibilities of the KPMG component auditor regarding the reliability of that routine when the component auditors uses that work to support their statutory audit? [ISA | 529.160198]

There may be instances where a group auditor develops an end-user routine and either:

- executes it centrally and requests KPMG component auditors to use the output of that routine for the purpose of their work on the components, or
- provides it to KPMG component auditors and requests them to use it for the purpose of their work on the components.

When the component auditor is also performing a statutory audit of the component's financial information and plans to use that end-user routine and/or its output to support its statutory audit opinion, the component auditor obtains a sufficient understanding of the procedures performed and conclusions reached by the group auditor to assess the reliability of that end-user routine and/or its output and documents this in its statutory audit file. The component auditor also considers whether additional procedures are necessary to be performed to assess the reliability of that end-user routine and/or its output for their statutory audit.

1.4.4 Component Audit | Use the SATs on the US SAT List when performing work for a U.S. KPMG group auditor

[ISA | 3765]

What do we do?

IF a non-U.S. KPMG component auditor performs work for a U.S. group auditor, THEN the non-U.S. KPMG component auditor uses only SATs on the US SAT List.

Why do we do this?

In order to maintain compliance with U.S. firm policies, we use only SATs on the US SAT List when performing work for the U.S. group auditor.

Execute the Audit

What is the US SAT List? [ISA | 3765.12549]

The KPMG US Approved Software Audit Tool List ([US SAT List](https://portal.us.kworld.kpmg.com/scripts/index.aspx/audit/pages/AuditSoftwareTools) https://portal.us.kworld.kpmg.com/scripts/index.aspx/audit/pages/AuditSoftwareTools) identifies SATs that have been subjected to a centralized quality control assessment. Those controls demonstrate that the SAT has been designed and developed according to the business needs, that it produces the intended output on a consistent and repeatable basis, and that the databases and systems that support the tool have the appropriate controls in place and operating effectively. Where necessary, guidance and methodology documents, subject to other quality controls, are used to supplement these tools to provide us with further insight into where and how to apply these tools in practice.

The centralized assessment process permits us to conclude that a SAT is appropriate to use in the audit to facilitate obtaining audit evidence or supplement our judgment. In these circumstances, we maintain responsibility for:

- understanding how the SAT is applied;
- verifying that it is fit for use with our specific facts and circumstances;
- assessing the relevance and reliability of information used by the SAT;
- evaluating the complete and accurate extract and import of data used; and
- assessing and analyzing the output (including performing any additional procedures as specified in the guidance accompanying the SAT).

When performing work for a U.S. group auditor, can we use SATs not included on the US SAT List? [ISA | 3765.1300]

No, if the SAT is not included on the US SAT List, we cannot use that tool for the work performed for group audit purposes. We apply this restriction regardless of the procedures being performed by us.

However, this restriction does not apply to any local audit procedures performed for different purposes (e.g. when performing procedures that are only used for statutory audit purposes).

1.4.5 Component Audit | Complete Non-US SAT Memo when performing work for a U.S. KPMG group auditor [ISA | 3766]

What do we do?

IF a non-U.S. KPMG component auditor performs work on certain components for a U.S. group auditor,
THEN the non-U.S. KPMG component auditor completes the "Non-U.S. KPMG Component Audit
Memorandum - Software Audit Tools".

Why do we do this?

Completion of the "Non-U.S. KPMG Component Audit Memorandum - Software Audit Tools" (Non-US SAT Memo) for certain components allows us, as non-U.S. KPMG component auditors, to document the SATs that we are using in the work performed over a component. Providing the Non-US SAT Memo to the U.S. group auditor helps to demonstrate that we are using only SATs that are on the US SAT List and helps the U.S. firm monitor compliance with the US SAT Policy.

Execute the Audit

When do we complete the Non-US SAT Memo? [ISA | 3766.160063]

- Non-U.S. KPMG component auditors complete the "Non-U.S. KPMG Component Audit Memorandum - Software Audit Tools" when performing work over the following components:
- quantitatively significant components and
 - components where special audit consideration is necessary to address a significant risk of the group financial statements.

10 Component Audit | Perform independence procedures as a component auditor [ISA | 7939]

What do we do?

Perform independence procedures as a component auditor.

Why do we do this?

We perform procedures as a component auditor to determine we are independent under the independence rules applicable to the group audit.

Execute the audit

Component Audit | How does the component auditor comply with the independence requirements for group audit reporting purposes and document the relevant procedures performed? [ISA | 7939.1303]

The component auditor complies with all independence requirements outlined by the group auditor in the Group Audit Instructions and confirms to the group auditor compliance with the relevant independence rules.

The component auditor populates the Entity Profile screen within the KPMG Clara workflow (KCw) in accordance with the Engagement Profile functional guidance to generate the appropriate Independence module. The Engagement Profile functional guidance can be located in workflow by navigating to the Guidance button in the Engagement profile screen.

The component auditor completes the Component independence screen within the KPMG Clara Workflow (KCw) Independence module, which is generated by selecting "Component reporting" in the Entity Profile screen and either "Reporting to another KPMG office or member firm" or "Reporting to a non-KPMG entity". The KCw screen prompts documentation of relevant procedures where a component auditor is expected to attach additional evidence to document completion of the independence compliance procedure. This includes items such as notifying component auditor individuals of the entities from which they must be independent and reporting breaches or suspected breaches of independence to the component engagement partner and the Ethics and Independence Partner.

This section of KAEG does not include all execution guidance associated with on-screen content.
Refer to activities:

- [Determine the entity is appropriately restricted](#) to confirm engagement information in PHAC and KICS is up to date, if relevant
- [Assess completeness and accuracy of the Sentinel family tree](#) to assess the entity and its related entities are appropriately restricted
- [Perform independence procedures in relation to new related entities](#) to perform procedures in relation to new entities requiring independence by the component auditor as a member of the group audit team
- [Assess whether engagement personnel rotation requirements have been met and long association threats have been considered](#) to perform procedures in relation to long association
- [Evaluate threats to independence](#) to consider the issues that can create independence threats

[Component Audit | Who is the component audit client?](#) [ISA | 7939.160113]

The component audit client is a component over which we perform audit work for purposes of a group audit. The component audit client includes the entity and any related entities it controls directly or indirectly. Where the component audit client is a business unit or activity, the component audit client will be the legal entity or entities that the business unit belongs to or in which the business activity is performed and will not include controlled related entities.

[Component Audit | What is the difference between reporting to a KPMG group auditor and a non-KPMG group auditor?](#) [ISA | 7939.160114]

When we are a component auditor reporting to a KPMG group auditor, our affiliation through the KPMG network provides some understanding of the group auditor's processes. We can leverage and rely upon global systems of quality management in carrying out our independence procedures, which results in fewer procedures required to be performed by the component auditor. For example, Sentinel is a mandatory, globally-deployed application that facilitates compliance with required professional standards, including independence standards applicable to our audit clients. Sentinel captures all

proposed engagements from KPMG member firms to ensure that the business rules and workflows are consistently and accurately applied. For instance, when the group audit client is onboarded in Sentinel and the KPMG group engagement partner is the Sentinel Lead Partner (SLP), the SLP is responsible for maintaining the Sentinel tree with all entities that require independence, including our component audit client (including its controlled related entities), and is notified of any proposed service at an entity within the Sentinel family tree. It is not necessary for a component auditor to duplicate procedures performed by the group auditor within the KPMG network.

When we are a component auditor reporting to a non-KPMG group auditor, we cannot leverage common systems or procedures and, therefore, we perform all relevant procedures as though we are performing a standalone audit to ensure the independence of the firm. For example, a component auditor reporting outside the network performs all the procedures to validate the entities identified for independence, including checking against the relevant systems, because there is no other audit engagement team within the network with the responsibility to perform the same procedures.

[Component Audit | What ethical and independence rules do we follow as the component auditor reporting to a KPMG group auditor?](#) [ISA | 7939.160115]

As a component auditor reporting to a KPMG group auditor, our work to support the group audit is subject to the ethical and independence requirements that are applicable to the group audit client and may include requirements specific to the group auditor's jurisdiction, which may be different from or in addition to those requirements applicable in our jurisdiction. The group auditor describes in the Group Audit Instructions the ethical and independence requirements that are relevant to the group audit.

[Component Audit | What independence rules do we follow as the component auditor reporting to a non-KPMG group auditor when our component audit client is a public interest entity and the group audit client is a non-public interest entity?](#) [ISA | 7939.160116]

When reporting to a non-KPMG group auditor where our component audit client is a public interest entity and the group audit client is a non-public interest entity, we follow the independence requirements that are applicable to non-public interest entity audit clients for purposes of the group audit.

However, if we also perform a standalone audit for the public interest entity component audit client, we follow the independence requirements that are relevant to public interest entities for purposes of the standalone audit.

[Component Audit | Do we apply PIE independence rules as the component auditor reporting to a non-KPMG group auditor when the group audit client is a public interest entity but the component audit client is a non-public interest entity?](#) [ISA | 7939.160117]

When we are a component auditor reporting to a non-KPMG group auditor, and the group audit client is a public interest entity but our component audit client is a non-public interest entity, we apply requirements applicable to public interest entities as it relates to the provision of non-assurance services to the component audit client. However, the requirement to obtain concurrence from those charged with governance does not apply (i.e., the component auditor may provide a non-assurance service that is permissible under the public interest entity requirements in Chapter 11 of the GQ&RMM to a component audit client without communicating or obtaining concurrence for the provision of that service from those charged with governance of the group audit client).

We consider the self-review threat in relation to the financial information over which we perform audit procedures. We further refer to GQ&RMM Chapter 11 for policy and guidance to assess permissibility of services provided to the component audit client.

[Component Audit | What entities do we need to be independent from as the component auditor when reporting to a KPMG group auditor?](#) [ISA | 7939.160118]

As a component auditor reporting to a KPMG group auditor, we are part of the group engagement team and are independent of the group audit client, which includes its relevant related entities and any other components at which audit work is performed. The group auditor describes in the Group Audit Instructions the entities from which we are to be independent.

[Component Audit | What entities do we need to be independent from as the component auditor when reporting to a non-KPMG group auditor?](#) [ISA | 7939.160119]

When reporting to a non-KPMG group auditor, component auditor individuals are required to be personally independent of:

- the component audit client (including its controlled related entities),
- the non-KPMG group entity being audited, and
- any entity that is controlled by the group entity being audited and in the chain of control of the component audit client.

Component auditor individuals notify the component engagement partner when they know or have reason to believe that a relationship or circumstance with any other related entity or component of the group audit client might create a threat to their independence.

In addition, when a component auditor reports to a non-KPMG group auditor, the component auditor firm:

- is independent of the component audit client (including its controlled related entities)
- does not have a direct or material indirect financial interest in the group entity being audited (excluding its related entities), including a financial interest held as a trustee, and a financial interest received unintentionally (GQ&RMM Policies [12.15.1](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=253-policy-1178>, [12.15.3](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=253-policy-1180> and [12.15.4](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=253-policy-1181>)
- does not have impermissible loans and guarantees involving the group entity being audited (excluding its related entities) (GQ&RMM Section [12.16](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=254-policy-1223>).

When the component auditor firm knows or has reason to believe that a relationship or circumstance involving other related entities or components of the group audit client or involving other member firms is relevant to its evaluation of independence, the component auditor firm includes the relationship or circumstance when identifying, evaluating and addressing threats.

Independence may be required of additional entities per any incremental independence requirements relevant to the group audit (e.g., UK audit regulations). We consult with the Ethics and Independence Partner when the non-KPMG group auditor requests our independence in relation to other entities or components beyond what is required per the independence requirements relevant to the group audit.

When the entities the component auditor is required to be independent of are listed, we add the entities to the PHAC and restrict the entities in KICS under a "covered person only" restriction to

prevent the component auditor individuals (and the component auditor firm as it relates to the group entity being audited) from entering into prohibited financial relationships with the entities. The KICS restrictions can be limited to the component auditor individuals and the component auditor firm as discussed in GQ&RMM Chapters 6 and 12.

We refer to activity '[Determine the entity is appropriately restricted](#)' to confirm engagement information in PHAC and KICS is up to date.

[Component Audit | What do we do if a non-KPMG group auditor requests our independence in relation to entities or other components beyond what is required per the independence requirements relevant to the group audit?](#) [ISA | 7939.160120]

We consult with the Ethics and Independence Partner when a non-KPMG group auditor requests our independence in relation to other entities or components beyond what is required per the independence requirements relevant to the group audit.

[Component Audit | What is included on the Sentinel family tree when we are a component auditor reporting to a non-KPMG group auditor?](#) [ISA | 7939.160121]

For the purposes of the work we perform as component auditor for the non-KPMG group auditor, we include the entities from which we are required to be independent on the Sentinel family tree. The entities we include on the Sentinel family tree are:

- the component audit client (including its direct/indirect controlled related entities if the component audit client is a legal entity. Where the component audit client is a business unit or activity, for instance, the component audit client will be the legal entity or entities that the business unit belongs to or in which the business activity is performed and will not include controlled related entities.)
- the non-KPMG group entity being audited, and
- any entity that is controlled by the group entity being audited and in the chain of control of the component audit client.

The group auditor communicates the entities we are to be independent of in the Group Audit Instructions.

We further refer to activity '[Assess completeness and accuracy of the Sentinel family tree](#)' for further guidance.

[Component Audit | What do we do when we find a new entity from which we need to be independent on the list provided by the non-KPMG group auditor?](#) [ISA | 7939.160122]

We refer to activity '[Perform independence procedures in relation to new related entities](#)' to perform procedures to determine that we are independent of the new entity.

[Component Audit | What do we do if we provide word processing, translation or any other financial statement preparation services to the component audit client?](#) [ISA | 7939.160127]

We are permitted to provide such non-assurance services to a component of a non-public interest entity group audit client, assuming the component is not a public interest entity audit client, we have evaluated the threats to our independence, and do not assume a management responsibility.

For a component of a public interest entity audit client, we are permitted to perform certain forms of word processing and translation of financial statements. Financial statement preparation of the component's local statutory financial statements (provided the component is not a public interest entity audit client) may be permitted if the following conditions are met:

- the audit report on the group financial statements of the public interest entity has been issued;
- we do not assume a management responsibility and apply the conceptual framework to identify, evaluate and address threats;
- we do not prepare the underlying accounting records for the statutory financial statements and those financial statements are based on client approved information; and
- the statutory financial statements of the component audit client will not form the basis of future group financial statements of the public interest entity group audit client.

If we perform such non-assurance services to a component of a public interest entity audit client, the KPMG engagement team for the PIE audit client obtains concurrence from those charged with governance (when we are also a component auditor reporting to a KPMG group auditor). To facilitate compliance with the independence rules, as for all audit engagements, we separately identify these non-assurance services from statutory audit services in our Sentinel requests using the appropriate financial statement preparation and financial statement word processing / translation Sentinel taxonomy codes, even if we do not charge a fee for them.

[Component Audit | When does the component auditor consult with the Ethics and Independence Partner?](#)

[ISA | 7939.1305]

We are required to consult with the Ethics and Independence Partner when we identify any circumstance that threatened, or may have appeared to threaten, independence in relation to the group audit, as outlined in the Global Quality and Risk Management Manual. This may include issues related to the following matters:

- family and close relationships and employee and director relationships
- former partners and employees of KPMG employed by the entity
- audit team member financial and business relationships
- firm financial interests
- firm business relationships (including sponsorships, alliances, joint ventures, consortia or similar third party arrangements)
- past due fees
- gifts and hospitality
- actual or threatened litigation
- third parties used by the firm (as subcontractors, third party resources or external consultants) who may have employment relationships

When we are reporting to a non-KPMG group auditor, we are required to consult with the Ethics and Independence Partner when the group auditor requests our independence from entities or other components beyond what is required by the IESBA Code or local ethical requirements.

[Component Audit | How do we assess rotation requirements? \[ISA | 7939.160128\]](#)

We refer to activity '[Assess whether engagement personnel rotation requirements have been met and long association threats have been considered](#)' to perform procedures in relation to long association.

Component Audit | How do we report an independence issue we identify at the component level? [ISA | 7939.1308]

If we have identified any circumstances that may have threatened, or may have appeared to threaten, the group engagement team's independence, we refer to '[Evaluate threats to independence](#).' We notify the group auditor along with our conclusion whether the threats to independence that would impact the group audit are at an acceptable level.

If we have identified a breach or suspected breach that would impact the group audit, we consult with the Ethics and Independence Partner. If we are reporting to a KPMG group auditor, we also promptly report the breach or suspected breach to the group engagement partner in writing. If we are reporting to a non-KPMG group auditor, we promptly report a breach of the requirements of the IESBA Code or other external independence requirements to the group engagement partner in writing.

Component Audit | As a component auditor, what do we do when a breach or suspected breach of ethical or independence requirements is identified? [ISA | 7939.1310]

When an ethical or independence breach or suspected breach is identified, we promptly notify the Ethics and Independence Partner who, in conjunction with the component engagement partner, will determine that we:

- end, suspend, or eliminate the interest or relationship that created the breach and address the consequences of the breach
- evaluate the significance of the breach and its impact on our objectivity and ability to perform audit work for the purposes of the group audit
- depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances
- document the breach including our evaluation of the significance of the breach and its impact on our objectivity and ability to perform audit work for the purposes of the group audit
- promptly provide written communication of our assessment of the breach to the group engagement partner when the breach impacts the group audit.

When the group auditor is within our firm or a member firm, we promptly report breaches or suspected breaches of KPMG policies regarding ethical requirements, including independence requirements, to the group engagement partner in writing.

When the group auditor is a non-KPMG firm, we promptly report breaches of the requirements of the IESBA Code or other external independence requirements (e.g., local independence rules), to the group engagement partner in writing.

The group engagement partner determines the need for any further action and whether the group auditor may continue to use the component auditor's work for purposes of the group audit.

Component Audit | In a multi-tiered audit where a sub-component auditor(s) is reporting to us as a sub-group auditor, do we include matters from the sub-component auditor(s) in reporting to the group auditor?

[ISA | 7939.160132]

In a multi-tiered audit where we have a sub-component auditor(s) reporting to us, we include any matters reported by the sub-component auditor(s) when reporting to the group auditor.

2 Modify the audit strategy and audit plan if circumstances change [ISA | 969]

What do we do?

IF circumstances change significantly during the course of the audit, THEN modify the overall audit strategy and the audit plan as necessary AND document significant modifications.

Why do we do this?

As we perform and evaluate the results of our audit procedures, our findings may cause us to change our risk assessments or other audit decisions.

As with other audit activities, we stay alert for new information as the audit progresses, and we modify the overall audit strategy and the audit plan as appropriate. If we don't, we may not obtain sufficient appropriate audit evidence to support our opinion.

Execute the Audit

What circumstances might lead us to modify our audit strategy and audit plan? [ISA | 969.1300]

We may modify our audit strategy and audit plan at any point in the audit. We often make changes when we learn new information during the audit.

Circumstances when we might modify our audit strategy or audit plan include:

- the occurrence of significant events (e.g. business acquisitions or dispositions);
- external forces that affect the entity (e.g. a deterioration in economic conditions);
- the results of our audit procedures (e.g. identifying misstatements or control deficiencies);
- changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

When we modify our overall audit strategy and audit plan because of significant changes in circumstances, this may include modifying our original risk assessment procedures and planned tests of controls and/or substantive procedures, as well as changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

Remember that planning is not a discrete phase of the audit - it's an iterative process that continues until the audit is complete. We therefore remain alert to potential changes and how they might affect our overall audit strategy and audit plan.

Group Audit | What circumstances might lead us to modify the audit strategy and audit plan in a group audit? [ISA | 969.1310]

The same [circumstances that might change our audit strategy or audit plan in a stand-alone audit](#) may also change our overall group audit strategy and group audit plan in a group audit.

However, certain circumstances that might change our audit strategy or audit plan apply only to a group audit. For example, in a group audit, we focus on changes in circumstances that may change the identification of components or procedures to be performed.

As the group auditor, we consider new or different information about the group and its components throughout the audit.

If there is new information or significant changes from our initial decisions in planning, we consider whether to change the identification of components or the nature, timing or extent of work we will perform over those components.

For example, changes to our group audit scoping may be necessary when:

- the group structure has changed (e.g. new acquisitions or dispositions of components);
- changes in the risks of material misstatement identified and assessed during the audit might lead us to modify the work to be performed over components;
- there have been significant changes in the financial information of the components (e.g. the financial information at the component level differs from what we initially expected during planning);
- we develop less than serious or serious concerns regarding the component auditors during the audit;
- we identify deficiencies in the group's control environment or monitoring activities which may affect how we evaluate the remaining financial information where further audit procedures haven't been performed;
- there are restrictions to access imposed by group management or other circumstances that was not previously identified;
- there are significant changes to the nature, timing and extent of the planned direction and supervision of component auditors and the review of their work.

[Group Audit | How might an acquisition affect our group audit plan?](#) [ISA | 969.10959]

The acquisition of a business may mean that, as the group auditor, we decide to:

- perform procedures at that newly acquired business; and/or
- reassess our selection of significant accounts/disclosures of the group financial statements or components where procedures are to be performed.

[Group Audit | How might a disposal affect our group audit plan?](#) [ISA | 969.10960]

The disposal of a business may mean that, as the group auditor, we decide that:

- we will no longer perform procedures at the disposed component;
- we will reassess our selection of significant accounts/disclosures of the group financial statements or components where procedures are to be performed; or
- we will re-assess our review of component auditor work papers.

For example, we may reassess our selection if:

- a component may be identified as quantitatively significant; or
- we've changed our evaluation of whether there's a reasonable possibility of an RMM in the remaining financial information.

[Group Audit | Do we update our group audit scoping analysis with the final financial information?](#) [ISA | 969.1320]

Yes. As the group auditor, we update our group audit scoping analysis with the final financial information of the components and the group.

What are the implications of modifying our audit strategy or audit plan? [ISA | 969.1500]

We capture all modifications to our audit strategy or audit plan in our audit file so that the audit documentation reflects the final overall audit strategy and audit plan.

We also document the rationale for any significant modifications to our audit strategy or audit plan.

If we change the overall audit strategy and audit plan as a result of the review and approval process, then this is not considered a modification.

When are modifications to our audit plan or audit strategy considered significant? [ISA | 969.1600]

We apply our judgment to determine whether a modification is significant. Modifications are often significant when they relate to:

- our overall audit scoping decisions;
- materiality measures;
- significant risks;
- broad or major changes to our planned audit procedures; or
- the timing or scope of key audit activities.

Why do we document significant modifications to our audit plan and audit strategy? [ISA | 969.1700]

We maintain a record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures as this explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit.

Examples

How might we modify our audit strategy and/or audit plan? [ISA | 969.1800]

The following table provides examples of how we might modify our audit strategy and/or audit plan when we identify changes during an audit.

Type of change	Example	Example modifications to audit strategy and/or plan
Unexpected events, changes in conditions (including economic conditions), or audit evidence obtained during the audit	A major customer, representing 30% of the entity's revenues, cancels their contract with the entity.	<ul style="list-style-type: none">• Reassess whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable time period.• Perform additional procedures to evaluate the entity's ability to

		<p>continue as a going concern.</p> <ul style="list-style-type: none"> • Consider whether materiality remains appropriate. • Reassess RMMs related to the recoverability of long-lived assets or inventory. • Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work for the areas impacted.
<p>Identification of financial statement level risks after we determined our audit strategy</p>	<p>Through our control testing, we identify issues related with the entity's control environment (i.e. significant deficiencies and/or material weakness) -specifically, management's commitment to attract, develop, and retain competent individuals.</p>	<ul style="list-style-type: none"> • Reassess our evaluation of fraud risk factors and identification of fraud risks. • Understand the root cause of issues related with the entity's control environment (i.e. significant deficiencies and/or material weakness) and consider other internal control deficiencies that might exist, as well as how they may affect the assertion-level risks of material misstatement. • For risks of material misstatement and the specific significant accounts, disclosures and relevant assertions the deficiency affects, consider whether we need to alter the nature, timing, and extent of

		<ul style="list-style-type: none"> substantive procedures and/or procedures to test internal controls. Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.
Identification of significant accounts and disclosures initially identified as non-significant	<p>Prepaid expenses was initially determined to be a non-significant account. During the year, the entity made a change to its insurance policies requiring it to prepay all of its insurance policies in advance and causing the balance in this account to increase significantly.</p>	<ul style="list-style-type: none"> Designate prepaid expenses as a significant account and identify the relevant assertions and any risks of material misstatement associated with the account. Plan and perform sufficient, appropriate audit procedures over all the assessed RMMs, including testing internal controls over financial reporting in an integrated audit or where we plan to test the operating effectiveness of controls. Reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work related to prepaid expenses.
Revisions to materiality, performance materiality, and specific performance materiality	<p>The entity's financial results are less than we initially estimated when we set materiality levels, so</p>	<ul style="list-style-type: none"> Consider whether we need to update our sample selections, based on updated

	<p>materiality, performance materiality, and specific performance materiality measures for all accounts are reduced by significant amounts.</p>	<p>materiality measures, and perform audit procedures on any additional sample items.</p> <ul style="list-style-type: none"> • Consider whether we need to update the acceptable differences determined for our planned substantive analytical procedures. • Consider whether we need to update our assessment of whether controls are sufficiently precise to detect material misstatements • Consider whether we need to reassess our assessment of RMMs and significant accounts and assertions. • Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.
Changes in the timing of our audit procedures	<p>Because of delays, we are unable to perform test work we initially planned to perform as of an interim date.</p>	<ul style="list-style-type: none"> • Reassess the resources assigned to the engagement during final fieldwork, and obtain additional resources as appropriate. • Consider whether we need to reassess the nature and extent of direction and supervision of engagement team members and the review of their work.

<p>Changes in the involvement of the internal audit function</p>	<p>The internal audit director is replaced in June by a key member of the accounting department.</p>	<ul style="list-style-type: none"> • Reassess our conclusions about the competence and objectivity of the internal auditors. • Based on our reassessment, determine whether we need to modify the audit plan to perform certain procedures ourselves, rather than using the work of internal auditors as planned. • Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.
<p>Identification of service organizations used by the entity that we were initially not aware of</p>	<p>When we perform our walkthrough of the payroll process, we determine that the entity uses a service organization to process payroll for one of its locations.</p>	<ul style="list-style-type: none"> • Obtain an understanding of the nature of the services provided by the service organization. • Determine the audit procedures we perform over the service organization (e.g. obtaining a service auditor's report, performing specific audit procedures at the service organization). • Reassess the nature, timing and extent of direction and supervision of engagement team members and the review

		of their work for the areas impacted.
Changes to the combined assessed risk (CAR) level	Results for a particular reporting unit are significantly below the entity's budget for the period. We determine that a significant risk is now associated with the valuation of goodwill for that reporting unit and increase CAR	<ul style="list-style-type: none"> Alter the nature timing and extent of planned procedures to obtain more persuasive audit evidence about projected financial information used by the entity in their annual impairment test. For example, we may evaluate additional external evidence (e.g. from industry experts, comparing peer companies) when we evaluate the reasonableness of management's assumptions about revenue growth. Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.
Identification of misstatements	While performing audit procedures, we identify misstatements related to the values of certain pension plan assets. The entity uses the same processes and techniques to value their available-for-sale (AFS) investments, so there may be other misstatements that could be material when aggregated with	<ul style="list-style-type: none"> Reassess CAR for the risks related to the valuation of pension plan assets and AFS investments. Reconsider the nature, timing and extent of our testing over the value of pension plan assets and AFS investments. For example, we may decide to increase the

	<p>misstatements accumulated during the audit.</p>	<p>number of sample items we select and test.</p> <ul style="list-style-type: none"> • Reconsider the nature, timing and extent of the participation of a specialist in the audit. For example, specialists with skills in valuation services may be able to value some securities independently. • Consider whether we need to reassess the nature, timing and extent of direction and supervision of other engagement team members and the review of their work.
<p>The aggregate of misstatements accumulated during the audit approaches materiality</p>	<p>As we document the audit misstatements accumulated during the audit, we determine that the aggregate of all misstatements is approximately 95% of materiality.</p>	<ul style="list-style-type: none"> • Consider reducing performance materiality and specific performance materiality measures, and re-evaluate the sufficiency of our audit procedures. • Determine whether there are certain accounts or assertions where misstatements primarily exist or whether there are risks of material misstatement that represent higher inherent risk; if so, we perform additional procedures or increase the extent of testing (e.g. increasing sample sizes) so we obtain more persuasive audit evidence.

		<ul style="list-style-type: none"> Ask management to record all misstatements identified. Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.
Identification of potential inconsistent or contradictory evidence while performing other audit procedures	<p>While performing audit procedures over the recoverability of deferred income tax assets, we identify that the projected financial information (PFI) used to support management's conclusions is significantly different to that used in management's annual goodwill impairment analysis.</p>	<ul style="list-style-type: none"> Understand why management used different PFI, and evaluate which PFI is appropriate. Perform additional procedures to determine the reliability of the PFI. Evaluate the effect on management's conclusion if the appropriate PFI is different from that used by management. Consider the impact on our conclusions about ICFR and management bias, and what other areas of the audit may be affected. Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review.

3 Group Audit | Request component auditors to confirm matters related to evaluating our ability to be involved in their work [ISA | 8140]

What do we do?

Request component auditors to confirm matters related to evaluating our ability to be sufficiently and appropriately involved in their work.

Why do we do this?

We, as the group auditor, request component auditors to confirm certain matters, such as whether they will cooperate with us and perform the work requested by us, to understand whether we will be able to be sufficiently and appropriately involved in the component auditor's work.

Execute the Audit

[What matters do we request from the component auditors related to evaluating our ability to be involved in their work? \[ISA | 8140.159867\]](#)

As the group auditor, we request component auditors to communicate the following matters related to evaluating our ability to be involved in their work

Area	Matters requested
Cooperation and ability to be involved in the component auditor's work	A written confirmation from the component engagement partner that the component auditor: <ul style="list-style-type: none">• will cooperate with us in connection with the group audit and provide us with access to relevant audit documentation, that has been prepared for purposes of the group audit, throughout our documentation retention period; and• acknowledges that we may consider it necessary to be involved in the work we have requested the component auditor to perform on the financial information of the component.
Compliance with our instructions	A written confirmation from the component engagement partner that the component auditor: <ul style="list-style-type: none">• will be able to comply with the group audit instructions and perform the work requested by us for the group audit purposes, including meeting all relevant communication deadlines and complying with the relevant professional standards set forth by us, and

	<ul style="list-style-type: none"> will inform us as soon as possible if they believe they cannot comply with any aspects of our instructions during the audit.
Access to the KPMG component auditor's file	To provide us direct access, unless it is not feasible, to the KPMG component auditor's engagement file assigning us the Supervisory Reviewer Role in the KPMG Clara workflow (see question " How do we review the KPMG component auditor's relevant audit documentation? " for further guidance)

When do we request matters related to evaluating our ability to be involved in the component auditor's work? [\[ISA | 8140.159869\]](#)

As the group auditor, we request the component auditors to provide us with this information at the beginning of the audit during planning.

Additionally, we request the component auditors to provide us with updates on a timely basis when changes in circumstances occur that may impact our initial understanding of the component auditor.

How do we request component auditors to confirm matters related to evaluating our ability to be involved in their work? [\[ISA | 8140.159870\]](#)

As the group auditor, we request component auditors to confirm matters related to evaluating our ability to be involved in their work in writing. For KPMG component auditors, we use the relevant Group Audit Instructions template. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which we adapt accordingly.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication from the component auditor confirming matters related to evaluating our ability to be involved in their work is not always necessary since we have full access to the component auditor's documentation in their audit file.

4 Obtain an understanding of the component auditors [\[ISA | 1541\]](#)

What do we do?

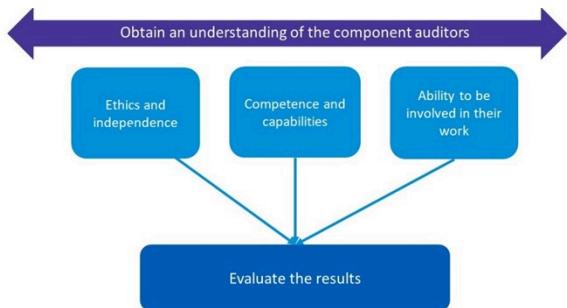
IF we use the work of component auditors THEN obtain an understanding of the component auditors.

Why do we do this?

As the group auditor, we obtain an understanding of the component auditor to determine that the component auditor is ethical, independent, and competent and that we will be able to be appropriately involved in their work such that we can use the component auditor's work.

Execute the Audit

What does obtaining an understanding of the component auditors entail? [\[ISA | 1541.160157\]](#)



As the group auditor, we obtain an understanding of:

- whether the component auditor complies with independence and ethical requirements,
- the component auditor's competence and capabilities,
- whether we will be able to be sufficiently and appropriately involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.

Then, we evaluate the results of our understanding of the component auditor, determine whether we have Serious Concerns or Less than Serious Concerns and, if applicable consult and determine the impact on our audit.

Who is a component auditor? [ISA | 1541.160190]

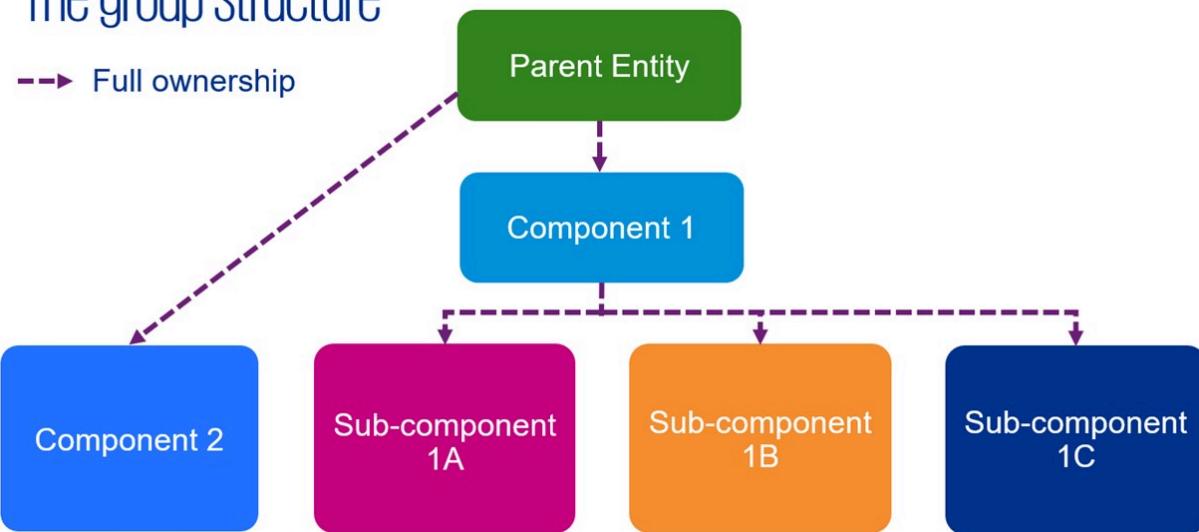
A component auditor is an auditor who performs work on the financial information of a component that will be used as audit evidence for the group audit. They are also a type of 'other auditor'.

Component auditors may be from another KPMG firm, a non-KPMG firm, or the group auditor's firm (e.g. another office within the group auditor's firm). In some circumstances, the group auditor may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

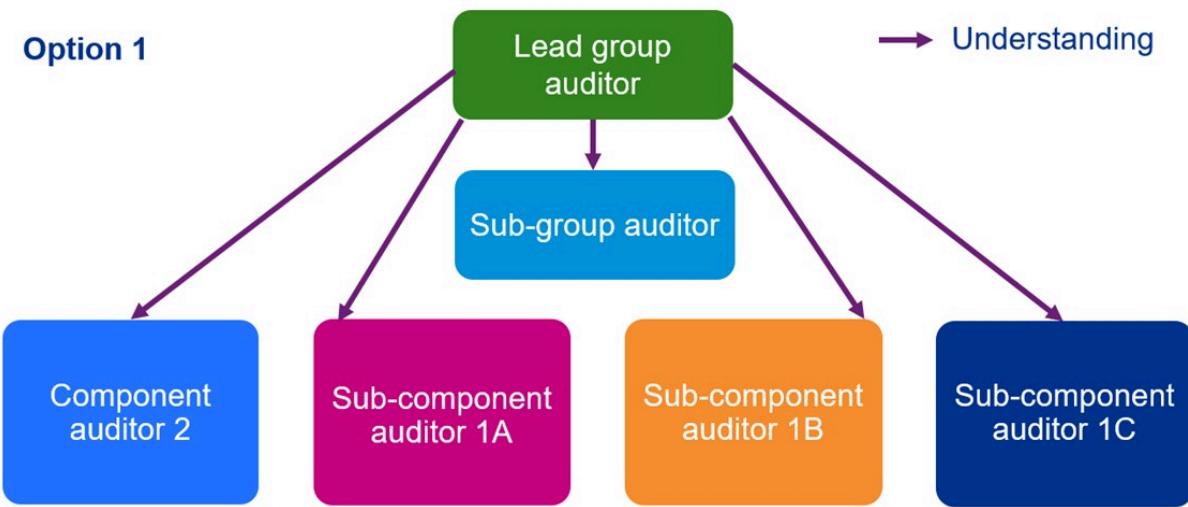
How do we obtain an understanding of the component auditors in a group with sub-groups or multiple tiers? [ISA | 1541.1600]

In a group with sub-groups or multiple tiers, the lead group auditor is responsible for obtaining an understanding of all the component auditors, including the component auditors of components within the sub-groups (i.e. the sub-component auditors).

The group structure

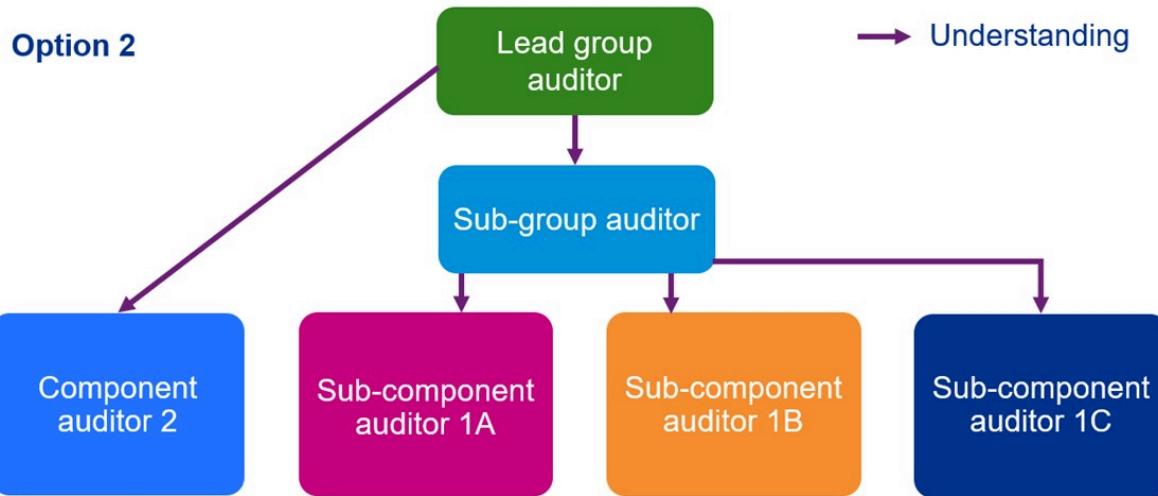


In a group with the above structure, the lead group auditor may obtain an understanding of sub-component auditors as depicted below.

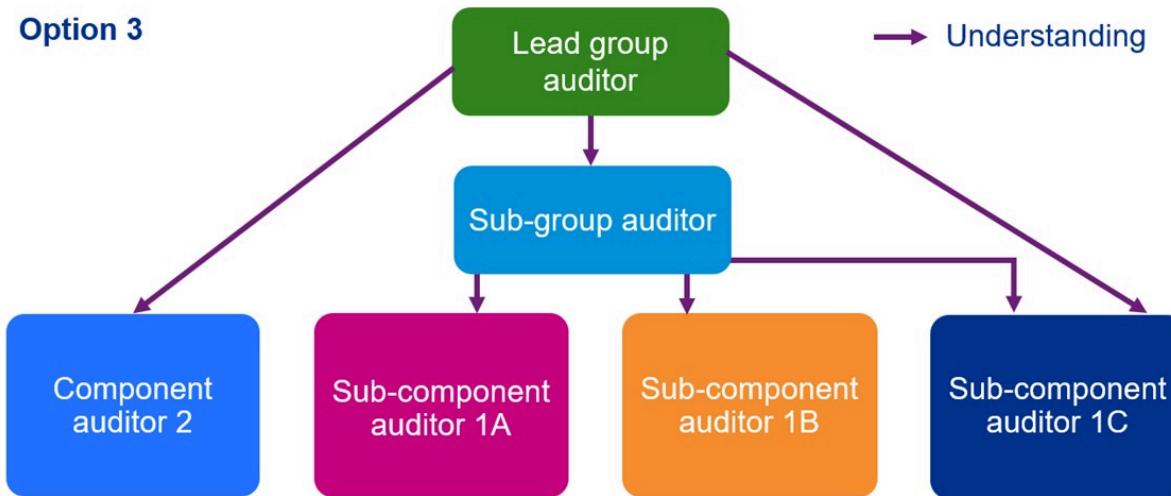


However, a sub-group auditor may assist the lead group auditor in obtaining an understanding of the sub-component auditors.

In this case, the sub-group auditor gathers the information about the sub-component auditors and evaluates the results and communicates the results of its understanding to the lead group auditor on a timely basis.



The lead group auditor may also directly obtain an understanding of some sub-component auditors as depicted below.



What additional procedures may we perform to obtain an understanding in the first year of involving a component auditor? [ISA | 1541.1800]

In the first year of involving a component auditor, we, as the group auditor, may:

- visit the component auditor,
- hold discussions with the component auditor,
- request they complete questionnaires, and/or
- discuss the component auditor with colleagues in the group engagement partner's firm, or with a reputable third party that has knowledge of the component auditor.

In subsequent years, our understanding may come from many or all of the same procedures, but we will also leverage our previous experience with the component auditor.

4.1 Determine the component auditor's compliance with independence and ethical requirements

[ISA | 1542]

What do we do?

As the group auditor, we determine whether component auditors participating in the audit understand and will comply with ethical and independence requirements relevant to the audit and are independent.

Why do we do this?

It is the responsibility of each professional and firm participating in the audit to comply with the ethical and independence requirements that are relevant to the audit. When we are a group auditor, we perform procedures to determine that component auditors participating in the audit (both the individuals and accounting firms outside the firm issuing the audit report) have complied with the relevant ethical and independence requirements that apply to the group audit.

We remain independent and ethical so that we can be objective and maintain public confidence. Independence is the cornerstone of an independent auditor's report.

Execute the Audit

How do we determine whether the component auditor is ethical and independent in relation to the group audit? [ISA | 1542.160335]

As the group auditor, we obtain a written confirmation from the component engagement partner that the component auditor individuals:

- understand and will comply with the ethical and independence requirements relevant to the audit, as described in the group audit instructions, and
- have complied with the relevant independence and ethical requirements that apply to the group audit engagement
- are not aware of any circumstances that may have threatened, or may have appeared to threaten, independence in relation to the group audit.

This written confirmation includes specific matters related to the component auditor's independence, including the component auditor firm and component auditor individuals.

What specific matters does the independence confirmation include? [ISA | 1542.12226]

The written confirmation about the component auditor's independence includes the component engagement partner's acknowledgement about:

- our obligations to communicate certain independence matters to those charged with governance of the group
- specific communications from the component engagement partner to the component auditor individuals

- the component auditor individuals' independence under the independence requirements relevant to the group audit, as described in the group audit instructions, as of the date of the confirmation
- continuing to take steps and monitoring their services to maintain their continued compliance with the independence requirements relevant to the group audit, as described in the group audit instructions, at least until completion of the group audit professional engagement period
- their responsibilities regarding reporting and documenting breaches or suspected breaches of independence policies.

[What is our responsibility as a group auditor with respect to KPMG component auditors within our member firm \(e.g., from another office\)? \[ISA | 1542.160336\]](#)

As the group auditor, we are responsible for determining that all component auditors, including those within our own member firm, are in compliance with independence and ethics requirements that are applicable to our engagement.

Component auditors within our own member firm are subject to the same system of quality management as us. When our firm has concluded that the objectives that address the fulfillment of responsibilities in accordance with the relevant independence and ethics requirements is being achieved by our firm's system of quality management, it may not be necessary to:

- communicate, in writing, the relevant independence and ethics requirements or
- obtain written confirmation of compliance with the relevant independence and ethics requirements

through the use the group audit instructions templates.

At a minimum, we, as the group auditor, take responsibility for component auditors within our member firm having been made aware of relevant independence and ethics requirements applicable to the group audit engagement and confirming that the component auditor has complied with such requirements. The group auditor may directly make communications to individual engagement team members at the component or may instruct the component engagement partner to facilitate such communications.

[When do we perform procedures to determine the component auditor's independence and compliance with ethical requirements? \[ISA | 1542.1700\]](#)

The table below sets out the timing of the procedures we perform to determine a component auditor's compliance with ethical and independence requirements relevant to the group audit:

Timing	What do we do?
During audit planning	We communicate the ethical and independence requirements that are relevant to the group audit to the component auditor during audit planning and we obtain our initial understanding of the component auditor's independence and confirmation that the component auditor will comply with the relevant ethical and independence requirements.

<p>When changes in circumstances occur or new information is discovered</p>	<p>We re-evaluate our determination of the component auditor's independence and compliance with ethical requirements relevant to the group audit when changes in circumstances occur or when new information is discovered that could bear on our independence or suggest possible ethical compliance issues. This includes situations where either we or the component auditor re-evaluate the client relationship and reconsider whether we are still independent.</p> <p>Examples of these changes include:</p> <ul style="list-style-type: none"> • a change of ownership affecting the parent company; • a significant reorganization of the group; • transactions or changes in materiality resulting in new affiliates • identification of new components over which audit work will be performed; • a conversion of the component from non-public to public <p>In this regard, we also request component auditors to promptly report independence breaches to the group auditor.</p>
<p>During audit completion</p>	<p>As part of our completion procedures, we request a written confirmation that the component auditor has complied throughout the audit with the ethical and independence requirements relevant to the audit.</p>

[What ethical and independence requirements do component auditors comply with? \[ISA | 1542.160337\]](#)

Component auditors are subject to the ethical and independence requirements that are applicable to the group audit, including requirements that may be applicable to the type of entity the group audit client is and the jurisdiction they are in. These ethical and independence requirements at a minimum are the requirements of the IESBA Code and may be different from or in addition to those applicable in the component auditors' jurisdiction.

However, component auditors may not necessarily know what ethical and independence requirements are applicable to the group audit. Therefore, the group auditor describes in the group audit instructions the ethical and independence requirements that are relevant to the group audit.

When the component auditor firm is a non-KPMG firm and the group audit client is not a public interest entity, the component auditor firm complies with requirements in the IESBA Code that are applicable to audit clients that are not public interest entities for the purposes of the group audit. This is regardless of whether the component audit client is a public interest entity or not.

When the component auditor firm is a non-KPMG firm and the group audit client is a public interest entity, the component auditor firm additionally complies with the provisions in Section 600 of the IESBA Code that are applicable to public interest entities with respect to the provision of non-assurance services to the component audit client, except for the requirements to communicate

information about the non-assurance services to, or obtain concurrence from, those charged with governance of the group audit client.

How do component auditors comply with ethical and independence requirements relevant to the group audit? [\[ISA | 1542.12239\]](#)

For purposes of the group audit, component auditors comply with the ethical and independence requirements included in:

- Non-U.S. KPMG component auditors: the GQ&RMM and, if applicable, their local risk management manual or policies
- U.S. KPMG component auditors: the Risk Management Manual - U.S. (RMM-US)
- Non-KPMG component auditors: the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code)

and any additional ethical and independence requirements described in the group audit instructions (e.g. when national or client imposed ethical and independence requirements applicable to the group auditor are stricter).

How do we determine compliance with ethical and independence requirements in a group with sub-groups or multiple tiers? [\[ISA | 1542.160340\]](#)

In a group with sub-groups or multiple tiers, the group auditor is responsible for determining compliance with independence and ethics requirements of all the component auditors, including component auditors of any sub-groups (i.e., sub-component auditors).

A sub-group auditor may assist the group auditor in performing necessary procedures to determine compliance with independence and ethical requirements with respect to one or more sub-component auditors.

If such situations, the group auditor instructs the sub-group auditor to inform the group auditor of the results of procedures performed, including bringing to the group auditor's attention any information indicating that a sub-component auditor is not in compliance with applicable independence and ethical requirements.

Ultimately, the group auditor remains responsible for determining that all component auditor engagement team members and firms are in compliance with independence and ethical requirements.

What requirements do we communicate to component auditors related to ethics and independence? [\[ISA | 1542.160341\]](#)

As the group auditor, we communicate to the component auditors the ethical and independence requirements relevant to the group audit. We also communicate if we have determined that an audit partner who performs audit work at a component for the purposes of the group audit is a key audit partner for the group audit.

What matters do we request the component auditors to communicate relevant to compliance with ethical and independence requirements during planning? [\[ISA | 1542.160346\]](#)

As the group auditor, we request the component auditors to communicate the following matters relevant to compliance with ethical and independence requirements during planning:

Topic	Matters requested	Applicability
Initial independence confirmation	<p>During planning, a written confirmation that as of the date of the confirmation and with respect to the group, the component auditor:</p> <ul style="list-style-type: none"> • understands and will comply with the ethical and independence requirements relevant to the group audit, as described in the group audit instructions • is not aware of any circumstances that may have threatened, or may have appeared to threaten the group engagement team's independence • will continue to take steps and monitor their services to maintain their continued compliance with the independence requirements relevant to the group audit, as described in the group audit instructions, at least until completion of the group audit professional engagement period (i.e., until we cease to be appointed as the auditor). 	All component auditors
	<ul style="list-style-type: none"> • is independent of the group audit client under the independence requirements relevant to the group audit, as described in the group audit instructions • understands that we will communicate certain independence matters to those charged with governance of the group 	KPMG component auditors
	<ul style="list-style-type: none"> • is independent under the independence requirements relevant to the group audit, as described in the group audit instructions, with respect to: <ul style="list-style-type: none"> • the component (and its controlled related entities, if applicable) • the entity on whose group financial statements the group auditor expresses an opinion (the group entity under audit), and • any entity over which the group entity under audit has direct or indirect control that is also in the chain of control over the component audit client. 	Non-KPMG component auditors
Communication of independence	<ul style="list-style-type: none"> • Report immediately to us and to the Ethics and Independence Partner (non-U.S. KPMG component auditors) or Risk Management - 	KPMG component auditors

matters requiring significant judgment and breaches of independence	<p>Independence (U.S. KPMG component auditors) any breaches or suspected breaches of ethical and independence requirements relevant to the group audit, as described in the group audit instructions</p> <ul style="list-style-type: none"> will comply with the relevant communication and documentation requirements regarding breaches or suspected breaches of independence requirements included in Policy 12.18.1 (https://www.gqrmprod.kworld.kpmg.com/G/0/Content/231 (or 20.1.3 https://www.gqrmprod.kworld.kpmg.com/G/0/Content/302 for components of SEC engagements) and the related tools of the GQ&RMM (non-U.S. KPMG component auditors) or in Section 12.18.1 of the KPMG Risk Management Manual-U.S. (RMM-U.S.) (https://alex.kpmg.com/AROWeb/document/lfc/find/US_DPP_MANUALS_QRMM_012_018_001H (U.S. KPMG component auditors). 	
	Report immediately to us any breaches of ethical and independence requirements relevant to the group audit	Non-KPMG component auditors
	<ul style="list-style-type: none"> Communicate any independence matters that require significant judgment, your conclusion whether the threats to your independence are at an acceptable level and the rationale of that conclusion If an independence breach was identified, provide us with information on the component auditor's assessment of the significance of the breach, its impact on the component auditor firm's objectivity, how the component auditor satisfactorily addressed the consequences of the breach and an overall summary of the matter 	All component auditors
Communications from the component engagement partner to component auditor individuals	Notify all component auditor individuals of the requirement to immediately report breaches or suspected breaches of ethical and independence requirements relevant to the group audit, as described in the group audit instructions, to the component engagement partner and the Ethics and Independence Partner of the component auditor's member firm (non-U.S. KPMG component auditor) or	KPMG component auditors

	<p>U.S. Risk Management - Independence (U.S. KPMG component auditor).</p>	
	<p>Notify all component auditor individuals of the requirement to immediately report breaches of ethical and independence requirements relevant to the group audit, as described in the group audit instructions, to the group engagement partner.</p>	Non-KPMG component auditors
Years of service	<p>Inform us of the component engagement partner's years of service where the component engagement partner has been determined by the group engagement partner to be a key audit partner for the purposes of the group audit.</p>	KPMG component auditors
Overall confirmation	<p>Inform us, as soon as possible, of any changes in the representations made during the initial ethics and independence confirmation when performing procedures on the financial information of the component for purposes of the group audit.</p>	All component auditors

What matters do we request the component auditors to communicate relevant to compliance with ethics and independence requirements as part of the completion procedures? [ISA | 1542.160348]

As the group auditor, we request the component auditors to communicate the following matters relevant to compliance with ethics and independence requirements as part of the completion procedures:

Area	Matters requested	Applicability
Final independence confirmation	<p>As part of the completion procedures, a written confirmation for the period covered by the group audit and through the date of the confirmation that the component auditor, with respect to the group:</p> <ul style="list-style-type: none"> • has complied with the ethics and independence requirements relevant to the group audit, as described in the group audit instructions • will continue to take steps and monitor the component auditor's services to maintain the component auditor's continued compliance with the relevant ethics and independence requirements relevant to the group audit 	All component auditors

	<p>at least until completion of the group audit professional engagement period (i.e., until we cease to be appointed as the auditor)</p>	
	<ul style="list-style-type: none"> • have been independent auditors within the meaning of the independence requirements relevant to the group audit, as described in the group audit instructions 	KPMG component auditors
	<ul style="list-style-type: none"> • have been independent auditors within the meaning of the independence requirements relevant to the group audit, as described in the group audit instructions, with respect to: <ul style="list-style-type: none"> - the component (and its related entities, if applicable) - the entity on whose group financial statements the group auditor expresses an opinion (the group entity under audit), and - any entity over which the group entity under audit has direct or indirect control that is also in the chain of control over the component audit client. 	Non-KPMG component auditors
Communication of independence matters requiring significant judgment	<p>If there are any independence matters that require significant judgment, provide us with the following:</p> <ul style="list-style-type: none"> • description of the matter, • your conclusion whether the threats to your independence are at an acceptable level and • the rationale for your conclusion. 	All component auditors
Breaches of independence	<p>If a breach or suspected breach of independence requirements has occurred, provide us with the following:</p> <ul style="list-style-type: none"> • name of the entity within the group to which the breach or suspected breach of independence relates • type of breach (self-interest threat / self-review threat / advocacy threat / familiarity threat / intimidation threat / prohibited service) • detailed description of the breach or the suspected breach of independence, such as 	KPMG component auditors

	<p>nature and duration, how the breach occurred and how it was identified</p> <ul style="list-style-type: none"> • whether it is a breach or a suspected breach of independence • description of any factors that should be considered in an evaluation of the breach or suspected breach of independence • for breaches of independence, the significance of the independence breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit • actions (both taken and proposed) to address the consequences of the breach 	
	If a breach of independence requirements has occurred, provide us with a communication of relevant details in the standard agreed interfirm communication.	Non-KPMG component auditors
Overall confirmation	Description of any other circumstances that (1) affect the component auditor's ability to confirm the matters related to ethics and independence requirements, or (2) the component auditor is aware of having a bearing on their independence, which should be brought to the group auditor's attention.	All component auditors

What do we do if the component auditor is unable to provide written confirmation or identifies breaches in independence? [ISA | 1542.160349]

If the component auditor is unable to provide us, as the group auditor, with any of the written confirmations, we obtain an explanation why and determine if there are implications to our audit approach. If the component auditor identified any independence breaches, we also request the component auditor to inform us of their assessment of the significance of the breach, its impact on the component auditor firm's objectivity, how they satisfactorily addressed the consequences of the breach and an overall summary of the matter.

See question 'What do we do if component auditors report independence issues to the group auditor?':

- [ISA](#)
- [AICPA | International | FDIC insured depository institutions with consolidated assets ≥ \\$500 million at beginning of fiscal year or Registered investment advisor where the audit is being performed to meet certain obligations under the SEC Custody Rule](#)

- [AICPA | US | FDIC insured depository institutions with consolidated assets ≥ \\$500 million at beginning of fiscal year or Registered investment advisor where the audit is being performed to meet certain obligations under the SEC Custody Rule](#)

4.2 Determine that component auditors have the appropriate competence and capabilities, including sufficient time [ISA | 1543]

What do we do?

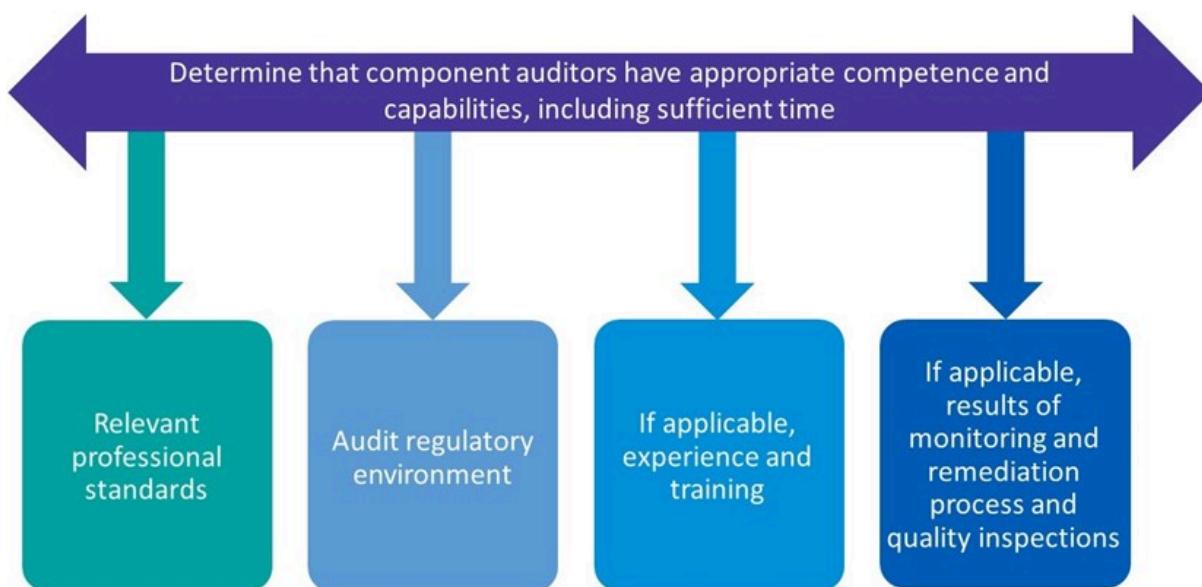
Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned procedures at the component.

Why do we do this?

As the group auditor, understanding the competence and capabilities of the component auditor, including whether they have sufficient time, provides us with insight into the suitability of the component auditors to perform the procedures we have requested. Competent component auditors are likely to perform quality audits in accordance with the relevant professional standards and the instructions issued by us.

Execute the Audit

How do we determine that component auditors have the appropriate competence and capabilities, including sufficient time? [ISA | 1543.1300]



As the group auditor, we perform the following procedures:

- Obtain a written confirmation from the component auditor that they understand the applicable auditing standards and financial reporting framework and possess the necessary knowledge, skills, and ability, including sufficient time, to perform the work
- Determine whether the component auditor operates in a regulatory environment that actively oversees auditors
- Obtain information in writing from component auditors about their applicable experience and training in certain situations
- Determine the relevance of the results of the monitoring and remediation process of the system of quality management (SoQM) or external inspections of the component auditor's firm on our determination of the component auditor's competence and capabilities.

Who determines that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned procedures at the component? [ISA | 1543.160159]

The group engagement partner determines that component auditors have the appropriate competence and capabilities, including sufficient time, to appropriately perform the audit procedures necessary.

Is 'competence and capabilities' the same as 'knowledge, skill and ability'? [ISA | 1543.15419]

Yes. While some auditing standards use the term 'competence and capabilities' and other standards refer to 'knowledge, skill, and ability', for purposes of the KAEG, these terms have the same meaning.

What may the group engagement partner consider when determining whether the component auditors have the appropriate competence and capabilities? [ISA | 1543.160160]

In determining whether component auditors have the appropriate competence and capabilities to perform the assigned audit procedures at the component, the group engagement partner may consider matters such as the following:

- relevant professional background, including experience and recent training in accounting and auditing standards relevant to the component auditor's work
- experience with the client and the industry
- previous experience with or knowledge of the component auditor
- the component auditor's specialized skills (e.g. industry-specific knowledge or knowledge of relevant financial reporting requirements for reports to be filed with regulatory agencies)
- the degree to which the group auditor and component auditor are subject to a common system of quality management
- When the component auditor is part of the same KPMG member firm, we may rely on the KPMG member firm's effective system of quality management (SOQM) when evaluating the competence and capabilities of the component auditor
- information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors
- other relevant experience.

For example, if the non-KPMG component auditor is a member of the [Forum of Firms](https://www.ifac.org/who-we-are/transnational-auditors-committee-forum-firms) <https://www.ifac.org/who-we-are/transnational-auditors-committee-forum-firms>, it may indicate that they have a robust process in place for their audit methodology and their system of quality management.

How do we understand whether the component auditor operates in a regulatory environment that actively oversees auditors? [ISA | 1543.160161]

We, as the group auditor, understand whether the component auditor operates in a regulatory environment that actively oversees auditors through obtaining a written confirmation from the component auditor about whether an independent oversight body actively oversees the auditing profession in which the component auditor operates and monitors the quality of the audits. If there is such an oversight body, we obtain the name of the body.

In addition, we may supplement that written confirmation by:

- reading information in the [Geographical Market Summaries](https://alex.kpmg.com/AROWeb/document/lfc/find/INTL_ISADESK_GeographicalSummaries) https://alex.kpmg.com/AROWeb/document/lfc/find/INTL_ISADESK_GeographicalSummaries. These summaries are designed to assist us in obtaining an initial understanding of the environment in which components operate and cover key audit considerations and risks for a particular geographical market, which may include information about the regulatory environment for the auditing profession.
- reading information published by independent oversight bodies (regulators) in the component auditor's jurisdiction. For example, we may obtain information from the regulators' website or, if possible, we may make inquiries to the regulators about the regulatory environment for the auditing profession.

When do we obtain an understanding about the component auditor's competence and capabilities? [ISA | 1543.1600]

The table below sets out the timing of obtaining an understanding about the component auditor's competence and capabilities:

Timing	What do we do?
At the beginning of the audit	We obtain our initial understanding during planning, after we have communicated the applicable auditing standards and financial reporting framework applicable to the group audit, and the scope of the work to be performed .
When changes in circumstances occur	We request the component auditors to provide us with updates on a timely basis when changes in circumstances occur that may impact the competence and capabilities of the component auditor (e.g. a change in assignment of relevant individuals at the component auditor). Based on the updated information, we update our understanding of the component auditor's competence and capabilities.

Group Audit | How do we obtain an understanding of the competence and capabilities of component auditors in a group with sub-groups or multiple tiers? [ISA | 1543.160162]

In a group with sub-groups or multiple tiers, the sub-group auditors may assist the lead group auditor in obtaining an understanding of the competence and capabilities of the component auditors of components within the sub-group (i.e. the sub-component auditors).

However, the group engagement partner retains ultimate responsibility for determining that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned procedures at the component.

4.2.1 Obtain a written confirmation from the component auditors about their understanding of the applicable accounting and auditing standards

[ISA | 1544]

What do we do?

Obtain a written confirmation from the component auditor that they understand the applicable auditing standards and financial reporting framework and possess the necessary knowledge, skills, and ability, including sufficient time, to perform the work.

Why do we do this?

As the group auditor, to help us understand whether the component auditor's competence and capabilities are appropriate for the group audit, we obtain a written confirmation from the component engagement partner that they understand the applicable auditing standards and financial reporting framework of the group and possess the necessary knowledge, skills, and ability, including sufficient time, to perform the work.

Execute the Audit

[What is included in the written confirmation from the component auditor about their understanding of the applicable auditing standards and financial reporting framework? \[ISA | 1544.1300\]](#)

As the group auditor, we send group audit instructions that include sufficient detail to enable the component engagement partner to understand the scope and complexity of the work requested of the component auditor.

We obtain a written confirmation from the component engagement partner that the individuals from the component auditor collectively:

- understand the auditing standards applicable to the group audit sufficiently to fulfil the component auditor's responsibilities in the group audit,
- possess the necessary knowledge, skills (for example, industry specific knowledge and experience) and ability to perform the work on the financial information of the component,
- understand the applicable financial reporting framework sufficiently to fulfil the component auditor's responsibilities in the group audit,
- have experience in applying the professional standards, and

- have sufficient time to perform the assigned audit procedures at the component.

In addition, to determine that the individuals from the component auditor collectively possess the necessary knowledge, skills and ability, we obtain information regarding their plan to involve specific team members or specialists in the work performed over the component.

When do we obtain a written confirmation about the component auditor's understanding of the applicable auditing standards and financial reporting framework? [ISA | 1544.1400]

The table below sets out the timing of obtaining written confirmation about the component auditor's understanding of the applicable auditing standards and financial reporting framework:

Timing	What do we do?
At the beginning of the audit	We obtain initial confirmation during planning, after we have communicated the applicable auditing standards and financial reporting framework, and the scope of the work to be performed .
When changes in circumstances occur	We request the component auditors to provide us with updates on a timely basis when changes in circumstances occur that may impact the previous confirmation received from the component auditor. Based on the updated information, we update our understanding of the component auditor's competence and capabilities.

4.2.2 Obtain information in writing from component auditors about their applicable experience and training in certain situations [ISA | 1545]

What do we do?

Obtain information in writing from component auditors about their applicable experience and training in certain situations

Why do we do this?

As the group auditor, we obtain an understanding of the component auditor's competence and capabilities. One of the procedures we perform is obtaining information in writing from component auditors about their applicable experience and training when they are applying accounting or auditing standards that differ from those normally followed in their country (e.g. US GAAP, PCAOB or US GAAS in non-US countries).

Execute the Audit

Which KPMG component auditors do we obtain information about their applicable training and experience? [ISA | 1545.1300]

As the group auditor, we obtain information about the applicable training and experience from relevant individuals of KPMG component auditors for engagements that are subject to minimum training requirements. The table below sets out for which component auditors we obtain information about their applicable experience and training:

Type of component auditor	Financial reporting framework applicable to the engagement	
	IFRS	U.S. GAAP
Non-IFRS KPMG component auditors (*)	√	N/A
Non-U.S. KPMG component auditors	N/A	√

(*) Refers to component auditors in countries where IFRS is not the predominant financial reporting framework (refer to the "[Countries where IFRS is the predominant financial reporting framework](https://spo-global.kpmg.com/sites/GO-OI-BUS-ISG/SitePages/ifrs-network.aspx) <https://spo-global.kpmg.com/sites/GO-OI-BUS-ISG/SitePages/ifrs-network.aspx>")

What are the minimum training requirements for non-U.S. KPMG team members specific to US GAAP engagements? [ISA | 1545.15353]

The minimum training requirements for non-U.S. KPMG team members specific to US GAAP engagements are as follows:

To whom do the training requirements apply?	Training requirements to be completed:
<ul style="list-style-type: none"> All partners, managers, and engagement in-charges who are members of the engagement team (excluding specific team members and employed KPMG specialists) EQC reviewer 	<p>One-time requirement:</p> <ul style="list-style-type: none"> Baseline US GAAP <p>On an ongoing basis for each consecutive period starting with the period in which the Baseline US GAAP is completed:</p> <ul style="list-style-type: none"> Periodic updates relating to Baseline US GAAP.

What is a US GAAP engagement for purposes of this activity? [ISA | 1545.160179]

US GAAP engagements are, for purposes of this activity, audit or interim review procedures performed over components for a group audit in which the applicable financial reporting framework is US GAAP and is performed by non-US KPMG member firms. This does not include engagements when audit

or review procedures are designed by the group auditor (e.g. inventory observations to determine the quantity of goods on hand or accounts receivable confirmations to support their existence).

What are the minimum training requirements for non-U.S. KPMG team members specific to IFRS engagements? [ISA | 1545.15259]

The minimum training requirements for non-U.S. KPMG team members specific to IFRS engagements are as follows:

To whom do the training requirements apply?	Training requirements to be completed:
<ul style="list-style-type: none"> Engagement partner Engagement manager with primary responsibility for the engagement EQC reviewer 	<p>One-time requirement:</p> <ul style="list-style-type: none"> Baseline IFRS. <p>On an ongoing basis for each consecutive period starting with the period in which the Baseline IFRS is completed:</p> <ul style="list-style-type: none"> Periodic updates relating to Baseline IFRS.

What is an IFRS engagement for non-U.S. KPMG team members for purposes of this activity? [ISA | 1545.160181]

IFRS engagements are, for purposes of this activity, audit or interim review procedures performed by non-IFRS KPMG member firms over IFRS financial information of a component (e.g. IFRS reporting package submitted to parent company). This does not include engagements when audit or interim review procedures are designed by the group auditor (e.g. inventory observations to determine the quantity of goods on hand or accounts receivable confirmations to support their existence).

Where can we find more information on the minimum training requirements and who completes these trainings? [ISA | 1545.160191]

We can find further information on the minimum training requirements relevant to component auditors and who completes these trainings as follows:

Scope of engagement	Location of the group auditor	Location of the KPMG component auditor	Relevant activities applied by the component auditors to comply with the minimum training requirements
US GAAP engagement performed in accordance with the ISAs	Non-U.S. group auditor	Non-U.S. component auditors	KAEG-ISA (International version), ISA 220.25-28 US GAAP Determine knowledge, skill and ability of team members in US GAAP engagements

PCAOB or US GAAS (and, if applicable, US GAAP) engagement	All group auditors	Non-U.S. component auditors	KAEG-PCAOB (International version), AS 1010.01-05 Determine knowledge, skill and ability of non-US KPMG team members in US-auditing-standard engagements KAEG-AICPA (International version), AU-C 220.16 Determine knowledge, skill and ability of non-US KPMG team members in US-auditing-standard engagements
IFRS engagement performed by a non-IFRS KPMG member firm	All group auditors	Non-U.S. component auditors	KAEG-ISA (International version), ISA 220.25-28 IFRS Determine knowledge, skill and ability of team members in IFRS engagements KAEG-PCAOB (International version), AS 1010.01-05 IFRS Determine knowledge, skill and ability of team members in IFRS engagements KAEG-AICPA (International version), AU-C 220.16 IFRS Determine knowledge, skill and ability of team members in IFRS engagements
IFRS engagement	All group auditors	U.S. component auditors	KAEG-PCAOB (US version), AS 1010.01-05 IFRS Determine knowledge, skill and ability of team members in IFRS engagements KAEG-AICPA (US version), AU-C 220.16 IFRS Determine knowledge, skill and ability of team members in IFRS engagements

How do we obtain information from the KPMG component auditors about their applicable training and experience? [ISA | 1545.1500]

When KPMG component auditors are subject to minimum training requirements, as the group auditor, we obtain information from the relevant individuals of KPMG component auditors about their applicable experience and training through sections 1 - 4 of the "Assessment of Training and Experience Work Paper".

The information provided in the group audit instructions to the KPMG component auditors includes sufficient detail to enable the component engagement partner and responsible partner to understand the scope and complexity of the engagement and therefore the level of experience necessary to:

- determine whether the collective experience of the engagement team is sufficient and appropriate or whether any safeguards or additional actions are necessary, and
- reach a conclusion regarding whether the component auditor has the necessary training and experience.

[What do sections 1 - 4 of the Assessment of Training and Experience Work Paper include?](#) [ISA | 1545.12350]

Section	Summary of content
Section 1 - Overall Consideration and Conclusions by Responsible Partner	<p>The responsible partner's sign-off on the assignments of the relevant individuals of the component auditor and on any safeguards and additional support discussed and agreed with the engagement partner to supplement the engagement team's collective experience.</p> <p>The responsible partner's confirmation that all partners, managers and engagement in-charges who are members of the component auditor have completed the relevant training requirements.</p>
Section 2 - Overall Consideration and Conclusions by Engagement Partner	The component engagement partner's conclusion reached regarding the training and collective experience of the engagement team, together with any safeguards and additional support agreed with the responsible partner.
Section 3 - Addendum (for Updates to Information)	Subsequent changes to information in Section 4 and, when applicable, Section 5, since the date of their completion that may have a bearing on the considerations by the engagement partner and the responsible partner
Section 4 - Information Regarding Training and Experience	Information regarding experience and recent training (last 3 years) of the relevant individuals of the component auditor.

The instructions to the Assessment of Training and Experience Work Paper explain the purpose of each section, the intended users, when it is necessary to complete each section and who completes each section.

[Who is the responsible partner?](#) [ISA | 1545.12354]

The responsible partner is a partner with the authority to:

- assign the engagement partner, engagement manager with primary responsibility for the engagement and the EQC reviewer to engagements, and
- agree on relevant safeguards or additional support to be provided to engagement teams.

The responsible partner may assign the review and sign-off of the work paper to a designee.

Who are considered relevant individuals of the component auditor? [ISA | 1545.12356]

Relevant individuals of the component auditor are:

- The component engagement partner,
- The component engagement manager with primary responsibility for the engagement, and
- Other members of the component auditor whose training and experience contributes to the collective ability of the component auditor to perform the engagement in accordance with relevant professional standards. Those engagement team members may include:
 - specific team members and/or employed KPMG specialists; and
 - additional members of the engagement team who perform a key role in the engagement (e.g. other component partners or component managers).

Although not part of the component auditor, the component EQC reviewer (if one has been appointed) is also a relevant individual.

Who are considered relevant individuals of the US component auditor for IFRS engagements? [ISA | 1545.8900]

Relevant individuals of the component auditor are:

- The component engagement partner,
- The component engagement manager with primary responsibility for the engagement,
- Specific team members and employed KPMG specialists involved as members of the engagement team, and
- Other members of the engagement team whose training and experience contribute to the collective ability of the engagement team to perform the IFRS engagement. These engagement team members may include:
 - additional members of the engagement team who perform a key role in the engagement.Those members of the engagement team may include partners other than the engagement partner and senior manager(s) other than the engagement manager with primary responsibility for the engagement.

Although not part of the component auditor, the component EQC reviewer (if one has been appointed) is also a relevant individual.

What are examples of safeguards when the component auditor does not have the experience and/or training relevant to the group audit? [ISA | 1545.12357]

Examples of safeguards, when applicable, are:

- performance of additional reviews,
- requiring completion of the IFRS and U.S. GAAP Differences Checklist for KPMG component auditors,
- involvement of specialized reviewers (e.g. IFRS reviewing partners), and

- specific in-flight/pre-issuance reviews of more complex areas and significant areas involving differences between the auditing standards and/or financial reporting frameworks relevant to the engagement and those applicable in the jurisdiction in which the engagement team is operating.

Which non-KPMG component auditors do we obtain information about their applicable training and experience? [\[ISA | 1545.160184\]](#)

We obtain information about the applicable training and experience from all non-KPMG component auditors.

How do we obtain information from the non-KPMG component auditors about their applicable experience and training? [\[ISA | 1545.160187\]](#)

As the group auditor, we request the non-KPMG component auditors to provide the 'Competence and Capabilities Template' or equivalent (e.g. a resume) with the relevant information about the non-KPMG component auditor's competence and capabilities.

The information provided in the group audit instructions to the non-KPMG component auditors includes sufficient detail to enable the non-KPMG component engagement partner to understand the scope and complexity of the engagement and therefore the level of experience with the relevant auditing and accounting standards, as deemed necessary, to determine that the non-KPMG component auditor has sufficient and appropriate human resources with the appropriate competence and capabilities and sufficient time to perform the work requested in accordance with our instructions.

When do we obtain the information from the component auditors about their experience and training relevant to the group audit? [\[ISA | 1545.1700\]](#)

The table below sets out the timing of obtaining the information about the component auditor's experience and training relevant to the group audit:

Timing	What do we do?
At the beginning of the audit	As the group auditor, we obtain the initial information during planning, after we have communicated the applicable auditing standards and financial reporting framework applicable to the group audit, and the scope of the work to be performed.
When changes in circumstances occur	We request the component auditors to provide us with updates on a timely basis when changes in circumstances occur that may impact the training and collective experience of the relevant individuals of the component auditor (e.g. a change in assignment of individuals at the component auditor). Based on the updated information, we update our understanding of the component auditor's competence and capabilities.

4.3 Evaluate the results of our understanding of the component auditor, determine whether we have Serious Concerns or Less than Serious Concerns and, if applicable, consult and determine the impact on our audit

[ISA | 1551]

What do we do?

Evaluate the results of our understanding of the component auditor, determine whether we have Serious Concerns or Less than Serious Concerns about the component auditor and, if applicable, consult and determine the impact on our audit.

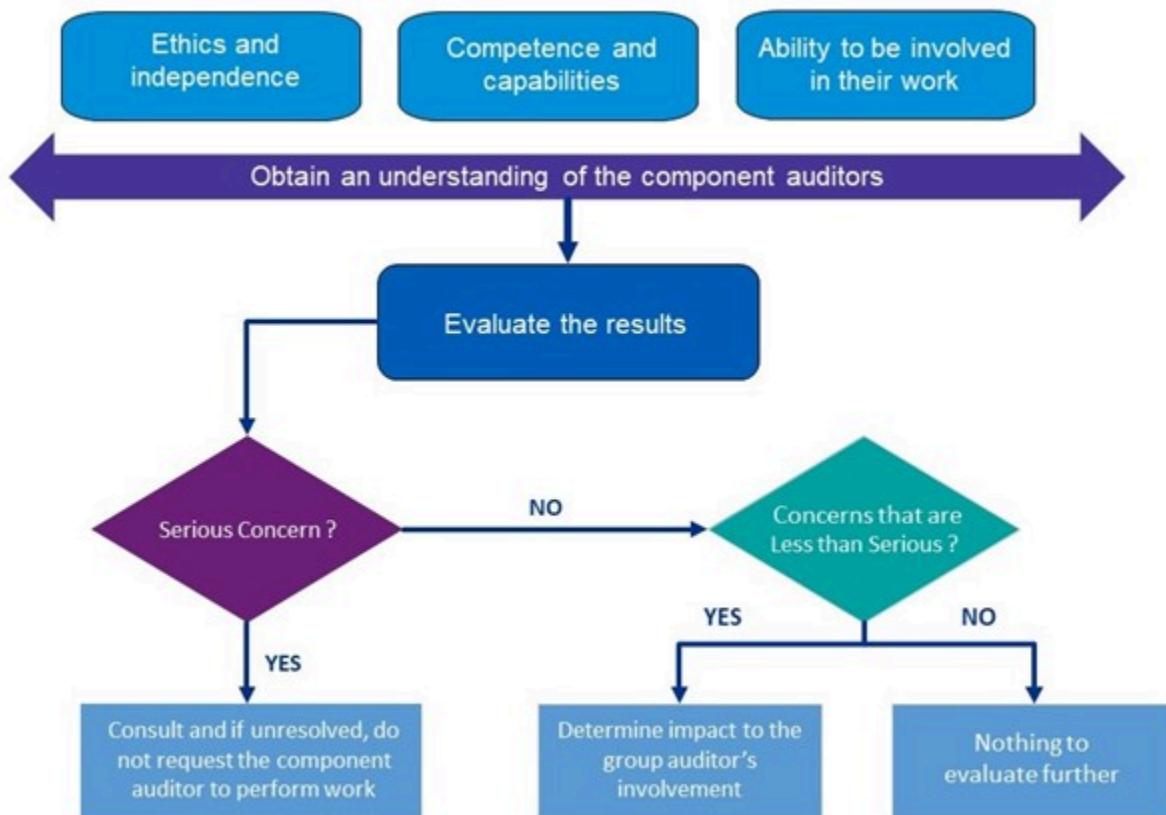
Why do we do this?

As the group auditor, we evaluate the results of our understanding of the component auditor to determine whether we can use the work of the component auditor for purposes of the group audit or not and, if we can, the level of involvement in the work of the component auditor.

Execute the Audit

How do we evaluate the results of our understanding of the component auditor? [ISA | 1551.1300]

If we, as the group auditor, identify any issues from our understanding of the component auditor, we determine whether those issues cause us to have Serious Concerns or concerns that are less than serious (i.e. Less than Serious Concerns). When there are no concerns identified in our understanding, there is nothing to evaluate further.



What issues cause us to have Serious Concerns about the component auditor? [ISA | 1551.12426]

The table below sets out conditions that cause us, as the group auditor, to have Serious Concerns:

Understanding of...	Conditions that cause us to have Serious Concerns
<u>Independence and compliance with ethical requirements</u>	The component auditor: <ul style="list-style-type: none"> • is not independent, or • does not understand or will not comply with the relevant ethical requirements
<u>Competence and capabilities, including sufficient time</u>	The component engagement partner does not provide the necessary confirmations for us to conclude that the component auditor can sufficiently fulfill its responsibilities for the group audit.
<u>Ability to be sufficiently and appropriately involved in the component auditor's work</u>	The component auditor: <ul style="list-style-type: none"> • denies us access to relevant audit documentation for reasons other than a limitation imposed by a law or regulation, or

- | | |
|--|--|
| | <ul style="list-style-type: none">• does not provide us with the necessary information affecting the consolidation process and we cannot obtain it directly from group or management of the entity or business unit. |
|--|--|

Even when none of the above conditions exist, there may be multiple concerns that collectively cause us to have Serious Concerns.

For example, we may have Serious Concerns if we conclude that, based on our professional judgment, the component auditor collectively lacks:

- the appropriate experience, and
- knowledge of the applicable financial reporting framework and/or auditing standards to perform their work.

In making this evaluation we may consider different factors that influence the degree of concern, such as:

- the nature of the work requested,
- the qualifications of the individuals assigned, including specific team members and specialists,
- the safeguards* implemented, and
- if the component auditor does not operate in an environment that actively oversees auditors.

* Examples of safeguards include performing additional levels of reviews (e.g. involvement of specialized reviewing partners, DPP reviews or in-flight/pre-issuance reviews), or requiring completion of the IFRS and U.S. GAAP Differences Checklist for KPMG component auditors.

For example, a KPMG component auditor is performing audit work related to a component and:

- the KPMG component engagement partner does not have previous experience in the industry or with performing audits under the relevant auditing and accounting standards, but the rest of the team has been assessed as collectively having sufficient knowledge and experience, and
- the component auditor operates in a regulatory environment that does not actively oversee auditors.

While these results may lead us individually to have Less than Serious Concerns about the component auditor's competence and capabilities, we may determine that collectively we have Serious Concerns.

[What do we do if we have Serious Concerns about the component auditor? \[ISA | 1551.1500\]](#)

As the group auditor, if we determine that we have Serious Concerns, we first try to resolve such serious concerns directly with the component auditor. If this is not possible, we consult.

If the serious concerns remain unresolved, we obtain sufficient appropriate audit evidence relating to the work to be performed on the component without involving the component auditor.

[Who do we consult with when we have Serious Concerns about the component auditor? \[ISA | 1551.12502\]](#)

As the group auditor, we consult as follows.

International (non-US) teams	US teams
DPP and the risk management partner	BUPPP and, if the matter remains unresolved, the Risk Management - Audit.

What is the purpose of our consultation when we have Serious Concerns about the component auditor? [ISA | 1551.12508]

Our consultation is to determine the appropriate course of action related to:

- whether, and if so how, to communicate the serious concerns to group management and those charged with governance of the group,
- determining how to obtain sufficient appropriate audit evidence on the financial information of the component, either by us performing the work ourselves or by replacing the component auditor, and
- if we conclude that we cannot obtain sufficient appropriate audit evidence in relation to a component, discussing the implications for our audit, including whether to modify our opinion in the group auditor's report or withdraw from the engagement.

What do we do when we cannot obtain sufficient appropriate audit evidence relating to the financial information of the component without using the component auditor? [ISA | 1551.12511]

As the lead group auditor, if we have Serious Concerns about the component auditor and we determine that we will not be able to obtain sufficient appropriate audit evidence relating to the financial information of the component without using a component auditor, we consider whether our inability to obtain sufficient appropriate audit evidence results in a modification of our opinion in the group auditor's report ([AS 3105](#), [ISA 705](#), [AU-C 705](#)).

What do we do if we have Less than Serious Concerns about the component auditor's competence and capabilities? [ISA | 1551.1700]

As the group auditor, if we determine that we have Less than Serious Concerns about the component auditor's competence and capabilities, we increase our level of involvement in the work of the component auditor in a way that is responsive to the concerns identified.

We may also design and perform additional risk assessment or further audit procedures on the financial information of the component.

What do we do when the sub-group auditor has Serious Concerns or Less than Serious Concerns about a sub-component auditor? [ISA | 1551.160189]

The lead group auditor requests that the sub-group auditor communicate any issues that causes Serious Concern or Less than Serious Concern to us on a timely basis so that we can evaluate how to appropriately respond to in the audit.

When do we evaluate the results of our understanding of the component auditor? [ISA | 1551.1900]

The table below sets out the timing of evaluating the results of our understanding of the component auditor:

Timing	Audit execution
At the beginning of the audit	We evaluate the results of our initial understanding of the component auditor during planning, after we have performed the procedures to obtain such understanding.
When changes in circumstances occur	We update our evaluation when changes in circumstances occur that lead to a change in our initial understanding of the component auditor.

4.4 Group Audit | Evaluate whether we will be able to be involved in the work of component auditors [ISA]

| 1468]

What do we do?

Evaluate whether we will be able to be sufficiently and appropriately involved in the work of the component auditor.

Why do we do this?

As the group auditor, we are involved in the work of the component auditor for various reasons, including:

- since we bear responsibility for expressing the group audit opinion, it necessitates knowledge and understanding of the component auditors' work; and
- our involvement allows us to determine whether consistent and appropriate levels of audit quality are maintained across the group audit in accordance with the group audit instructions.

If we will not be able to be involved in the work of a component auditor, we may be unable to use the work of that component auditor. This may cause us to perform the work over that component ourselves or, in some cases, not even accept the group engagement.

Execute the Audit

How does group engagement partner evaluate whether the group auditor will be able to be involved in the component auditor's work? [ISA | 1468.159602]

The group engagement partner, evaluates whether the group auditor will be able to be involved in the component auditor's work based upon confirmations obtained from the component auditor and by thinking about certain factors with respect to the group and component auditor.

What confirmations do we obtain to evaluate whether we will be able to be involved in the component auditor's work? [ISA | 1468.160166]

As the group auditor, we obtain written confirmation from the component engagement partner that the component auditor:

- will cooperate and communicate with us in connection with the group audit, including whether the component auditor will perform the work requested by the group auditor, and provide us with access to relevant audit documentation that has been prepared for the purposes of the group audit in accordance with the documentation retention period; and
- acknowledges that we may consider it necessary to be involved in the work we have requested the component auditor to perform on the financial information of the component.

What factors do we think about when evaluating whether we will be able to be involved in the work of the component auditor? [\[ISA | 1468.1400\]](#)

The group engagement partner may think about the following factors, among others, when evaluating whether we, as the group auditor, will be able to be involved in the work of the component auditors:

Factors	Considerations
Group structure, including geographical locations of the components	<p>We think about the group structure and the nature and size of components when determining whether we will be able to be involved in the work of the component auditors.</p> <p>For example, being involved in the work of the component auditor who performs audit procedures over a subsidiary may be easier than one who audits an equity method investment.</p> <p>Also, where the component and the component auditor are located in a remote location, it may be more challenging to be involved in the work of that component auditor.</p>
Whether KPMG or non-KPMG component auditors will perform procedures on the financial information of components	<p>Non-KPMG component auditors apply the auditing standards, but do not apply KPMG's methodology or KPMG's system of quality management. As such, we do more to understand their competence and capabilities, be involved in their work and evaluate their work. There may also be restrictions on our involvement which will be more formalized.</p>
Whether we will have unrestricted access to component information and component auditors	<p>Our access to information may be restricted by circumstances that cannot be overcome by group management, for example, by laws relating to confidentiality and data privacy or the component auditor denying us access to relevant audit documentation.</p> <p>In situations where access to information could</p>

	be restricted, we consider the implications on the acceptance of the group audit .
Whether we will be able to communicate with the component auditors, including obtaining relevant audit documentation from the component auditor	Communications with component auditors may be challenging due to language barriers or due to cultural differences.

[When do we evaluate whether we will be able to be involved in the component auditor's work?](#) [ISA | 1468.1500]

As the group auditor, we evaluate whether we will be able to be involved in the component auditor's work during planning.

5 Group Audit | Direct and supervise the component auditor and review their work

[ISA | 1552]

What do we do?

The group engagement partner takes responsibility for the direction and supervision of component auditors, and review of the work performed by component auditors.

Why do we do this?

As the component auditors are part of the group engagement team, the group engagement partner is responsible for directing and supervising component auditors and reviewing their work. As the group auditor, although we use component auditors to perform work on the financial information of components, the group engagement partner is still ultimately responsible for the work performed by the component auditors for group audit purposes and the group audit opinion. The approach to the direction and supervision of the component auditor and the review of their work supports that the group engagement partner has been sufficiently and appropriately involved throughout the group audit.

Execute the Audit

[How does the group engagement partner take responsibility for the direction and supervision of component auditors, and the review of the work performed by the component auditors?](#) [ISA | 1552.159954]

The group engagement partner determines that the nature, timing and extent of direction and supervision of component auditors and review of the work performed by the component auditors are:

- planned and performed in accordance with the group auditor KPMG member firm's policies or procedures, professional standards, and applicable legal and regulatory requirements; and
- responsive to the nature and circumstances of the group audit and the competence and capabilities of the component auditor.

When determining the nature, timing and extent of direction, supervision and review of each component auditor, the group auditor takes into account:

- (a) Elevated or Significant RMMs of the group financial statements, and
- (b) Areas in the group audit that involve significant judgment (see question '[What may be areas in the group audit that involve significant judgment?](#)').

What does it mean to determine that the direction, supervision and review of a KPMG component auditor is planned and performed in accordance with the group auditor KPMG member firm's policies or procedures? [ISA | 1552.159955]

The group engagement partner is responsible for managing and achieving quality on the group audit, which includes complying with the group auditor KPMG member firm's policies and procedures.

Component auditors from another KPMG member firm are subject to a globally defined system of quality management, which includes a base level of consistency in KAEG and the Global Quality & Risk Management Manual (regardless of member firm specific customization), and the consistency in using the KPMG Clara workflows. Based on the group engagement partner's understanding of the system of quality management in place for those engagement team members from another KPMG member firm provided by:

- the group engagement partner's member firm,
- the other KPMG member firm, or
- the engagement team members,

no further action may be needed to comply with the group auditor KPMG member firm's policies and procedures.

If further action is necessary, the actions that may be taken depend on the information the group auditor obtains from involvement and communications with the component auditor. The more actions related to direction the group auditor takes, the less actions that relate to supervision and review may be necessary to comply with the member firm's policies and procedures.

For example, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements (that is not subject to consultation under the component auditor firm's policies or procedures), the group auditor directs the component auditor to communicate this difficult or contentious matter to the group auditor (e.g. via Early Warning Memorandum or Clearance Memorandum), so the group auditor can determine whether to consult at the group level to comply with its member firm's policies and procedures.

What does it mean to determine that the direction, supervision and review of a non-KPMG component auditor is planned and performed in accordance with the group auditor KPMG member firm's policies or procedures? [ISA | 1552.160173]

The group engagement partner is responsible for managing and achieving quality on the group audit, which includes complying with the group auditor KPMG member firm's policies and procedures.

If component auditors are non-KPMG component auditors, the component auditor firm's policies or procedures may be different than ours. Therefore, the group engagement partner takes actions in respect of the work of the component auditor.

These actions include:

- considering information relating to the system of quality management in place for the component auditor's firm through the use of 'Confirmations regarding the Component Auditor Firm's System of Quality Management and the Component Auditor's Engagement Resources' template in the Group Audit Instructions for non-KPMG component auditors
- understanding their competence and capabilities through the use of Competence and Capabilities Template or equivalent
- using our Group Audit Instructions and related appendices for non-KPMG component auditors to direct and supervise the work of non-KPMG component auditors in accordance with the relevant auditing standards, rules and regulations.

These actions may also include:

- increased involvement in the component auditors' work (directing, supervising and reviewing their work) to determine whether the work performed by the component auditors is in accordance with the instructions from the group auditor, and
- increased two-way communication between the component auditor and group auditor regarding any significant matters related to the component auditor's work.

This will allow the group auditor to determine whether further action is necessary to comply with the group auditor KPMG member firm's policies or procedures.

If further action is necessary, the actions that may be taken depend on the information the group auditor obtains from involvement and communications with the component auditor. The more actions related to direction the group auditor takes, the less actions that relate to supervision and review may be necessary to comply with the member firm's policies and procedures.

For example, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements (that is not subject to consultation under the component auditor firm's policies or procedures), the group auditor directs the component auditor to communicate this difficult or contentious matter to the group auditor (e.g. via Early Warning Memorandum or Clearance Memorandum), so the group auditor can determine whether to consult at the group level to comply with its member firm's policies and procedures.

Question '[How may our considerations related to a KPMG member firm's system of quality management differ when members of the engagement team are from a non-KPMG firm?](#)' provides additional examples of actions that may need to be taken when involving non-KPMG component auditors.

[What does it mean to be responsive to the nature and circumstances of the group audit? \[ISA | 1552.159956\]](#)

The group engagement partner thinks about the specifics of the group audit when determining the necessary direction, supervision and review of the component auditors and it may depend on a variety of factors, including the size, structure, geographical dispersion and complexity of the group and the component auditors' competence and capabilities and their location.

Also, if changes occur during the group audit, the nature, timing and extent of direction, supervision and review may be adjusted.

[What does it mean to give direction to the component auditor?](#) [ISA | 1552.159957]

Giving direction to the component auditor includes a variety of activities, including effective two-way communications (e.g. via group audit instructions and ongoing discussions between the group auditor and component auditor) throughout the course of the group audit, which may include:

- communicating our responsibilities, including complying with all ethical requirements, including independence requirements, and professional standards
- emphasizing the importance of managing and achieving high quality audits (through our personal conduct, communication and actions), including timely raising concerns that arise during the group audit
- addressing threats to the achievement of quality, and the component auditor's expected response. For example, budget constraints or resource constraints should not result in the component auditor modifying planned audit procedures or failing to perform planned audit procedures.
- reminding component auditors to maintain a questioning mind and to be aware of unconscious or conscious auditor biases in exercising professional skepticism when gathering and evaluating audit evidence
- communicating key information about the group audit
- communicating the scope of work to be performed by the component auditors
- getting involved in evaluating and resolving issues raised by the component auditors throughout the audit
- informing the responsibilities of the sub-group auditor to direct, supervise and review the work of component auditors of that sub-group.

Some of these activities may be achieved via communications in the group audit instructions and/or [component auditor's participation in the group RAPD or equivalent](#).

[What does it mean to supervise the component auditor?](#) [ISA | 1552.159958]

Supervising the component auditors includes a variety of activities achieved via effective two-way communication, which may include:

- participation of the component auditor in the group RAPD or equivalent to create an environment where engagement team members raise concerns without fear of reprisals.
- tracking the progress of the group engagement, which includes monitoring:
 - the progress against the audit plan
 - whether the objective of work performed has been achieved; and
 - the ongoing adequacy of assigned resources, including human resources, technological resources and intellectual resources (see activity '[Determine sufficient and appropriate engagement resources are assigned or made available](#)' for further information)
- taking appropriate action to address issues arising during the engagement
- providing additional coaching and on-the-job training when the group auditor has Less than Serious Concern about the component auditor. For example, when the component engagement partner or manager don't have industry-specific experience and there is a significant risk that is specific to that industry.

- evaluating the component auditor's planned audit procedures
- reviewing communications from the component auditor (e.g. Planning Highlights Memorandum, Early Warning Memorandum, Clearance Memorandum, etc.) and following up on any significant matters that have been identified in the component.

Supervision of component auditors takes place throughout the group audit and for KPMG component auditors it may be facilitated by use of the Supervisory Reviewer Role, where feasible. Refer to question '[What is the Supervisory Reviewer Role?](#)' for more information.

[What does it mean to review the component auditor's work?](#) [ISA | 1552.159959]

Review of the component auditor's work provides support for the conclusion that the group engagement partner has taken overall responsibility for managing and achieving quality on the engagement. Review of the component auditor's work consists of consideration of whether, for example:

- the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- the work has been performed in accordance with the agreed scope of work;
- significant matters have been raised for further consideration;
- appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- there is a need to revise the nature, timing or extent of work performed at the component;
- appropriate involvement of specialists and/or specific team members in designing and performing the audit work and the component auditor's evaluation of the adequacy of the work of the specialist and/or specific team members for the group auditor's purposes;
- the work performed supports the conclusions reached and is appropriately documented;
- the evidence obtained is sufficient and appropriate to provide a basis for the group auditor's opinion; and
- the objectives of the audit procedures performed at the component have been achieved.

The review of such audit documentation often takes place during the course of the group audit, including the [review of the component auditor's audit documentation in their audit file](#), [review of the component auditor's communications](#) and the [review of additional component auditor documentation based on the evaluation of the adequacy of the component auditor's communications](#).

Review of the component auditor's work (e.g. component auditor's communications or audit file) takes place at appropriate points in time during the audit engagement focusing on audit documentation relevant to the group audit relating to:

- significant matters;
- Elevated or Significant RMMs of the group financial statements and the results of the auditing procedures performed in response to those risks;
- significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached;
- other matters that, in the group engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

[What procedures do we perform at a minimum to direct and supervise the component auditors and review the work performed by the component auditors?](#) [ISA | 1552.159960]

The table below sets out a list of the procedures that we, as the group auditor, perform at a minimum to direct and supervise the component auditor and review their work:

Procedure	Applicability
<u>Communicate with component auditors throughout the course of the group audit</u>	All component auditors
<u>Participation of the component auditor in the group RAPD</u>	All component auditors
<u>For ISA and AICPA audits, review the component auditor's communication of any component Elevated and Significant RMMs not previously communicated as Elevated and Significant RMMs of the group financial statements</u>	All component auditors
<u>For PCAOB audits, review the component auditor's communication of RMMs not previously communicated as RMMs of the group financial statements associated with that component</u>	All component auditors
<u>Evaluate the appropriateness of the component auditor's planned further audit procedures</u>	Component auditors designing and performing further audit procedures
<u>When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, determine the nature and extent of direction and supervision of component auditors and the review of their work</u>	All component auditors performing audit work on the consolidation process
<u>Obtain and review a Planning Highlights Memorandum from the component auditor</u>	All component auditors
<u>Design specific responses to address Less than Serious Concerns identified about a component auditor</u>	When we have Less than Serious Concerns about the component auditor
<u>Obtain and review in an Early Warning Memorandum significant matters identified by the component auditor</u>	Component auditors which have identified significant matters before the final audit begins

<u>Review the component auditor's audit documentation (procedures performed, results and conclusion)</u>	Certain component auditors performing audit procedures which meet quantitative or qualitative factors
<u>Evaluate the adequacy of the component auditor's communications</u>	All component auditors
<u>Determine whether to review additional component auditor documentation after evaluating their communications</u>	All component auditors
<u>If the component auditor's work is not adequate, then determine additional procedures to be performed</u>	Component auditors where we have determined that their work is not adequate

What other procedures may we perform to direct and supervise the component auditors and review their work? [ISA | 1552.159961]

As the group auditor, we may perform one or more of the following other procedures to direct and supervise the component auditors and review their work:

- review the component auditor's overall audit strategy and audit plan,
- meetings or calls with component auditors throughout the group audit to discuss identified and assessed risks, issues, findings and conclusions,
- visit the component auditor and discuss the audit procedures planned and/or performed and the results thereof,
- participate in the closing and other key meetings between the component auditors and component management.

What factors do we consider in determining the extent of supervision on the component auditor? [ISA | 1552.159962]

In determining the extent of supervision necessary, the group engagement partner and other engagement team member(s), including component auditors performing supervisory activities on behalf of the group engagement partner, take into account various factors, including:

Factors	Examples of when more supervision may be appropriate
Nature of the component, including its size and complexity	<ul style="list-style-type: none"> - Complex organizational structure - Entities with complex or diversified operations - It is a newly formed or acquired component - The component operates in emerging markets

	<ul style="list-style-type: none"> - There is a significant change in the nature of the component's activities - There is a significant change in the size of the component's activities, expenses or liabilities - There is a significant change in the component's internal environment (e.g. internal control, IT, management) - The financial information of the component has not been prepared in accordance with the same accounting policies applied to the group financial statements
Nature of the audit work related to the component, including: - the procedures to be performed, and - the controls, or account balances and disclosures to be tested	<ul style="list-style-type: none"> - Procedures that are more challenging to perform, such as more precise substantive analytical procedures or testing in more complex areas of the audit, such as estimates, more complex accounting areas and areas of significant judgement - There are revisions to the planned audit procedures to respond to the Elevated or Significant RMMs of the group financial statements - The significant judgments made by, and the findings or conclusions of, the component auditor about matters that are or could be material to the group financial statements - The component auditor plays a 'substantial role' - The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of RMMs of the group financial statements
Competence and capabilities of the component auditor	<ul style="list-style-type: none"> - We have no (or limited) previous experience with the component auditor or there is a change in the component auditor - There is a change in the partner or the manager of the component auditor - The component auditor is a non-KPMG component auditor - We have Less than Serious Concerns about the component auditor, e.g. less experienced component auditor with the component or client's industry, or audit quality issues are noted in monitoring and remediation process at the component auditor - There are inconsistencies noted between verbal and written communications from the component auditor - We conclude that the component auditor's communications are not adequate or do not have sufficient information

Assessed risks of material misstatement	<ul style="list-style-type: none">- It is the first year the component has a significant risk of the group financial statements- Extent of Elevated and/or Significant RMMs of the group financial statements at the component
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These factors may also be relevant for the extent of direction of component auditors and the review of their work.

The extent of supervision of component auditors is commensurate with the risks of material misstatement of the group financial statements identified at the component. As the necessary extent of supervision increases, the group auditor may be more involved in determining the nature, timing, and extent of procedures to be performed by the component auditor.

What other factors may we think about when determining the nature, timing and extent of the direction and supervision of component auditors, and the review of their work? [ISA | 1552.159963]

Examples of other factors the group auditor may think about in determining the nature, timing and extent of the direction and supervision of component auditors, and the review of their work include:

- access to component auditor documentation. For example, when law or regulation precludes access to the component auditor audit documentation out of the component auditor's jurisdiction, the group auditor may be able to review the audit documentation at the component auditor's location.
- the manner in which the reviews of the work performed by the component auditor are expected to take place. For example, remote reviews are often effective in providing direction and supervision, however, in some circumstances, they may need to be supplemented by in-person interactions.
- the structure of the component auditor and the location of component auditor, including when service delivery centers are used.

What other procedures may we think about performing when we determine that more supervision is appropriate? [ISA | 1552.159964]

When we determine that more supervision of the component auditor is appropriate, we, as the group auditor, may request:

- specific or additional work in areas with higher combined assessed risk (CAR)
- component engagement partner involvement and review of specific work papers or areas where it would otherwise not be required
- an EQC review or an LSQC review of the component audit file where one otherwise is not required based on the member firm policies or procedures
- involvement of specialists or specific team members (e.g. IT Audit, forensics specific team member) in planning and performing further audit procedures
- acceleration of work (e.g. interim testing) to allow us to be more involved, including allowing us more time to review the component auditor's relevant audit documentation in their audit file.

Group Audits | Do the direction, supervision and review responsibilities of group engagement partner differ from those of an engagement partner in a standalone audit? [ISA | 1552.14052]

No. The group engagement partner is responsible for the group audit engagement and its performance, and for the auditor's report(s) on the group financial statements that is issued on behalf of the firm. The group engagement partner has ultimate responsibility of the group engagement team, including component auditors.

Similar to the engagement partner in a standalone audit, other audit partners may be involved in the audit, such as with an audit of a component in a group audit. However, the engagement partner that has ultimate responsibility for the engagement to audit the group financial statements is the group engagement partner.

Do we direct, supervise and review component auditor's work differently if the component auditor is also performing an audit of the component financial statements for statutory, regulatory or other reasons? [\[ISA | 1552.159965\]](#)

No. When the group auditor uses the work of a component auditor performing an audit of the component financial statements for statutory, regulatory or other reasons, the group auditor's responsibilities to direct and supervise the component auditor and review their work is no different than a component auditor who performs work only for the purpose of the group audit. For example, the group auditor still evaluates the appropriateness of audit procedures performed, reviews component auditor's work papers under certain circumstances, and reviews and evaluates the adequacy of component auditor communications for purposes of the group audit.

Can only the group engagement partner direct and supervise the component auditors and review their work? [\[ISA | 1552.159966\]](#)

No. Appropriate engagement team member(s), including component auditors, may assist the group engagement partner in fulfilling the group engagement partner's responsibilities. Those team members comply with the same requirements as the group engagement partner with respect to the direction, supervision and review responsibilities assigned to them. However, the overall responsibility still resides with the group engagement partner despite the assistance from others with these activities.

What procedures, tasks or actions can the group auditor or the group engagement partner assign to other members of the engagement team? [\[ISA | 1552.159967\]](#)

Activities explicitly stated as 'performed by the group auditor' or 'performed by the group engagement partner' are performed by the group auditor or the group engagement partner, respectively. Design or performance of other activities that are indicated as 'being the responsibility of the group auditor' or 'being the responsibility of the group engagement partner' may be assigned to appropriate members of the engagement team, including component auditors.

When does the group auditor plan the direction and supervision of the component auditor, and the review of their work? [\[ISA | 1552.159968\]](#)

The group auditor plans the nature, timing and extent of direction and supervision of the component auditors, and the review of their work at the beginning of the group audit, when the group auditor is putting together the [Establish an overall group audit strategy and group audit plan](#). The group audit plan includes a description of the nature, timing and extent of the planned direction and supervision of the component auditors and the review of their work. The extent of such descriptions often vary by component.

The group auditor's documentation of the direction and supervision of component auditors and the review of their work may include, for example:

- communications with component auditors, including instructions issued and confirmations obtained from the component auditors
- the rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed
- matters discussed in meetings with component auditors or component management
- the rationale for the group auditor's determination of component auditor audit documentation selected (or not selected) for review.

If circumstances change during the group audit (e.g. when a component auditor identifies significant risks of the group financial statements at the component that were not previously identified as significant risks of the group financial statements), the group auditor updates the group audit plan for:

- any significant changes to the nature, timing and extent of the planned direction and supervision of the component auditors and the review of their work, and
- the reasons for such changes (e.g. assigning more experienced engagement team members in areas of the audit that are more complex or subjective than initially anticipated).

[How does the group engagement partner determine they have been sufficiently and appropriately involved throughout the group audit, including in the work of component auditors?](#) [ISA | 1552.159969]

As part of determining that the group engagement partner has taken the overall responsibility for managing and achieving quality on the group audit, prior to dating the group auditor's report, the group engagement partner 'steps back' and determines that they have been sufficiently and appropriately involved throughout the group audit, including in the work of component auditors. This provides the engagement partner the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the group audit, taking into account all of the direction and supervision of component auditors and the review of their work.

[Are there indicators for the group engagement partner to determine they have been sufficiently and appropriately involved in the component auditor's work?](#) [ISA | 1552.159970]

Indicators that the group engagement partner has been sufficiently and appropriately involved in the component auditor's work include, for example:

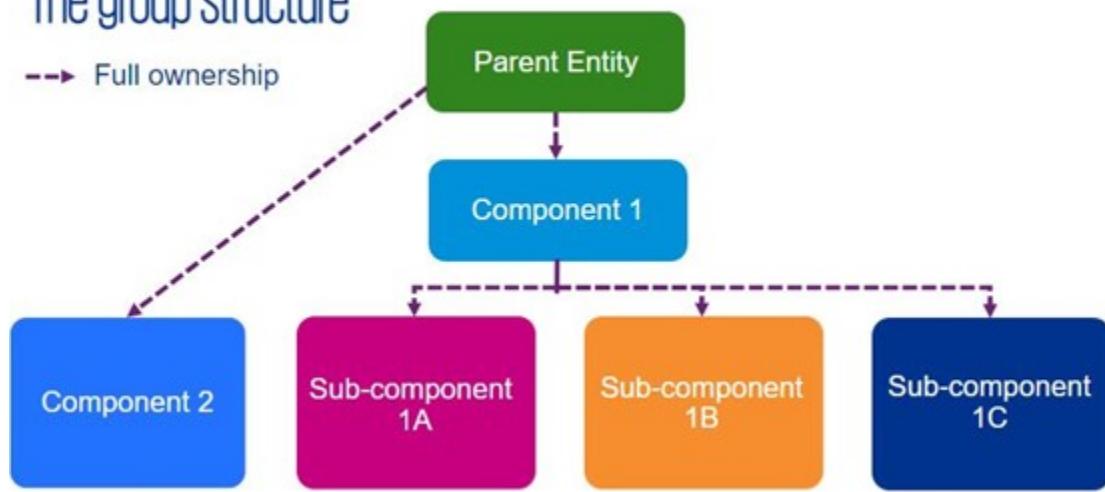
- timely review of audit planning, including reviewing the assessment of risks of material misstatement of the group financial statements and the design of responses to those risks, including the decision to involve component auditors
- evidence that the component auditors were adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and necessary instructions and relevant information were provided
- evidence of the group engagement partner's direction and supervision of component auditors, and review of their work
- evidence of the group engagement partner's review of significant matters and significant judgments made by the component auditors (e.g. communications from the component auditors and the extent of the review of component auditors audit documentation in their audit file).

One of the key questions to ask when making this determination is "How does the audit documentation evidence the group engagement partner's involvement in the work performed by the component auditors throughout the group audit?".

How do we determine our involvement in the component auditor's work in a group with sub-groups or multiple tiers? [ISA | 1552.1600]

In a group with sub-groups or multiple tiers (i.e. a multi-tiered audit), the group engagement partner is responsible for determining the nature, timing and extent of direction and supervision of all the component auditors and review of their work, including the component auditors of components within the sub-groups (i.e. the sub-component auditors).

The group structure



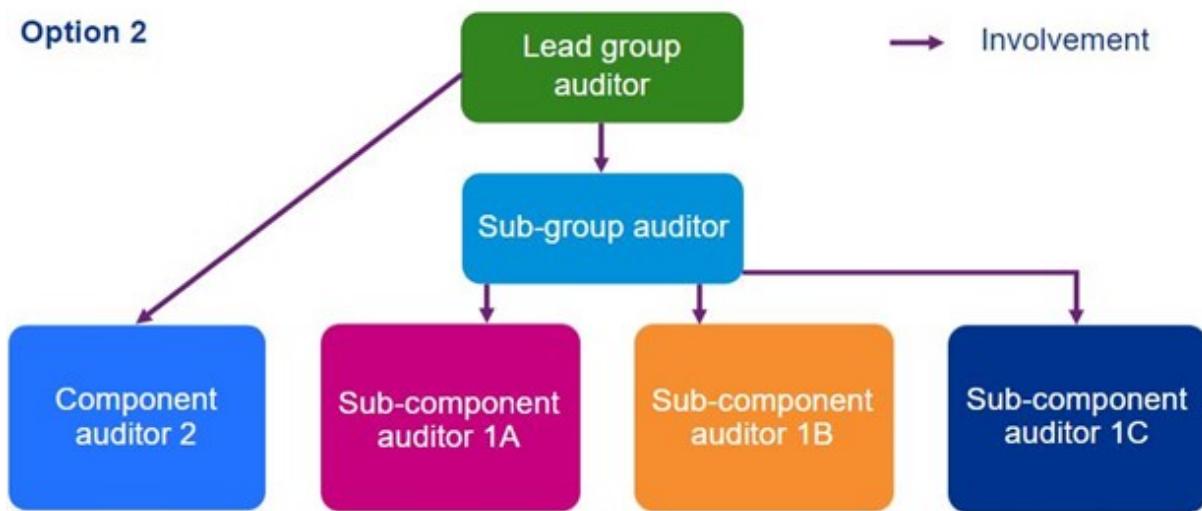
In a group with the above structure, the lead group auditor may directly direct and supervise sub-component auditors and review their work as depicted below.



However, the lead group auditor may seek assistance from a sub-group auditor in directing and supervising the sub-component auditors and reviewing their work.

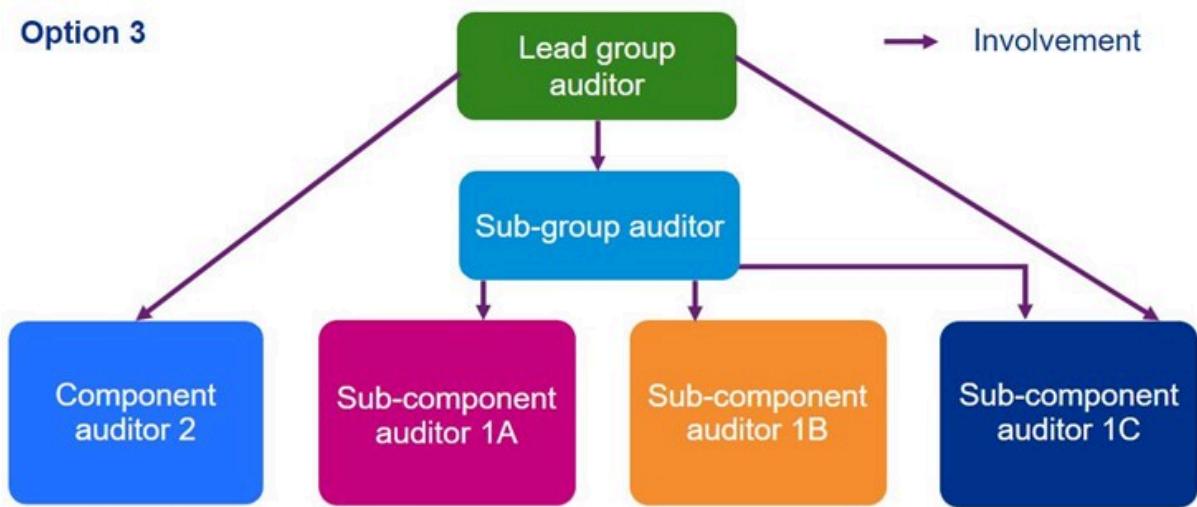
In this case, the sub-group auditor determines their direction and supervision of the sub-component auditors and review of their work and communicates the results of their involvement to the lead group auditor on a timely basis.

Option 2



The lead group auditor may also directly direct and supervise some sub-component auditors and review their work in addition to direction, supervision and review performed by the sub-group auditor as depicted below.

Option 3



The lead group auditor evaluates the sub-group auditor's direction and supervision of the sub-components and the review of their work. This helps the lead group auditor to determine whether additional direction, supervision and review of the sub-group auditor and/or the sub-component auditors is necessary. In determining the additional involvement necessary, the lead group auditor may think about the following items:

- the nature of the procedures to be performed by the component auditors
- risks of material misstatement of the group financial statements that exist at the component
- significant matters raised by the component auditors for further consideration
- whether there is effective two-way communication between the

- lead group auditor and the sub-group auditor
- sub-group auditor and the sub-component auditors
- the lead group auditor's and sub-group auditor's previous experience with the component and the area to be audited
- the lead group auditor's previous experience with the sub-group auditor and sub-component auditors
- whether there are any concerns about the component auditor's competence or capabilities.

If the sub-group auditor identifies significant matters related to a sub-component, including those identified through the sub-group auditor's involvement in the work of the sub-component auditor, those significant matters are communicated to the lead group auditor on a timely basis. This allows the lead group auditor to evaluate how and whether those significant matters are appropriately responded to in the group audit.

[Who is the lead group auditor?](#) [ISA | 1552.160051]

The lead group auditor is:

- the firm issuing the auditor's report on the group financial statements and, if applicable, internal control over financial reporting; and
- the group engagement partner and other group engagement team members who both:
 - are partners, principals, shareholders, or employees of that firm (or individuals who work under that firm's direction and control and function as the firm's employees, e.g. a secondee) and
 - assist the group engagement partner in fulfilling their planning or supervisory responsibilities on the group audit, which includes:
 - establishing the overall group audit strategy and group audit plan;
 - directing and supervising component auditors and reviewing their work;
 - evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

Examples

[What forms of involvement may we think about to direct and supervise the component auditor, and review their work?](#) [ISA | 1552.159979]

The table below sets out examples of how the group auditor may direct and supervise the component auditor, and review their work, in each stage of the group audit:

Involvement	Planning and risk assessment	Throughout the audit	Completion
Written communications	<ul style="list-style-type: none"> - Clearly set the responsibilities of the component auditor in the group audit instructions, considering 	<ul style="list-style-type: none"> - Communicate timely any modifications to the planned audit approach, for example, as a result 	<ul style="list-style-type: none"> - Request draft written communications and review them timely

	<p>the component auditor's scope of work (e.g. in areas where Less than Serious Concern was noted related to audit quality)</p> <ul style="list-style-type: none"> - Establish expectations with the component auditor regarding the timing and extent of our planned involvement 	<p>of misstatements or control deficiencies</p>	
Discussions	<ul style="list-style-type: none"> - Hold risk assessment and planning discussions (RAPD) through the group RAPD - Think about using the KPMG Geographical Market Summaries https://alex.kpmg.com/AROWeb/document/lfc/INTL_ISADESK_GeographicalSummaries/toc/ to guide the RAPD discussion - Engage in a one-on-one planning discussion with the component auditor, involving more experienced team members - Meet with component management and/or the component auditor to obtain an understanding of the component and its environment - Hold discussions to educate the component auditor about key industry topics and specific accounting, if applicable 	<ul style="list-style-type: none"> - Hold periodic meetings throughout the audit to discuss the status of component auditor procedures, results of procedures performed to date, and any issues and/or questions identified - Encourage timely communication from the component auditor of issues as they arise rather than waiting until the requested date for the completion of the Early Warning Memorandum or Clearance Memorandum - Attend certain meetings between the component auditor and component management where discussions cover testing results (controls and substantive), auditor needs, and 	<ul style="list-style-type: none"> - After reviewing their Clearance Memorandum, talk through its contents with the component auditor to enable a thorough understanding of the procedures performed and results obtained that support their communications - Include component auditors in the Risk and Audit Quality Assessment (RAQA) meeting, if applicable, or hold separate meetings with the component auditor

	<ul style="list-style-type: none"> - Inquire of how the component auditor plans to respond to relevant geographic/industry sector-specific risks - Hold discussions with the component auditor to have them talk through elements of their process understanding of selected areas, with focus on the design of key controls, if relevant 	<ul style="list-style-type: none"> expectations to resolve open items timely to enable reporting deadlines to be achieved - Participate in revised risk assessment discussions with the component auditor when new information becomes available 	
Participation	<ul style="list-style-type: none"> - Participate in the process understanding procedures and/or the understanding of IT - Perform incremental risk assessment procedures (e.g. tailored inquires, additional trends, margin, and/or data analysis) over the component - Involve group IT Audit and other specific team members and specialists in planning and performing risk assessment procedures at the component - Visit the component auditor to facilitate involvement in risk assessment and planning audit procedures 	<ul style="list-style-type: none"> - Coordinate and perform work over certain significant accounts/disclosures or transactions of the component centrally 	<ul style="list-style-type: none"> - Visit the component auditor to facilitate assessment of findings and conclusions, determination of whether changes in the component auditors' approach or plan are warranted, and identifying further work that may be necessary
Review of component auditor's	<ul style="list-style-type: none"> - Review the component auditor's overall audit strategy and audit plan 	<ul style="list-style-type: none"> - Review audit documentation related to areas: 	<ul style="list-style-type: none"> - Review component auditor documentation

documentation in their audit file	<ul style="list-style-type: none"> - Review the process understanding for select areas, including the understanding of IT 	<ul style="list-style-type: none"> - that require complex accounting or significant judgments; - where additional detail is needed beyond the component auditor's written communications; - that involve significant matters; or - that are related to factors driving Less than Serious Concerns about the component auditor 	supporting the Summary of Uncorrected Audit Misstatements or information relating to deficiencies in internal control over financial reporting
Project management	<ul style="list-style-type: none"> - Establish milestones for the work to be performed over the component 	<ul style="list-style-type: none"> - Actively monitor the completion of milestones 	

6 Group Audit | Design specific responses to address Less than Serious Concerns about a component auditor [ISA | 1558]

What do we do?

IF we have Less than Serious Concerns about a component auditor THEN design specific responses to address the concerns identified.

Why do we do this?

When we, as the group auditor, have Less than Serious Concerns about a component auditor, we overcome these concerns by increasing the extent of our direction and supervision of the component auditor and review of their work. This is why we design specific procedures to respond to those concerns.

Execute the Audit

How do we determine whether we have Less than Serious Concerns about the component auditor? [ISA | 1558.1400]

As the group auditor, we determine whether we have Less than Serious Concerns about the component auditor by [evaluating the results of our procedures performed to obtain an understanding of the component auditor](#).

How do we design specific responses to address Less than Serious Concerns about the component auditor? [\[ISA | 1558.1600\]](#)

As the group auditor, when designing specific responses to address Less than Serious Concerns about the component auditor, we:

- understand the nature of our concern(s), including how the concern may impact the work performed by the component auditor, and
- determine the nature, timing and extent of the direction and supervision of the component auditor and review of their work that is most appropriate to address the concern(s).

Our responses are designed in a way that specifically address or respond to the reasons we had concerns.

The table below sets out examples of concerns and specific responses we may employ:

Concern	Examples of specific responses
Lack of industry-specific audit experience	<ul style="list-style-type: none">• Review the component auditor's documentation (or a memorandum) of the procedures designed and performed, including risk assessment, over the areas requiring industry-specific experience,• Hold discussions to educate the component auditor about key industry topics and specific accounting, or• Design further audit procedures for the component auditor to perform over areas requiring industry-specific experience.
Not operating in a regulatory environment that actively oversees auditors	<ul style="list-style-type: none">• Conference calls with the component auditor throughout the audit, or• Review additional areas of the component auditor's documentation.
Audit quality issues are noted in monitoring and remediation process at the component auditor firm	<ul style="list-style-type: none">• Review the component auditor's documentation (or a memorandum) of the procedures designed and performed over the areas where the audit quality issues for the component auditor firm have been noted, or• Design further audit procedures for the component auditor to perform over the areas where the audit quality issues for the component auditor firm have been noted.

When do we design specific responses to address Less than Serious Concerns about the component auditor? [\[ISA | 1558.1700\]](#)

As the group auditor, we design specific responses to address Less than Serious Concerns about the component auditor as part of our planning of the group audit, after we have obtained an understanding of the component auditor.

7 Group Audit | Review the component auditor's audit documentation in their audit file [ISA | 1557]

What do we do?

Review component auditor's relevant audit documentation in their audit file for certain components

Why do we do this?

For certain components, we, as the group auditor, review the component auditor's relevant documentation in their audit file in order to evaluate whether the component auditor's procedures have been appropriately performed. This review identifies, with respect to the group audit, whether the conclusions reached are supported by sufficient appropriate audit evidence. This review also further supports the group engagement partner in concluding that they have been sufficiently and appropriately involved in the component auditor's work throughout the group audit.

Execute the Audit

Enhanced | For which components do we review the component auditor's relevant documentation in their audit file? [ISA | 1557.12557]

As the group auditor, we identify and select certain components and review the component auditor's relevant audit documentation in their audit file.

We select components for review of the component auditor's relevant audit documentation in their audit file when the component meets any of the following criteria:

Circumstance	Consideration for review of relevant audit documentation
Individually represents 20% or more of either total assets or total revenues of the group financial statements ('the benchmarks')	Review relevant audit documentation in the component auditor's file
Individually represents 10% or more but less than 20% of either total assets or total revenues of the group financial statements	It is presumed that the group auditor reviews component auditor's relevant documentation in their audit file. However, the group auditor may rebut that presumption based upon the extent of other supervisory activities over the component auditor

Contains a significant risk of the group financial statements that exists solely at that component	Review relevant audit documentation in the component auditor's file
Consideration of certain qualitative factors	Consider whether to review component auditor's relevant audit documentation

Core and Less Complex | For which components do we review the component auditor's documentation in their audit file? [ISA | 1557.12557]

As the group auditor, we identify and select certain components and review the component auditor's relevant audit documentation in their audit file.

We select components for review of the component auditor's relevant audit documentation in their audit file when the component meets any of the following criteria:

Circumstance	Consideration for review of relevant audit documentation
Contains a significant risk of the group financial statements that exists solely at that component	Review relevant audit documentation in the component auditor's file
Consideration of certain qualitative factors	Consider whether to review component auditor's relevant audit documentation

Whilst there are no quantitative criteria, we think about the size of the component in determining which other components to select for review of their audit documentation in their audit file.

Enhanced | Are there circumstances when we may decide to rebut the presumption to review a component auditor's audit documentation in their audit file when the criteria to review component auditor's documentation has been met? [ISA | 1557.159925]

Yes, we, as the group auditor, are able to rebut the presumption to review a component auditor's relevant audit documentation in their audit file when the criteria to review component auditor's documentation has been met, when all of the following circumstances are met:

- when a component represents 10% or more but less than 20% of either total assets or total revenues of the group financial statements, and
- the component doesn't meet other risk or qualitative criteria for selecting the component to review the component auditor's audit documentation in their audit file, and
- the extent of our other supervisory activities over the component auditor and review of their work is sufficient and appropriate.

We evidence the rebuttal, including the qualitative factors which led us to not select the component for review of their audit documentation in their audit file.

For example, a component auditor performs work over multiple components and the risks of material misstatement in each component are similar. There are no significant risks of the group financial statements existing solely at those components and group auditor has determined that qualitative factors in aggregate do not necessitate the selection of components for review of their audit documentation in their audit file. The group auditor may select to review that component auditor's audit documentation in one of the component files and not select all component files for review. Further, components may be selected following the findings of the review of the first file.

As another example, a component represents 12% of total assets of the group financial statements, the asset values are evenly distributed across numerous different asset types, and there is no significant risk identified at this component. The group auditor has regular calls with the component auditor to discuss the status of the further audit procedures, conclusions reached and any issues and/or questions identified. The group auditor determines that their involvement is sufficient and appropriate and rebuts the review of the component auditor's relevant audit documentation for this component.

[Enhanced | How do we determine the amounts of the relevant benchmarks \(i.e. total assets and total revenues of the group financial statements\)?](#) [ISA | 1557.12558]

As the group auditor, we may use the following types of balances to determine the amount of the relevant benchmarks:

- actual amounts of the benchmarks available during planning;

For example, if we identify components to review the component auditor's relevant audit documentation in their audit file based on using interim financial information (e.g. half-year, or quarterly results), then we use these half-year results to quantify the benchmarks.

- estimated amounts of the benchmarks at period-end, e.g. using budgets or forecasts for the period.

The table below sets out examples of situations where we may use actual or estimated amounts:

Benchmark	Examples
Actual amounts	When total assets at the component and the group are expected to remain relatively consistent throughout the year.
	When total revenues at the component are not subject to seasonality or expected changes during the period.

Estimated amounts	When the group expects to dispose of a significant part of a component's assets before period-end.
	When the component's revenues are subject to seasonality or expected changes during the period.

Our objective is to identify those components that are a large portion of the group, so it doesn't matter if we use monthly, quarterly, half-year, or projected full-year results as long as the results for all components and for the group are consistent.

When we have used interim financial information, we consider the final numbers at the year-end and confirm or revise our initial identification of components selected to review component auditor's audit documentation in their audit file.

[Enhanced | Do we use pre- or post-consolidation amounts when determining the amount of the relevant benchmarks \(i.e. total assets and total revenues of the group financial statements\)? \[ISA |](#)

1557.159926]

As the group auditor, we may use pre- or post-consolidation amounts to determine the amount of the relevant benchmarks.

The group financial statements include post-consolidation amounts, meaning inter-company transactions, balances and results are eliminated. Therefore, we think about whether to exclude intercompany transactions and balances in order to determine the amount of the benchmark.

The table below sets out examples of situations where we may use pre- or post-consolidation amounts:

Benchmark	Examples
Post-consolidation amounts	When post-consolidation benchmark values at components are available or can reasonably be determined or estimated.
	When there is a complex structure that includes entities with significant intra-group transactions that distort the relative size of the entity for one of the benchmarks.
Pre-consolidation amounts	When post-consolidation benchmark values at components are not available or cannot be reasonably determined or estimated.
	When the group is made up primarily of external trading entities, and there are not significant intra-group transactions within the components.

In determining whether to use pre- or post-consolidation values, we think about our ability to determine post-consolidation component values and the extent to which pre-consolidation values might distort the values we use to determine the relative size of components - for example, significant intra-group revenue that makes a component appear larger.

Regardless of whether we choose to use pre- or post-consolidation amounts, we use them consistently for the components and the group when identifying components to review component auditor's audit documentation in their audit file.

[What amounts do we use when a discontinued operation has occurred during the period?](#) [ISA | 1557.160165]

The amount of total revenues is based on continuing operations to the extent that a discontinued operation has occurred during the period.

[How do we apply the relevant benchmarks to equity method investments identified as components?](#) [ISA | 1557.160085]

When we have identified an equity method investment as a component, we divide the amount of the equity method investment recorded in the group financial statements by total assets of the group financial statements to determine if the equity method investment is greater than 10% of total assets.

[Core and Less Complex | Are there quantitative criteria when selecting other components for review of their audit documentation in their audit file?](#) [ISA | 1557.159927]

No, there are no quantitative criteria. However we think about the size of the component's activities, assets, revenue, expenses or liabilities in determining which other components to select for review of their audit documentation in their audit file.

[What qualitative factors do we think about when determining which other components to select for review of their audit documentation in their audit file?](#) [ISA | 1557.12559]

We, as the group auditor, think about the following qualitative factors to determine which other components are selected:

Factors	Examples of factors that may indicate it is appropriate to select other components for review of their audit documentation in their audit file
Nature of the component, including its complexity	<ul style="list-style-type: none">- Complex organizational structure- Entities with complex or diversified operations- It is a newly formed or acquired component- The component operates in emerging markets- There is a significant change in the nature of the component's activities- There is a significant change in the size of the component's activities, expenses or liabilities- There is a significant change in the component's internal environment (e.g. internal control, IT, management)

	<ul style="list-style-type: none"> - The financial information of the component has not been prepared in accordance with the same accounting policies applied to the group financial statements
Nature of the audit work related to the component, including: - the procedures to be performed, and - the controls, or account balances and disclosures to be tested	<ul style="list-style-type: none"> - Procedures that are more challenging to perform, such as more precise substantive analytical procedures or testing in more complex areas of the audit, such as estimates, more complex accounting areas and areas of significant judgement - There are revisions to the planned audit procedures to respond to the Elevated or Significant RMMs of the group financial statements - The significant judgments made by, and the findings or conclusions of, the component auditor about matters that are or could be material to the group financial statements - The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of RMMs of the group financial statements
Competence and capabilities of the component auditor	<ul style="list-style-type: none"> - We have no (or limited) previous experience with the component auditor or there is a change in the component auditor - There is a change in the partner or the manager of the component auditor - We have Less than Serious Concerns about the component auditor, e.g. less experienced component auditor with the component or client's industry, or audit quality issues are noted in monitoring and remediation process at the component auditor - The length of time since our last review of the component auditor's audit documentation in their audit file - The competence and capabilities of more experienced individuals from the component auditor responsible for reviewing the work of less experienced individuals - Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation. For example, non-KPMG component auditors are not subject to KPMG policies and procedures. Also, for KPMG component auditors we think about the extent to which the documentation has been subject to the component auditor firm's quality control reviews, such as pre-issuance reviews. - There are inconsistencies noted between verbal and written communications from the component auditor

	<ul style="list-style-type: none"> - We conclude that the component auditor's communications are not adequate or do not have sufficient information
Assessed risks of material misstatement	<ul style="list-style-type: none"> - It is the first year the component has an Elevated or Significant RMM of the group financial statements - Extent of Elevated and/or Significant RMMs of the group financial statements at the component

We may vary the selection of other components over a period of time.

[Are any factors more important than others when selecting components for review of their audit documentation in their audit file?](#) [ISA | 1557.159928]

No. Their importance varies with the engagement specific circumstances. Not all of these examples are relevant in all circumstances, and some may be of greater or lesser significance in entities of different size or with different ownership characteristics or circumstances. There are not a specific number of factors that need to be present for selecting a component for review of their audit documentation.

[What audit documentation in the component auditor's audit file do we review?](#) [ISA | 1557.1400]

As the group auditor, we focus our review on the reasons why we selected the component auditor's documentation for review in their audit file. Depending on these reasons, our review of the component auditor's documentation may include:

- Elevated and Significant RMMs of the group financial statements and the results of the audit procedures performed in response to those risks;
- significant matters (see question '[What are significant findings or issues?](#)' for further information);
- significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
- other matters that, are relevant to the group engagement partner's responsibilities.

For example, when we have Less than Serious Concerns about the component auditor and our response to these concerns is to review that component auditor's audit documentation, we may focus our review on the areas that led to Less than Serious Concerns about the component auditor.

As another example, we may focus our review on matters related to recent inspection findings.

[What may be areas in the group audit that involve significant judgment?](#) [ISA | 1557.159929]

The following are examples of areas in the group audit related to the work performed by the component auditors that may involve significant judgment:

- matters related to planning the component audit procedures (e.g. the use of SATs and considerations related to homogeneous populations)
- the composition of the component auditor, including the use of specific team members or employed KPMG specialists
- the component auditor's decision to involve an engaged KPMG specialist or internal audit

- the component auditor's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the component auditor
- the component auditor's consideration of related party relationships and transactions and disclosures
- conclusions in respect of certain accounting estimates, accounting policies or going concern considerations
- the component auditor's evaluation and conclusions of the work performed by specific team members or specialists
- in a group with sub-groups or multiple tiers:
 - the group audit strategy and group audit plan for the sub-group (e.g. scoping performed by the sub-group auditor)
 - decisions about the involvement of sub-component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a sub-component
- how matters affecting the overall group audit strategy and group audit plan have been addressed (e.g. modifications to the agreed planned audit procedures to be performed by the component auditors).

[Who reviews the component auditor's audit documentation in the component auditor's audit file?](#) [ISA | 1557.159933]

Appropriately skilled and suitably experienced individuals at the group auditor, that are managers or above, may review the component auditor's audit documentation in the component auditor's audit file to assist the group engagement partner with their review responsibilities. This may include specific team members and employed KPMG specialists, if applicable.

See also question '[What are the areas that an engagement partner reviews?](#)' for further information.

[Enhanced | How do we determine our review of the work of the component auditor in a group with sub-groups or multiple tiers?](#) [ISA | 1557.160080]

The table below provides specific considerations when applying the criteria in a group with sub-groups or multiple tiers:

Circumstance	Considerations in determining our review of the work of the component auditor in a group with sub-groups or multiple tiers
Individually represents 20% or more of either total assets or total revenues of the group financial statements ('the benchmarks')	'Group financial statements' refer to the financial statements for which the group audit opinion is issued. The lead group auditor applies the criteria to the whole group, including sub-groups and individual components across all tiers (i.e. determine whether a sub-group meets the criteria as well as looking through the sub-group to the individual
Individually represents 10% or more but less than 20% of either total assets	

or total revenues of the group financial statements ('the benchmarks')	sub-components) in identifying which sub-groups and components to review the component auditor's relevant audit documentation in their audit file.
Contains a significant risk of the group financial statements that exists solely at that component	<p>The lead group auditor applies the criteria for the significant risk of the group financial statements at the lowest level of components (i.e. looking through the sub-group to the individual sub-components).</p> <p>If the significant risk of the group financial statements exists at the sub-group and that significant risk of the group financial statements exists in two sub-components of that sub-group, that significant risk of the group financial statements is not considered to exist "solely at that component" in relation to that sub-group. In this case, the lead group auditor applies the qualitative factors for that sub-group to determine the audit documentation of that significant risk to review in the sub-components.</p> <p>If the significant risk of the group financial statements that exists solely at the sub-component, the group auditor selects that sub-component for review.</p>
Consideration of certain qualitative factors	<p>Each group auditor considers the qualitative factors for each of its direct components (i.e. components within that sub-group). See question 'What qualitative factors may we think about when determining which other components to select for review of their audit documentation in their audit file?'.</p> <p>Effective two-way communication between the lead group auditor and the sub-group auditor helps with determining the components for review of their audit documentation in their audit file.</p>

[Core and Less Complex | How do we determine our review of the work of the component auditor in a group with sub-groups or multiple tiers? \[ISA | 1557.160080\]](#)

The table below provides specific considerations when applying the criteria in a group with sub-groups or multiple tiers:

Circumstance	Considerations in a group with sub-groups or multiple tiers
<p>Contains a significant risk of the group financial statements that exists solely at that component</p>	<p>The lead group auditor applies the criteria for the significant risk of the group financial statements at the lowest level of components (i.e. looking through the sub-group to the individual sub-components).</p> <p>If the significant risk of the group financial statements exists at the sub-group and that significant risk of the group financial statements exists in two sub-components of that sub-group, that significant risk of the group financial statements is not considered to exist "solely at that component" in relation to that sub-group. In this case, the lead group auditor applies the qualitative factors for that sub-group to determine the audit documentation of that significant risk to review in the sub-components.</p> <p>If the significant risk of the group financial statements that exists solely at the sub-component, the group auditor selects that sub-component for review.</p>
<p>Consideration of certain qualitative factors</p>	<p>Each group auditor considers the qualitative factors for each of its direct components (i.e. components within that sub-group). See question 'What qualitative factors may we think about when determining which other components to select for review of their audit documentation in their audit file?'.</p> <p>Effective two-way communication between the lead group auditor and the sub-group auditor helps with determining the components for review of their audit documentation in their audit file.</p>

[Who reviews the component auditors audit documentation in the component auditor's audit file in a group with sub-groups or multiple tiers? \[ISA | 1557.160082\]](#)

The lead group auditor reviews the component auditor's audit documentation for each of its direct components.

For sub-components, the lead group auditor may directly review the sub-component auditor's audit documentation in their audit file or may direct the sub-group auditor to assist in the review of the work of the sub-component auditors. In determining who reviews the sub-component auditor's file, the lead group auditor takes into account the circumstance that triggered the review of the sub-component auditor's audit file.

If the sub-group auditor is assisting the lead group auditor in supervising the component auditors of that sub-group, the lead group auditor also takes into account the sub-group auditor's review of the

work of the component auditors of that sub-group in determining the extent of its own review, if any, of the work of the component auditors of that sub-group.

What are the additional considerations in determining what to review in the sub-group auditor's file?

[ISA | 1557.160083]

We, as the lead group auditor, follow the question '[What audit documentation in the component auditor's audit file do we review?](#)' in determining what to review in the sub-group auditor's engagement file.

For a sub-group auditor, areas of significant judgement include those in the question '[What may be areas in the group audit that involve significant judgment?](#)' as well as the following:

- the group audit strategy and group audit plan for the sub-group (e.g. scoping performed by the sub-group auditor)
- matters related to determining component performance materiality when the lead group auditor uses the assistance of the sub-group auditor to determine component performance materiality for sub-components
- decisions about the involvement of sub-component auditors, including how to direct and supervise them and review their work (see activity '[Direct and supervise the component auditor and review their work](#)'). This includes, for example:
 - when there are areas of higher assessed risk of material misstatement of the financial information of a sub-component
 - the appropriateness of the sub-group auditor's review on the sub-component auditors' work, e.g. sub-group auditor's identification and review of component auditor's relevant audit documentation based on consideration of qualitative factors at the sub-component
- the work performed over sub-consolidation
- the evaluation of work performed by the sub-component auditors and the conclusions drawn therefrom.

How do we review the KPMG component auditor's relevant audit documentation? [ISA | 1557.159930]

When it is feasible to review the KPMG component auditor's relevant documentation in the component auditor's audit file, we, as the group auditor, use the Supervisory Reviewer Role. In this case, the KPMG component auditor invites us directly to their engagement file assigning us the role of the Supervisory Reviewer Role in the KPMG Clara workflow.

What is the Supervisory Reviewer Role? [ISA | 1557.159931]

The Supervisory Reviewer Role is a read-only role in the KPMG Clara workflow that gives the group auditor access to the component auditor's audit file to facilitate the group auditor's review of the component auditor's audit documentation in their audit file. When using the Supervisory Reviewer Role, the group auditor does not make any edits or comments in, or take a copy of, any documentation from the component auditor's engagement file, nor does the Supervisory Reviewer Role involve any sign-off in the component auditor's engagement file.

Who can be invited to the KPMG component auditor's audit file to review using the Supervisory Reviewer Role? [ISA | 1557.159932]

Individuals from the group auditor who are at manager level and above can be invited to the KPMG component auditor's audit file to use the Supervisory Reviewer Role for the purpose of review of

component auditor's relevant documentation. This may include specific team members and employed KPMG specialists, if applicable.

When may it not be feasible to review the KPMG component auditor's documentation in their audit file? [ISA | 1557.12560]

As the group auditor, we may not be able to review the KPMG component auditor's documentation in their audit file because, for example:

- the component auditor's documentation is in a different language
- laws or regulations restrict the component auditor from providing documentation outside of its jurisdiction, or
- specific restrictions in an engagement letter.

What do we do when access to the KPMG component auditor's audit file is not feasible? [ISA | 1557.159934]

In limited circumstances, when reviewing the KPMG component auditor's documentation in their audit file using the Supervisory Reviewer Role is not feasible, we, as the group auditor, consider reviewing the component auditor's file using other access mechanisms. For example:

- visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation
- reviewing the relevant audit documentation remotely through the use of other technology, for example Microsoft Teams.

When the review of the component auditor's audit file is not feasible, we obtain and review a memorandum prepared by the component auditor that describes the component auditor's relevant information and hold discussions with the component auditor, if necessary.

When review of the component auditor's documentation in their audit file is not feasible, what information does the memorandum of the component auditor's audit documentation include? [ISA | 1557.12561]

The memorandum prepared by the component auditor is detailed enough to allow us, as the group auditor, to review the component auditor's relevant information.

For the work performed which the group auditor has requested to review, the memorandum includes a detailed description of the component auditor's audit procedures, results and conclusion.

This memorandum is more detailed than in the Clearance Memorandum.

What documentation does the group auditor have access to in the KPMG component auditor's file? [ISA | 1557.159936]

When using the Supervisory Reviewer Role, the group auditor has access to the whole of the component auditor's file.

If the component auditor's file also contains documentation regarding other reporting engagements for the client (e.g. statutory audit documentation), the Supervisory Reviewer Role does not prevent access to that documentation.

The group auditor restricts their review to relevant documentation of procedures performed by the component auditor for the purposes of the group audit. The group auditor only reviews the work of the

component auditor in relation to the group audit. The group auditor does not, in fact or appearance, direct or supervise the component auditor other than in relation to the group audit.

Where parts of the component auditor's audit documentation may not be accessed or reviewed by the group auditor, the component auditor thinks about how that documentation may be excluded from the group auditor's review and advises the group auditor of this fact.

Examples of audit documentation which may not be accessed by the group auditor include documentation to which access is prohibited by laws or regulations, by contractual terms or due to legal or professional privilege requirements.

In this scenario, the group auditor may, if necessary, request that documentation from group management or may obtain appropriate explicit consent for access to the component auditor's documentation (e.g. when determined to be relevant for the group audit purposes).

It may be possible for the component auditor to maintain a separate file of documentation which may not be accessed or reviewed by the group auditor. In this case, the component auditor still complies with activity '[Document when and by whom the work was performed and reviewed](#)'.

[When does the KPMG component auditor provide the group auditor access to the Supervisory Reviewer Role?](#) [ISA | 1557.159937]

The KPMG component auditor provides access when requested by the group auditor, which will likely be in the planning phase of the group audit, and access to the component auditor's file will remain until the group auditor's report date to enable the group auditor to complete their review and involvement.

[How may we review the non-KPMG component auditor's relevant audit documentation?](#) [ISA | 1557.159938]

We, as the group auditor, may review the non-KPMG component auditor's file, for example, by:

- visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation
- reviewing the relevant audit documentation remotely through the use of other technology, for example Microsoft Teams.

When the review of the non-KPMG component auditor's audit file is not feasible, we obtain and review a detailed memorandum prepared by the component auditor that describes the component auditor's relevant information and hold discussions with the non-KPMG component auditor, if necessary.

[Can we request assistance from other KPMG member firms in reviewing the non-KPMG component auditor's relevant audit documentation?](#) [ISA | 1557.159939]

If we, as the group auditor, are unable to review the non-KPMG component auditor's file outside of the country where the component is registered due to local laws or regulations of that country, then we may request another KPMG member firm from that country to act as a participating firm by specifying procedures related to the review of the non-KPMG component auditor's audit documentation and obtaining a detailed memorandum of the review performed and the results of the review. See question '[How do we evidence our review of the component auditor's documentation?](#)' for further information.

When requesting professionals from another KPMG member firm to review the non-KPMG component auditor's audit documentation, we consider their independence, competence and capabilities,

agreement on the scope of work, etc. before involving them in our group audit. Refer to question '[What do we consider when engaging individuals who are not personnel \(i.e. partners and staff in our member firm\) to perform audit procedures?](#)' for further information.

When review of the component auditor's documentation in their audit file is not feasible, what information does the memorandum of the component auditor's audit documentation include? [ISA | 1557.159941]

The memorandum is detailed enough to allow us, as the group auditor, to review the component auditor's relevant information.

For the work performed which the group auditor has requested to review, the memorandum includes a detailed description of the component auditor's audit procedures, results and conclusion.

This memorandum is more detailed than in the Clearance Memorandum.

[What do we consider when reviewing the component auditor's audit documentation?](#) [ISA | 1557.12563]

As the group auditor, we consider whether the procedures performed are consistent with those planned and communicated to us (e.g. in the Planning Highlights Memorandum).

Our review is performed in the [same way as if we were reviewing the work of other engagement team members](#), focusing on evaluating the appropriateness of the design and performance of the audit procedures and whether the documentation is sufficient and the conclusions reached are appropriate. Many factors go into making this determination, including whether:

- the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- the work has been performed in accordance with KAEG for KPMG component auditors
- significant matters have been raised for further consideration;
- appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- the nature, timing and extent of work performed needs to be revised;
- the appropriateness of the nature, scope and objectives of the specialists or specific team members work involved in designing and performing the further audit procedures and the component auditor's evaluation of the adequacy of the work of the specialists or specific team members for the group auditor's purposes;
- the work performed supports the conclusions reached and is appropriately documented;
- the evidence obtained is sufficient and appropriate to support the component auditor's conclusions; and
- the objectives of the procedures have been achieved.

[What if, during our review, we identify that the component auditor has not followed our group audit instructions?](#) [ISA | 1557.160057]

As the group auditor, we discuss with the component auditor why group audit instructions have not been followed and think about whether this impacts our planned direction and supervision of the component auditor and review of their work (see activity '[Direct and supervise the component auditor and review their work](#)' for further information). We may, for example, send more detailed group audit instructions or review additional documentation of the component auditor.

Does our review differ when we review a memorandum that describes the component auditor's procedures? [ISA | 1557.1600]

If, as the group auditor, we review a detailed memorandum describing the component auditor's audit procedures, we consider the same factors when we review a memorandum as we do when we review a component auditor's documentation in their audit file when determining whether the work performed is sufficient and the conclusions reached are appropriate.

We also determine if the information in the memorandum on each audit procedure performed is detailed enough such that we can evaluate the appropriateness of the design and performance of those audit procedures and whether sufficient appropriate audit evidence has been obtained.

How do we evidence our review of the component auditor's documentation? [ISA | 1557.1700]

As the group auditor, we document our review of the component auditor's audit documentation and our conclusions from reviewing the documentation in the group audit file. Our documentation includes the following:

Section	Content includes, but is not limited to, the following
Component information	Identification of the component, e.g. component name, component engagement partner.
Date of the review(s)	Information on when the group auditor reviewed the component auditor's audit documentation in their audit file.
Audit documentation reviewed	<p>An identification of the audit documentation reviewed.</p> <p>Depending on the areas reviewed, our identification of documentation may include, for example, a description of:</p> <ul style="list-style-type: none"> • relevant RMMs, inherent risk and control risk for the relevant RMMs, related significant accounts and/or disclosures and their relevant assertions • whether an identified significant risk is a fraud risk • the special audit considerations for the significant risk • the procedures reviewed (i.e. risk assessment procedures and/or further audit procedures (i.e. tests of controls and substantive procedures)) • the results of such procedures (including any significant matters identified by the component auditor) • in a group with sub-groups or multiple tiers, the scoping decisions made by the sub-group auditor of components within the sub-groups.
Results of our review	If applicable, our evaluation of any significant matters noted as part of the review and how they were resolved.

	Our conclusion as to whether the further audit procedures have been designed and performed appropriately and whether the component auditor's audit documentation is sufficient and the conclusions reached are appropriate.
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In accordance with activity '[Prepare audit documentation in sufficient detail](#)', we prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of our review procedures.

[Do we replicate the component auditor's audit documentation in our audit file?](#) [ISA | 1557.159942]

We ordinarily do not replicate component auditor audit documentation in the group auditor's audit file, because the audit documentation for the group audit comprises:

- the documentation in the group auditor's file; and
- the separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (i.e. component auditor audit documentation).

However, to supplement the description of a particular matter in communications from the component auditor, we, as the group auditor, may decide to summarize, replicate, or request transfer copies of certain component auditor documentation in the group auditor's audit file.

Examples of matters such component auditor documentation may relate to:

- significant judgments made, and conclusions reached, by the component auditor that are relevant to the group audit. For example, a memo about impairment of financial assets prepared by the component auditor or an analysis of a complex accounting matter;
- matters that may need to be communicated to those charged with governance of the group; or
- matters that may be determined to be communicated in the auditor's report on the group financial statements.

When required by law or regulation, certain component auditor documentation may need to be included in the group auditor's audit file. For example, to respond to the requirement of a regulatory authority to include certain types of documentation related to work performed by a component auditor.

When the component auditor provides the group auditor with documentation from their audit file, the group auditor is expected to add that documentation to their KPMG Clara workflow file to maintain its safe custody.

[Can the group auditor copy or transfer audit documentation from the component auditor's audit file?](#)

[ISA | 1557.159943]

No, only the component auditor may copy or transfer audit documentation (and, even then, only in accordance with applicable laws and regulations).

In some circumstances the level of detail in component auditor's communications may be insufficient. In these circumstances, the group auditor may request the component auditor to provide certain documentation from the component auditor's audit file, with these requests being specific and reasonable. If a request is made by the group auditor, it is expected that the component auditor provides the relevant documentation to the group auditor, if not restricted by applicable laws or

regulations or by the component auditor member firm's policy. The component auditor generally does not provide copies of draft documentation.

For example, it is not expected that the group auditor would routinely ask for a REVX file of the whole file or significant portion of the file.

Where can we get further guidance on access to documentation? [ISA | 1557.159944]

Refer to [Section 10.6 of the Global Quality & Risk Management Manual \(GQ&RMM\)](#) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/83> and your local member firm's policies for information regarding:

- providing third-parties access to our audit documentation, and
- providing access to and/or transferring of audit documentation to other KPMG member firms.

When do we review the component auditor's audit documentation? [ISA | 1557.1800]

As the group auditor, we plan the timing and extent of our review in the component auditor's file at the beginning of the group audit. We review the component auditor's audit documentation on a timely basis at appropriate times throughout the audit, after the component auditor has performed its procedures.

The timing of when we review the component auditor's documentation in the component auditor's audit file is agreed with the component auditor via effective two-way communication.

When the Supervisory Reviewer Role is used, the component auditor's documentation is incomplete. It is only complete when the component auditor's engagement file is closed out.

What do we do if the component auditor's work is insufficient? [ISA | 1557.1900]

As the group auditor if, as a result of our review of the component auditor's documentation in their audit file, we consider that their work is insufficient, we [determine what additional procedures are to be performed, and whether they are to be performed by the component auditor or by us](#).

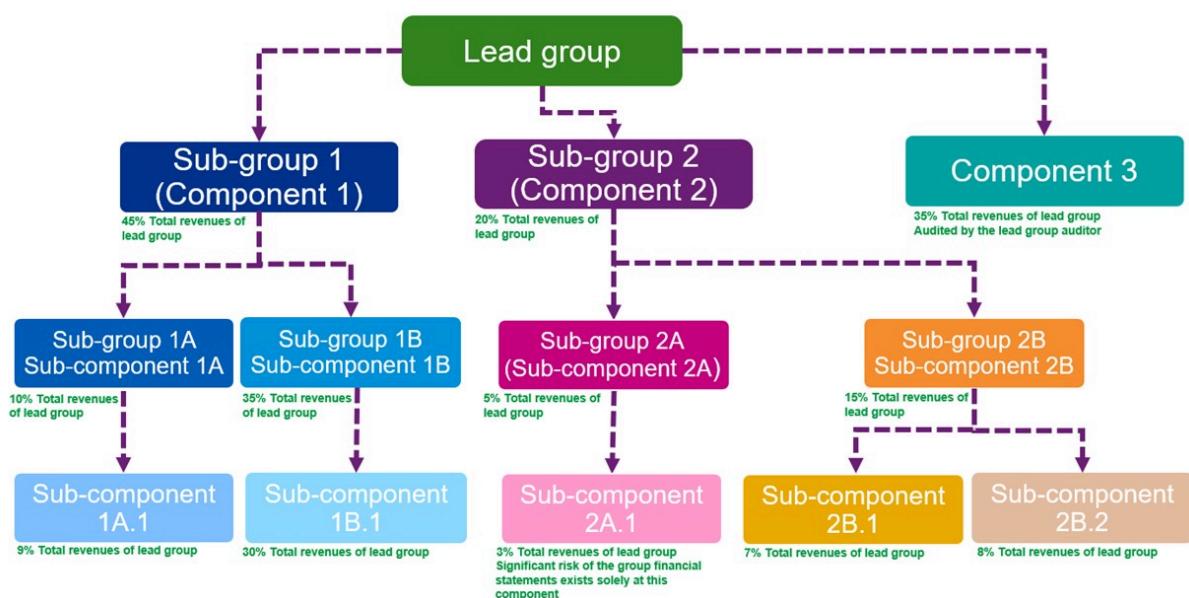
Examples

[Enhanced | How do we determine our review of the work of the component auditor in a group with sub-groups or multiple tiers?](#) [ISA | 1557.160084]

Fact pattern:

- Full ownership structure throughout the group
- There is one lead group auditor issuing the auditor's report on the group's financial statements
- A significant risk of the group financial statements exists solely at a sub-component 2A.1
- For illustrative purposes we have only considered % of total revenues of the group financial statements for the quantitative review criteria
- The lead group auditor audits Component 3

Group structure:



Analysis: which components to select for review of the component auditor's relevant audit documentation in their audit file

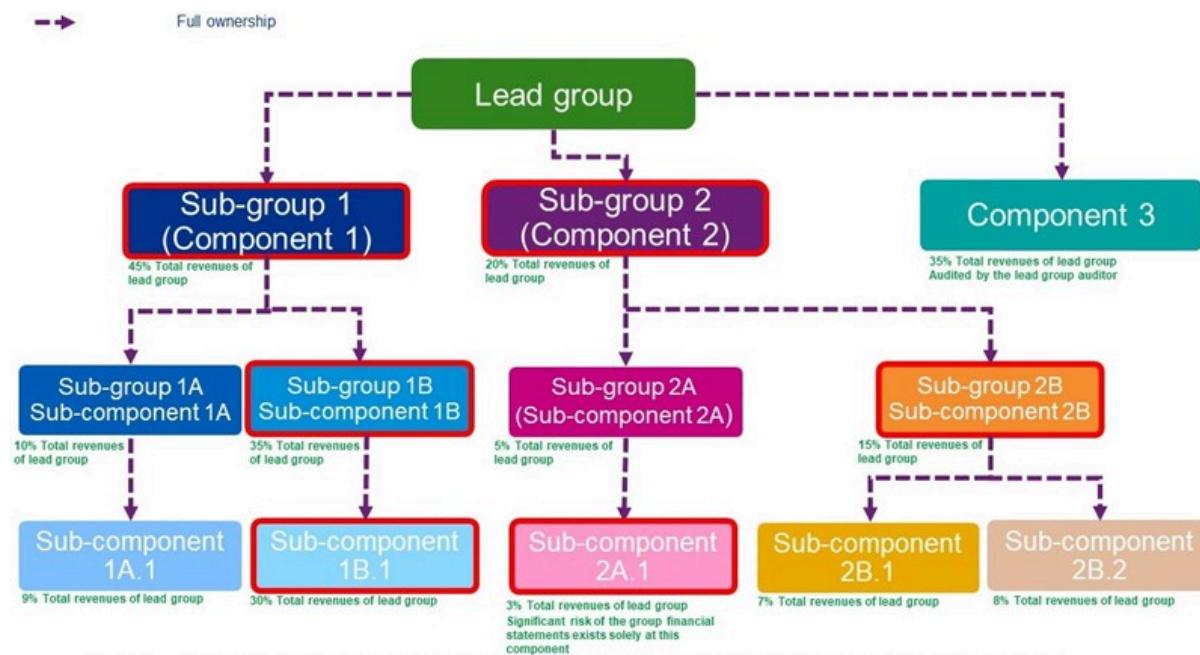
The lead group auditor applies the review criteria to the group based on the group financial statements.

In this scenario, the lead group auditor completes the following analysis to identify components and sub-components to review the component auditor's relevant audit documentation in their audit file:

Circumstance	Component applicability	
Individually represents 20% or more of either total assets or total revenues of the group financial statements	Component 1 Sub-component 1B Sub-component 1B.1 Component 2	45% 35% 30% 20%
Individually represents 10% or more but less than 20% of either total assets or total revenues of the group financial statements	Sub-component 1A Sub-component 2B	10% 15%
	The lead group auditor rebuts the presumption to review Sub-component 1A on the basis that:	

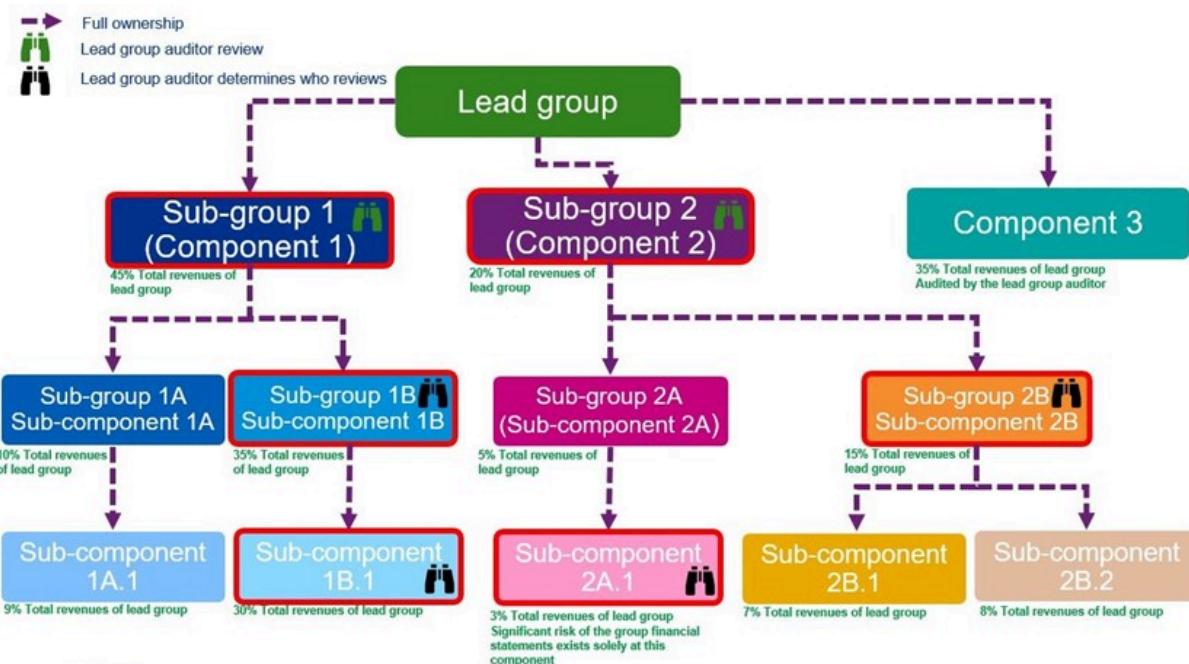
	<ul style="list-style-type: none"> the sub-component doesn't meet other risk or qualitative criteria for selecting the component to review the component auditor's audit documentation in their audit file, and the extent of our other supervisory activities over the Sub-group auditor 1 and review of their work is sufficient and appropriate, including the supervision over sub-component 1A performed by Sub-group auditor 1.
Contains a significant risk of the group financial statements that exists solely at that component	Sub-component 2A.1 3%
Consideration of certain qualitative factors	The lead group auditor and sub-group auditors have not identified further qualitative factors at each component or sub-component

The components and sub-components outlined in red in the below illustration have been identified to review the component auditor's relevant audit documentation in their audit file.



Analysis: who reviews the component auditors audit documentation in the component auditor's audit file

The lead group auditor reviews some components directly and also directs the sub-group auditors to review the sub-component auditors as illustrated below.



A summary of the determination of who performs the review of relevant audit documentation in the component auditors or sub-components audit file is as follows:

Component auditors identified to be reviewed	Direct reviewer	Rationale
Sub-group 1 (Component 1)	Lead group auditor	Direct component of the lead group
Sub-component 1B	Sub-group auditor 1	The lead group auditor has prior positive experience with Sub-group auditor 1 and Sub-component auditor 1B. There are no concerns over the competence and capabilities of the sub-component auditors. There is no significant change in the nature and size of the sub-component's activities.
Sub-component 1B.1	Lead group auditor	Given the quantitative significance of this sub-component the lead group auditor determines to directly review relevant audit documentation. Effective two-way communication between the lead group auditor and the sub-group auditor helps with coordinating the review of the sub-component auditor's files.

Sub-group 2 (Component 2)	Lead group auditor	Direct component of the lead group
Sub-component 2B	Sub-group auditor 2	The lead group auditor has prior positive experience with Sub-group auditor 2 and Sub-component auditor 2B. There are no concerns over the competence and capabilities of the sub-component auditor. There is no significant change in the nature and size of the sub-component's activities.
Sub-component 2A.1	Lead group auditor	Contains a significant risk of the group financial statements that exists solely at that component. As part of that review, the lead group auditor determines that the Clearance Memorandum reflects the underlying audit documentation.

8 Group Audit | Communicate with component auditors about their responsibilities and our expectations [ISA | 1565]

What do we do?

Communicate with component auditors about their respective responsibilities and our expectations, including an expectation that communications between us and component auditors take place at appropriate times throughout the group audit.

Why do we do this?

Effective two-way communication between us, as the group auditor, and the component auditors is key to performing a group audit. If effective two-way communication does not exist, there is a risk that we may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. Clear and timely communication about the component auditor's responsibilities and our expectations forms the basis of effective two-way communication between us and the component auditor.

Execute the Audit

What does communicating with component auditors about their responsibilities and our expectations entail? [ISA | 1565.159889]

The table below sets out a list of the minimum communications between us, as the group auditor, and component auditors about their responsibilities and our expectations throughout the group audit:

Area	Matters communicated with component auditors
Overall group audit strategy and group audit plan	<p>We request component auditors to confirm matters related to evaluating our ability to be sufficiently and appropriately involved in their work</p>
	<p>We communicate the ethical and independence requirements relevant to the group audit</p>
	<p>We request component auditors to confirm that they will comply with the ethical and independence requirements relevant to the group audit</p>
	<p>We request component auditors to communicate matters related to determining that they have the appropriate competence and capabilities, which include:</p> <ul style="list-style-type: none"> • a written confirmation from the component auditor that they understand the applicable auditing standards and financial reporting framework and possess the necessary knowledge, skills, and ability, including sufficient time, to perform the work • information regarding the component auditor's plan to involve specific team members or specialists in the work performed over the component • a written confirmation from the component auditor about whether an independent oversight body actively oversees the auditing profession in which the component auditor operates and monitors the quality of the audits. If there is such an oversight body, we obtain the name of the body • information in writing from component auditors about their applicable experience and training in certain situations • for PCAOB engagements, information about the results of the KPMG component auditor's quality inspections, and professional background and qualifications
	<p>We communicate matters related to the scope of the component auditor's work and how we will use their work for purposes of the group audit</p>

	<p><u>We communicate matters related to completion and documentation retention and other relevant matters affecting the component auditor's work</u></p>
	<p><u>We communicate matters related to audit procedures to be performed over the centralized services</u></p>
	<p>We communicate the form and content of the component auditor's communication with us (i.e. the templates/documents they will use to report to us).</p> <p>Refer to the relevant Group Audit Instructions template available on Alex or to the KPMG Clara workflow templates for further information.</p>
	<p>Regarding our understanding of the use of Software Audit Tools (SATs) during planning:</p> <ul style="list-style-type: none"> • For U.S. group audits, we request from non-U.S. KPMG component auditors performing work on certain components a completed "Non-U.S. KPMG Component Audit Memorandum - Software Audit Tools" (Non-US SAT Memo). Refer to the question "<u>How do we determine the software audit tools used by non-US KPMG component auditors?</u>" for more information. • For non-U.S. group audits, we request from KPMG component auditors certain information in relation to SATs used by them to address significant risk(s) of the group financial statements. Refer to "<u>What do we do differently for SATs used by KPMG component auditors?</u>" for the information we request.
Risk assessment	<p><u>We communicate and request component auditors to communicate matters related to risk assessment, related parties and going concern</u></p>
Materiality	<p><u>We communicate materiality measures that are relevant to the component auditor's work</u></p>
Significant matters	<p><u>We request component auditors to submit an Early Warning Memorandum (EWM) when significant matters have been identified in the component</u></p>

Responding to the assessed risks of material misstatement	<p>We or the component auditor communicate matters that are determined to be relevant to the design of responses to RMMs of the group financial statements associated with the component</p>
	<p>We request component auditors to submit a Planning Highlights Memorandum (PHM) with certain information regarding their planned further audit procedures</p>
Overall findings or conclusions	<p>We request component auditors to confirm that they have complied with the ethical and independence requirements relevant to the group audit</p>
	<p>We request component auditors to communicate matters relevant to our conclusion with regard to the group audit, including a Clearance Memorandum</p>
	<p>For U.S. group audits, we request non-U.S. KPMG component auditors to confirm the acknowledgement of the Ethics and Compliance Hotline</p>
Subsequent events	<p>We request component auditors to either:</p> <ul style="list-style-type: none"> • perform subsequent events procedures at the component and communicate their results, or • notify us if they become aware of subsequent events that may require an adjustment of, or disclosure in, the group financial statements.

We include in our audit documentation written communications between us and the component auditors about our requirements.

How do we communicate with component auditors about their responsibilities and our expectations? [ISA | 1565.159890]

As the group auditor, we communicate in writing with component auditors about their responsibilities and our expectations. For KPMG component auditors, we use the relevant Group Audit Instructions template. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which we adapt accordingly.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication with the component auditor about its responsibilities and our expectations is not always necessary since the component auditor may have direct knowledge of its responsibilities and our expectations and is therefore aware of them without written communication.

Additionally, we, as necessary, hold discussions with and obtain information from component auditors to facilitate the communication of matters related to their responsibilities and our expectations.

When do we communicate with component auditors about their responsibilities and our expectations? [ISA | 1565.159892]

As the group auditor, we communicate with component auditors at appropriate times throughout the group audit, which in practice means:

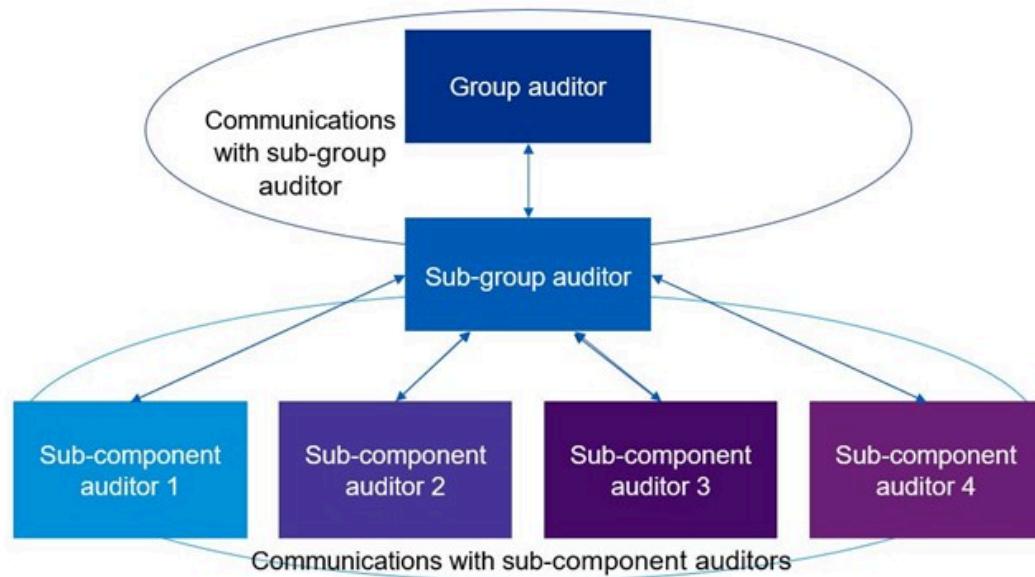
- at the beginning of the audit, i.e. during group audit planning, and
- throughout the audit, when changes to the initial communication arise.

Component auditors also communicate if they have fulfilled their responsibilities and met our expectations when they report to us.

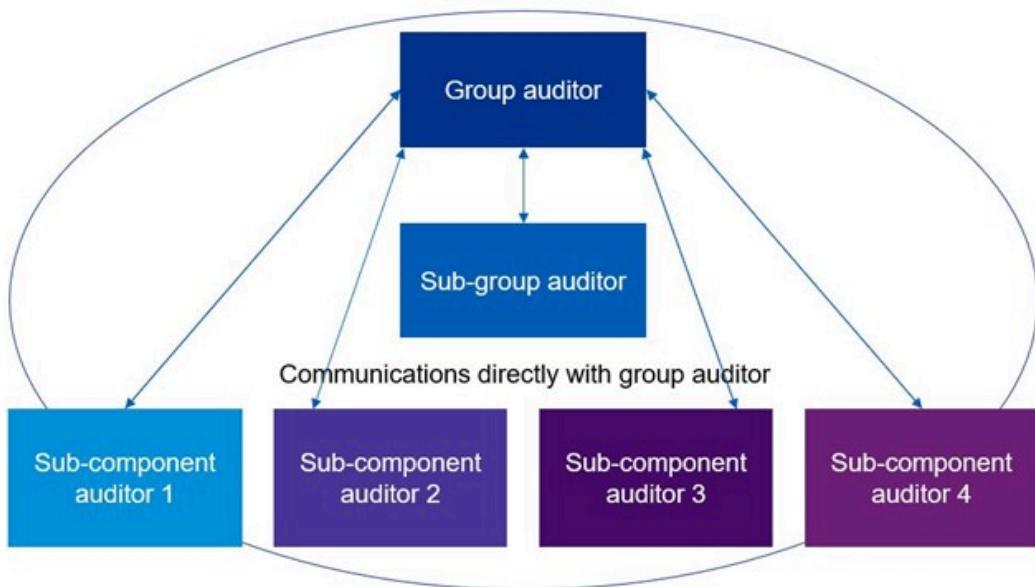
What is different regarding communications with component auditors in a group with sub-groups or multiple tiers? [ISA | 1565.159894]

In a group with sub-groups or multiple tiers (i.e. a multi-tiered audit), the group engagement partner is responsible for determining the nature, timing and extent of direction and supervision of all the component auditors and review of their work, including the component auditors of components within the sub-groups (i.e. the sub-component auditors). However, as the lead group auditor, we may:

- seek assistance from a sub-group auditor in directing and supervising the sub-component auditors and reviewing their work. In this case:
 - we communicate with the sub-group auditor about its responsibilities and our expectations including, if applicable, a request that the sub-group auditor communicates to us certain relevant matters (see question "[What matters do we request from a sub-group auditor that assists us in a multi-tiered audit?](#)"), and
 - the sub-group auditor communicates with the sub-component auditors about their responsibilities and the sub-group auditor's expectations. In this case, in addition to the sub-group auditor reporting to us the Clearance Memorandum for the whole sub-group, we may request that the sub-group auditor provides us with a copy of the Clearance Memorandum received from sub-component auditors (see question "[How do we obtain and review the component auditors' documentation related to their work in a multi-tiered audit?](#)" for further guidance)



- directly direct and supervise sub-component auditors and review their work, in which case we also communicate directly with the sub-component auditors about their responsibilities and our expectations.



Refer to the question "[How do we determine our direction and supervision of the component auditor and review of their work in a group with sub-groups or multiple tiers?](#)" for further guidance.

What matters do we request from a sub-group auditor that assists us in a multi-tiered audit? [ISA | 1565.159895]

In multi-tiered audits, if the sub-group auditor assisting us, as the lead group auditor, in the direction and supervision of the sub-component auditors determines and communicates to sub-component auditors the following matters:

- the scope of their work (see activity "[Communicate to component auditors matters related to the scope and use of their work](#)"),
- the RMMs of the group financial statements associated with the component relevant to the work of the sub-component auditors (see activity "[Communicate to component auditors matters related to risk assessment](#)"),
- the sub-components performance materiality and the AMRT (see activity "[Communicate to component auditors relevant materiality measures](#)"),

then we request the sub-group auditor to communicate the matters above related to the sub-components, and we review and retain such documentation.

8.1 Group Audit | Communicate to component auditors matters related to the scope and use of their work

[ISA | 1568]

What do we do?

Communicate to component auditors relevant matters related to the scope of the work to be performed by them and how we will use their work for purposes of the group audit.

Why do we do this?

Clear, concise and complete instructions to the component auditors enables the group audit to be carried out effectively, in a timely manner, and supports effective two-way communication between the group auditor and the component auditor.

Execute the Audit

What do we communicate to component auditors related to the scope and use of their work? [ISA |

1568.1400]

As the group auditor, we communicate to component auditors the following matters related to the scope and use of their work:

Areas	What we communicate	Considerations
Work to be performed by the component auditor	Scope of work to be performed	We may request component auditors to: <ul style="list-style-type: none">• design and perform risk assessment procedures (see question "What do we communicate to component auditors regarding the scope of risk assessment procedures?")

		<ul style="list-style-type: none"> • perform risk assessment procedures designed by us (see row below in this table) • design and perform further audit procedures (see question "What do we communicate to component auditors regarding the scope of further audit procedures?" for more guidance) • perform further audit procedures designed by us (see row below in this table). <p>We may also request component auditors to design and/or perform other audit procedures, for example subsequent events procedures.</p> <p>Additionally, if the component auditor performs a statutory audit at the component, we may decide to use the work from the statutory audit for purposes of the group audit.</p> <p>For components accounted for under the equity method, refer to the activity "Determine components at which audit procedures will be performed".</p>
	The applicable accounting and financial reporting standards	When the applicable accounting and financial reporting standards consist of the group's accounting instructions from group management, we provide a copy of those instructions to the component auditors, and consider whether to provide additional information about those instructions (see question " What additional information may we provide regarding the group's accounting instructions? ")
	The applicable auditing standards	See question " What do we communicate to component auditors regarding the applicable auditing standard? "
	Audit procedures designed by us to be performed by the	When requesting component auditors to perform audit procedures designed by us, we are responsible for:

	<p>component auditor, when applicable (see activities "Determine the risk assessment procedures to be performed at components" and "Determine the further audit procedures to be performed" for more guidance)</p>	<ul style="list-style-type: none"> • determining and communicating the audit procedures designed by us to be performed by the component auditor, including the timing and extent of those procedures, and • communicating other information to the component auditor that may be relevant to performing those procedures. <p>We also request the component auditor to confirm that they have considered whether the audit procedures designed and communicated by us are appropriate in the circumstances of the engagement based on their knowledge of the component.</p>
Use of the component auditor's work	<p>How we will use the component auditor's work</p>	<p>We request that the component auditor confirms that they understand:</p> <ul style="list-style-type: none"> • the work to be performed by the component auditor; • the financial information of the component will be included in the group financial statements; • and we intend to use the component auditor's work as a basis for forming an opinion on the group financial statements.

We, as necessary, hold discussions with and obtain information from the component auditor to facilitate communication of matters related to the scope of their work and how we will use their work for purposes of the group audit.

[What do we communicate to component auditors regarding the scope of risk assessment procedures?](#)

[ISA | 1568.159971]

If we, as the group auditor, request a component auditor to design and perform risk assessment procedures, we communicate to the component auditor the areas where risk assessment procedures at the component are to be designed and performed by the component auditor. Refer to the activity "Determine the risk assessment procedures to be performed at components" for guidance on the areas of risk assessment.

[What do we communicate to component auditors regarding the scope of further audit procedures?](#) [ISA

| 1568.159896]

If we, as the group auditor, request a component auditor to design and perform further audit procedures, we communicate to the component auditor as part of the scope of their work:

- the significant accounts and/or disclosures and their relevant assertions to be addressed by the further audit procedures,
- the Significant and Elevated RMMs of the group financial statements related to those significant accounts and disclosures and their relevant assertions,
- if applicable, any financial statement level RMMs to be addressed by the component auditor, and
- any audit procedures to be performed not directly related to RMMs (e.g., journal entries testing, final analytical procedures).

What additional information may we provide component auditors regarding the group's accounting instructions? [ISA | 1568.12283]

In order to help component auditors gain a clearer understanding of the group's accounting instructions, we, as the group auditor, may provide component auditors with additional information about those instructions. Particularly when:

- there are more significant differences between the group's financial reporting framework and the component's local financial reporting framework in their jurisdiction,
- the component auditor has more limited prior experience with the group and the component, or
- group management is less involved in the component's accounting activities, particularly concerning the establishment of, and adherence to, prescribed group-wide accounting and reporting policies.

Additional information that may be helpful includes:

- relevant changes from the previous year in the group's accounting instructions, including the adoption of new accounting or reporting policies,
- references to professional literature or to the accounting policies disclosed in the group financial statements,
- more detailed information about significant and/or complex accounting policies, and
- any other further clarifications to the group accounting instructions.

We may also arrange for a specific team member (e.g. tax and accounting advisory services) with experience in the application of the group accounting and reporting policies to work with the component auditor.

What do we communicate to component auditors regarding the applicable auditing standards? [ISA | 1568.12279]

As the group auditor, we communicate to component auditors the following matters regarding the applicable auditing standards:

Auditing standards applicable to the group audit	Matters communicated
International Standards on Auditing (ISAs)	<p>We instruct component auditors to perform the audit work related to the component in accordance with:</p> <ul style="list-style-type: none"> • non-U.S. KPMG component auditors: the KPMG Audit Execution Guide - ISA,

	<ul style="list-style-type: none"> • U.S. KPMG component auditors: the KPMG Audit Execution Guide - AICPA (KAEG-A) and the most recent version of the KAEG-A to ISA Differences Work Paper, or • non-KPMG component auditors: ISAs.
Local national auditing standards, other than those applicable in the United States	<p>When local national auditing standards applicable to the group audit and the component auditor are different</p> <p>We identify and communicate the specific procedures, if any, to be performed in addition to:</p> <ul style="list-style-type: none"> • non-U.S. KPMG component auditors: the KPMG Audit Execution Guide - ISA, or • U.S. KPMG component auditors: the KPMG Audit Execution Guide - AICPA (KAEG-A) and the most recent version of the KAEG-A to ISA Differences Work Paper, or • non-KPMG component auditors: ISAs. <p>We also include details about the specific audit procedures that we believe are necessary to enable us to provide an opinion on the group financial statements in accordance with our local national auditing standards.</p> <p>Local national auditing standards applicable to the group audit and the component auditor are the same</p> <p>We instruct the component auditor to perform the audit work related to the component in accordance with:</p> <ul style="list-style-type: none"> • KPMG component auditors: the KPMG Audit Execution Guide - ISA and any country specific requirements related to local national auditing standards, or • non-KPMG component auditors: ISAs and the local national auditing standards.

[What other matters do we communicate to component auditors related to the scope of their work? \[ISA | 1568.1700\]](#)

As the group auditor, we include the following matters in the instructions to the component auditor, if they are relevant to the component auditor's work:

Area	Matters communicated, if relevant
Central coordination	<ul style="list-style-type: none"> • Procedures to be performed at the group level and how their results will be communicated (e.g. impairment, taxation, legal letter coordination) • Approach to the audit work related to centralized services, for example, procedures designed by the group auditor, process control activities and/or GITCs that will be tested by the Centralized Services (CS) auditor. See activity "Communicate the nature, timing and extent of

	<p>the procedures to be performed over the centralized services" for information about communications requested from the CS auditor.</p>
Accounting and auditing matters	<ul style="list-style-type: none">Important accounting, auditing and financial reporting matters, including highlighting any significant updates to the accounting instructions from group managementTechnical matters, such as technical updates, industry issues, and other technical mattersClarification of the component auditor's responsibilities over the identification of subsequent events after the date of their Clearance MemorandumFor audit work performed in accordance with the PCAOB standards, when an engagement quality control review pursuant to AS 1220 is not required (i.e. the EQC reviewer for the group will perform the EQC review procedures for the component at the group level)

8.2 Group Audit | Communicate to component auditors matters related to completion and documentation retention and other relevant matters affecting their work [ISA | 1569]

What do we do?

Communicate to component auditors matters related to completion and documentation retention and other relevant matters affecting their work.

Why do we do this?

Clear, concise and complete instructions to the component auditors enables the group audit to be carried out effectively, in a timely manner, and supports effective two-way communication between the group auditor and the component auditor.

Execute the Audit

[What do we communicate to component auditors related to completion and documentation retention? \[ISA | 1569.1400\]](#)

As the group auditor, we communicate to the component auditors the following matters related to completion and documentation retention:

- the relevant dates with respect to completion of the group audit (e.g. the date reporting is to be submitted, expected timing of financial statements issuance/finalization, etc.). Refer to the question "[What are the relevant dates for completion of the group audit that we communicate to component auditors?](#)".

- for KPMG component auditors (that are not part of the same KPMG member firm as us) and for non-KPMG component auditors, we communicate the documentation retention requirements to be followed by the component auditor with respect to their work performed as part of the group audit.

Note: The component auditor also follows its relevant local documentation retention requirements when they exceed the document retention requirements communicated by us.

[What are the relevant dates for completion of the group audit that we communicate to component auditors? \[ISA | 1569.12304\]](#)

As the group auditor, we communicate:

- the expected date of the group auditor's report,
- the expected group audit file close out date, and
- [the expected group "audit file assembly date"](#)

[What else do we communicate to component auditors related to relevant matters affecting their work? \[ISA | 1569.1700\]](#)

As the group auditor, we include the following matters in the instructions to the component auditor, when they are relevant to the group audit:

Area	Matters communicated
Language	<p>Language to be used by component auditors when communicating with us. For US group audits, communication is done in English unless another language is mutually agreed by us and the component auditor.</p> <p>We request the component auditor to notify us as soon as possible if their supporting working papers will be prepared in a different language from that used to communicate with us. This allows us to appropriately consider this when determining our involvement in the component auditor's work.</p>
Risk management	<p>Acceptance procedures</p> <p>We communicate the client/engagement acceptance procedures we have performed to assist other KPMG component auditors facilitate any required risk management procedures, including independence checks and pre-approval for the engagement by the Sentinel lead partner, where applicable</p>
	<p>Conflicts of interest</p> <p>We provide clarification, when necessary, as to whether the KPMG member firm of the KPMG component auditor is required to check whether conflicts with assignments in progress for other clients might prevent us from accepting the engagement and whether assignments in progress for competing clients will require special confidentiality arrangements.</p>

	<p>Confidentiality</p> <p>We communicate any unusual or incremental confidentiality or privacy restrictions required by laws, regulations, or the client.</p>
	<p>Contracting</p> <p>We communicate whether a local contract between the KPMG member firm of the KPMG component auditor and the component entity is necessary.</p>
Coordination	<p>Communication</p> <p>Where one exists, we provide a communication protocol with group and management of the entity or business unit, including, if applicable, distribution of such communication to us.</p>
	<p>Involvement and supervision</p> <p>We provide dates of planned visits by group management and/or us, and dates of planned meetings with management of the entity or business unit and the KPMG component auditor.</p>
	<p>Communications from component auditor</p> <p>We provide information and responsibilities regarding the group reporting package. We also coordinate work when component auditors perform procedures for both the group audit and a standalone audit.</p>
	<p>Engagement management</p> <p>We communicate administrative and billing matters, such as a request that the component auditor communicate expected time overruns or expected delays when an increase in the proposed fees over budget may result, unless we have agreed to other arrangements.</p>

9 Component Audit | Communicate with the group auditor [ISA | 1582]

What do we do?

IF, as the component auditor, we perform work on components, THEN communicate with the group auditor.

Why do we do this?

Effective two-way communication between the group auditor and us, as the component auditor, is key to performing a group audit. If effective two-way communication between the group auditor and us does not exist, there is a risk that the group auditor may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. This is why we clearly and timely communicate to the group auditor matters that are relevant to the group audit.

Execute the Audit

[What do we communicate to the group auditor?](#) [ISA | 1582.1300]

As the component auditor, we:

- [Inform the group auditor about engagement acceptance issues or significant matters or consult when applicable](#)
- [Inform the group auditor when the group management's instructions to the component are not appropriate](#)
- [Determine whether the audit procedures designed and communicated by the group auditor are appropriate](#)
- [Appropriately respond to requests from non-KPMG group auditors](#) to provide information and/or a detailed audit questionnaire

9.1 Component Audit | Inform the group auditor about engagement acceptance issues or significant matters [ISA | 1583]

What do we do?

IF, as the component auditor, we cannot accept the engagement or meet any of the group auditor's instructions, OR we become aware of significant matters that may be relevant to the group audit, THEN inform the group auditor as soon as practicable OR consult when applicable

Why do we do this?

As the component auditor, we have a professional responsibility to inform the group auditor of any issues related to the audit work performed at the component quickly so that the group auditor can address the issue. If we cannot inform the group auditor, we consult to decide the appropriate course of action.

Execute the Audit

[What do we inform the group auditor of?](#) [ISA | 1583.1300]

As the component auditor, we inform the group auditor as soon as possible when:

- we cannot accept the engagement or cannot comply with certain aspects of the group audit instructions at any point during the course of the engagement.
- we become aware of significant matters that we believe may be relevant to the group audit, even if these matters are outside of the scope of work requested by the group auditor.

For example, we may believe that the management of the entity or business unit may not have complied with laws or regulations, including having committed illegal acts, or we may have concerns about the management of the entity or business unit's integrity that may be relevant to the group audit.

Do we inform a non-KPMG group auditor when the engagement cannot be accepted or its instructions cannot be met, or about significant matters that may be relevant to the group audit? [ISA | 1583.1400]

Yes, we inform non-KPMG group auditors when the engagement cannot be accepted or its instructions cannot be met, or about significant matters that may be relevant to the group audit, similar to KPMG group auditors.

When may we not be able to accept the engagement? [ISA | 1583.12812]

Refer to the activity "[Perform preliminary engagement activities](#)" for information on when we may not be able to accept the engagement.

How do we inform the group auditor when the engagement cannot be accepted or its instructions cannot be met, or about matters that may be relevant to the group audit? [ISA | 1583.12813]

As the component auditor, we inform the group auditor in writing when the engagement cannot be accepted, its instructions cannot be met, or about significant matters that may be relevant to the group audit.

What if we cannot inform the group auditor of significant matters that may be relevant to the group audit?

[ISA | 1583.1700]

As the component auditor, we consult with the risk management partner.

When may we not be able to inform the group auditor of significant matters that may be relevant to the group audit? [ISA | 1583.12438]

As the component auditor, we may not be able to inform the group auditor of significant matters, for example, when local laws or regulations prohibit the sharing of such information across borders.

9.2 Component Audit | Inform the group auditor when group management's instructions to the component are not appropriate

What do we do?

IF, as the component auditor, we determine that the instructions issued by group management to the component do not provide an appropriate basis for us to report to the group auditor, THEN inform the group auditor as soon as possible.

Why do we do this?

As the component auditor, we have a professional responsibility to inform the group auditor of any significant issues in the component audit so they can address the issues accordingly.

Execute the Audit

[What does 'as soon as possible' mean in practice for group management's instructions?](#) [ISA | 1584.1300]

As soon as possible means:

- As soon as we are able after we have read the group management's instructions, and
- At any point during the course of the engagement when changes in circumstances occur.

[What do the instructions issued by group management to components include?](#) [ISA | 1584.1700]

Instructions issued by group management to management of entities or business units (e.g. group reporting manual) generally specify the requirements for preparing financial information of entities or business units. These also often include information on the financial reporting procedures and a group reporting package.

Usually, the instructions issued by group management to management of entities or business units include matters such as:

- the accounting policies that management of entities or business units should use. These are specific principles, bases, conventions, rules, and practices adopted by the group that the entity or business units use to report similar transactions consistently.
- Information necessary to prepare disclosures for the applicable to the group financial statements that are sufficient to comply with the requirements of the applicable financial reporting framework:
 - related party relationships and transactions;
 - segment information;
- Information necessary for making consolidation adjustments, including:
 - intra-group transactions and unrealized profits;
 - intra-group account balances;
- a reporting timetable.

The management instructions are part of the group's internal control over financial reporting (i.e. the information and communication component of [CERAMIC](#)).

[What is a group reporting package?](#) [ISA | 1584.12190]

A group reporting package ordinarily consists of standard formats, templates and schedules for providing financial information for incorporation in the group financial statements. Reporting packages generally do not take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework. In some groups, management of entities or business units may obtain this information electronically through the group's IT systems.

The group reporting package is provided by management of entities or business units to group management for consolidation purposes and to provide additional information for inclusion in the group financial statements.

[When may we determine that group management's instructions to the component are not appropriate?](#)

[ISA | 1584.1400]

Examples of situations where we, as component auditors, may determine that group management's instructions to the component are not appropriate, include:

- The timetable for management of the entity or business unit to report to group management is not achievable
- Group management's instructions do not adequately describe an industry specific accounting policy of the applicable financial reporting framework
- Group management's instructions have not been updated for a change in a relevant accounting policy of the applicable financial reporting framework
- Group management's instructions do not provide enough guidance on how to account for intra-group transactions and on the confirmation of intra-group balances and transactions at year-end

[Do we inform a non-KPMG group auditor when group management's instructions are not appropriate?](#) [ISA | 1584.1500]

Yes, as the component auditor, we communicate our determination that group management's instructions are not appropriate to a non-KPMG group auditor.

[How do we inform the group auditor that group management's instructions are not appropriate?](#) [ISA | 1584.1600]

As the component auditor, we inform the group auditor that group management's instructions are not appropriate in writing.

9.3 Component Audit | Determine whether the audit procedures designed and communicated by the group auditor are appropriate [ISA | 1580]

What do we do?

IF, as the component auditor, we are requested to perform group auditor designed procedures, THEN determine whether the audit procedures designed are appropriate and agree any modifications with the group auditor

Why do we do this?

In circumstances where the group auditor requests us, as the component auditor, to perform audit procedures related to the component that are being designed by the group auditor, developing those audit procedures is an iterative process that involves two-way communication between the group auditor and us.

Execute the Audit

[What is the group auditor responsible for when requesting us to perform group auditor designed procedures?](#) [ISA | 1580.1300]

When the group auditor requests us, as the component auditor, to perform group auditor designed procedures, the group auditor is responsible for:

- determining and communicating the group auditor designed audit procedures to be performed by us, including the timing and the extent of those procedures, and
- communicating other information to us that may be relevant to performing those procedures.

However, the group auditor will often work with us, making use of our local knowledge and experience to develop appropriate group auditor designed audit procedures to address the risks of material misstatement of the group financial statements in the component.

What are we responsible for when the group auditor requests us to perform procedures designed by the group auditor? [ISA | 1580.1400]

When the group auditor requests us, as the component auditor, to perform group auditor designed procedures, we are responsible for:

- considering whether the audit procedures designed and communicated by the group auditor:
 - are appropriate in the circumstances of the engagement, based on our knowledge of the component, and
 - include sufficient information for us to be able to perform and document those audit procedures,
- providing information or suggestions to the group auditor in developing the audit procedures designed by the group auditor, and
- if applicable, agreeing to modifications to the group auditor designed procedures with the group auditor.

For example, we may notify the group auditor if certain procedures appear to have been excluded from the audit instructions.

This may be particularly appropriate, for example, when we, as the component auditor, also perform an audit of the component's financial information for statutory or other reasons.

What is the difference between group auditor designed procedures and agreed-upon procedures? [ISA | 1580.12402]

Group auditor designed procedures occur where both parties are qualified auditors and the description of procedures takes account of the expected level of knowledge of the auditor performing these procedures. Group auditor designed procedures are designed and communicated by the group auditor. For group auditor designed procedures, the communication is between two auditors, therefore, reporting on group auditor designed procedures can include conclusions on specific procedures, whereas reporting on agreed upon procedures includes factual findings.

Agreed-upon procedures are procedures agreed between an auditor and another party and the auditor's report on the findings is usually restricted to those parties who developed the agreed-upon procedures because of the specificity of the desired results. The auditor's report does not provide any form of opinions, conclusions or assurances and presents the findings to allow users of the auditor's report to draw their own conclusions from the findings.

When do we communicate with the group auditor about the appropriateness of the group auditor designed procedures? [ISA | 1580.1500]

As the component auditor, we communicate with the group auditor on a timely basis, and before we start performing the group auditor designed procedures. This allows the group auditor to evaluate the feedback and agree on the appropriate modifications to the audit procedures designed by the group auditor to be performed.

[Are there different considerations when performing procedures designed by a non-KPMG group auditor?](#)

[ISA | 1580.160030]

When we, as the component auditor, perform audit procedures designed by a non-KPMG group auditor, we determine whether the procedures communicated to us include sufficient information to allow us to communicate the results of those procedures in the form of factual findings.

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

International Standards on Auditing: ISA 600.30-32

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

30. In applying ISA 315 (Revised 2019),²⁰ the group auditor shall take responsibility for obtaining an understanding of the following: (Ref: Para. A88-A92)

- a. The group and its environment, including: (Ref: Para. A93-A95)
 - 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 information technology (IT);
 - i. Regulatory factors impacting the entities and business units in the group; and
 - ii. The measures used internally and externally to assess the financial performance of the entities or business units;
- 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. A96-A99, A102)

- ii. Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A100-A102)
- 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. A103-A105)

²⁰ ISA 315 (Revised 2019), paragraphs 19-27

Considerations When Component Auditors Are Involved

- 31. The group auditor shall communicate to component auditors on a timely basis: (Ref: Para. A106)
 - 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;
 - b. In applying ISA 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. A107)
 - c. In applying ISA 570 (Revised),²² events or conditions identified by group management or the group auditor that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.

²¹ ISA 550, Related Parties, paragraph 17

²² ISA 570 (Revised), Going Concern

- 32. The group auditor shall 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 (Ref: Para. A107)
 - c. Any events or conditions identified by the component auditor that may cast significant doubt on the group's ability to continue as a going concern.

ISA Application and Other Explanatory Material: ISA 600.A88-A107

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 30)

A88. ISA 315 (Revised 2019)⁷⁰ contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control. Appendix 2 of this ISA provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how ISA 315 (Revised 2019) is to be applied to an audit of group financial statements.

⁷⁰ ISA 315 (Revised 2019), paragraphs 19-27, A50–A183

A89. The understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with:

- Group management, component management or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
- Component auditors; or
- Auditors that perform an audit for statutory, regulatory or other reasons of the financial statements of an entity or business unit that is part of the group.

A90. Obtaining an understanding of the group, identifying risks of material misstatement and assessing inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when component auditors are involved in the design and performance of risk assessment procedures, the group auditor may need to communicate its preferred approach with component auditors or provide instructions.

Engagement Team Discussion (Ref: Para. 30)

A91. In applying ISA 315 (Revised 2019),⁷¹ the group engagement partner and other key engagement team members are required to discuss the application of the applicable financial reporting framework and the susceptibility of the group's financial statements to material misstatement. The group engagement partner's determination of which members of the engagement team to include in the discussion, and the topics to be discussed, is affected by matters such as initial expectations about the risks of material misstatement and the preliminary expectation of whether to involve component auditors.

⁷¹ ISA 315 (Revised 2019), paragraph 17

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. ISA 240⁷² 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.

⁷² ISA 240, paragraph 16

The Group and Its Environment (Ref: Para. 30 (a))

A93. An understanding of the group's organizational structure and its business model may enable the group auditor to understand such matters as:

- The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special-purpose entities are accounted for appropriately and whether adequate disclosures have been made.
- The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For

example, different geographical locations may involve different languages, cultures and business practices.

- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates across multiple jurisdictions and when there are changes in ownership through formation, acquisition, disposal or joint venture. These factors may give rise to increased susceptibility to material misstatements.

A94. Obtaining an understanding of the degree to which the group's operations or activities are similar may help to identify similar risks of material misstatement across components and design an appropriate response.

A95. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The understanding of such performance measures may help to identify:

- Areas where there is increased susceptibility to material misstatements (e.g., due to pressures on component management to meet certain performance measures).
- Controls over the group's financial reporting process.

Control The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: Para. 30(c)(i))

A96. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, which operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁷³

⁷³ ISA 315 (Revised 2019), paragraph A5

A97. Understanding the components of the group's system of internal control includes understanding the commonality of the controls within those components across the group. In understanding the commonality of a control across the group, considerations that may be relevant include whether:

- The control is designed centrally and is required to be implemented as designed (i.e., without modification) at some or all components;
- The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
- If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or
- If the control is automated, it is configured in the same way in each IT application across the components.

A98. Judgment may often be needed to determine whether a control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that is generated from a specific IT application. When the aging reports are generated from different IT applications or the implementation of the IT application differs across entities or business units, there may be a need to consider whether the control can be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT applications (e.g., whether the IT application is configured in the same manner across components, and whether there are effective general IT controls across different IT applications).

A99. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared service center that processes transactions on behalf of other entities or business units within the group). The processing of transactions and related controls at a shared service center may operate in the same way for those transactions being processed by the shared service center regardless of the entity or business unit (e.g., the processes, risks and controls may be the same regardless of the source of the transaction). In such cases, it may be appropriate to identify the controls and evaluate the design and determine the implementation of the controls, and, if applicable, test operating effectiveness, as a single population.

Centralized Activities (Ref: Para. 30(c)(i)-(ii))

A100. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., when the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).

A101. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at an entity or business unit, but the processing may occur at the shared service center).

A102. The group auditor may involve component auditors in testing the operating effectiveness of common controls or controls related to centralized activities. In such circumstances, effective collaboration between the group auditor and component auditors is important as the audit evidence obtained through testing the operating effectiveness of common controls or controls related to centralized activities supports the determination of the nature, timing and extent of substantive procedures to be performed across the group.

Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 30(c)(iv))

A103. Group entities or business units may use a financial reporting framework for statutory, regulatory or other reasons that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, when relevant, financial reporting period-ends that differ from that of the group, enables the group auditor to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Instructions by group management to entities or business units

A104. In applying ISA 315 (Revised 2019),⁷⁴ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g., communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the identification and assessment of the risks of material misstatement of the group financial statements. For example, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.

A105. The group auditor's understanding of the instructions or policies may include the following:

- The clarity and practicality of the instructions for completing the reporting package.
- Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
 - Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
 - Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and
 - Include a reporting timetable.

Considerations When Component Auditors Are Involved (Ref: Para. 31-32)

A106. During the course of the group audit, the group auditor may communicate the matters in paragraph 31 to other component auditors, if these matters are relevant to the work of those component auditors. Paragraph A144 includes examples of other matters that may need to be communicated timely in the course of the component auditor's work.

A107. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁷⁵ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

- The group structure is complex;
- The group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- There are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional skepticism, as required by ISA 200,⁷⁶ is therefore particularly important when these circumstances exist.

⁷⁴ ISA 315 (Revised 2019), paragraph 25(b)

⁷⁵ ISA 550, paragraph 2

⁷⁶ ISA 200, paragraph 15

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Group Audit | Obtain an understanding of the group [ISA | 3744]

What do we do?

Obtain an understanding of the group and its environment, the applicable reporting framework, and the group's system of internal control.

Why do we do this?

In order to plan an effective high quality group audit and identify where risks of material misstatement may arise in the group, we, as the group auditor, take obtain an understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control.

Execute the Audit

How do we obtain an understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control? [ISA | 3744.1300]

As the group auditor, we obtain an understanding of the:

- the 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.

Obtaining this understanding may involve performing risk assessment procedures at the group-level and [performing risk assessment procedures at components](#). The group auditor may involve component auditors in obtaining this understanding and performing procedures at components.

[Group Audit | Who takes responsibility for obtaining an understanding of the group?](#) [ISA | 3744.160249]

The lead group auditor takes responsibility for understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control.

[Group Audit | What does 'take responsibility for' mean?](#) [ISA | 3744.160253]

'Take responsibility for' means the lead group auditor may either design and/or perform procedures, tasks, or actions themselves or are permitted to assign the design and/or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors.

Assigning the design and/or performance of procedures to another member of the engagement team, however, does not relieve the lead group auditor of their responsibility for the overall design and performance of the audit

[Group Audit | What sources of information can help us understand the group and its environment, the applicable reporting framework, and the group's system of internal control?](#) [ISA | 3744.160221]

As the group auditor, we use [common sources of information](#) to enhance our understanding of the group, its components, and their environments. Other sources of information include:

- communications with:
 - group management, component management, or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
 - component auditors;
 - KPMG auditors that perform an audit of the financial statements (or any other services provided by KPMG auditors or other KPMG professionals) for legal, regulatory, or other reasons of an entity or business unit that is part of the group; or
 - where relevant, the previous group or component auditor.
- Other engagements performed for the group and, for continuing engagements, information obtained from prior year audits.
- [Geographical Market Summaries](https://alex.kpmg.com/AROWeb//bridge/6209/17939?d=INTL,US) ([Summaries](https://alex.kpmg.com/AROWeb//bridge/6209/17939?d=INTL,US)) to understand the environment in which components operate. The Summaries have been prepared for various countries by the respective KPMG member firm with relevant local knowledge and outline potential audit considerations and risks for specific geographic markets.

The Summaries cover:

- key audit considerations and risks for a particular geographical market categorized by:
 - general economic conditions
 - legislation and regulation
 - local custom and business structures
- key audit considerations for selected financial statement captions and disclosures.

1.1 Group Audit | Obtain an understanding of the group and its environment

[ISA | 1482]

What do we do?

Obtain an understanding of the group and its environment.

Why do we do this?

We obtain an understanding to identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

Execute the Audit

Group Audit | What do we understand about the group and its environment? [ISA | 1482.160222]

In addition to the matters that we understand of the entity and its environment in a standalone audit, we understand the following for the group and its entities and business units:

- As part of understanding the group's organizational structure and its business model, we understand:
 - the locations in which the group has its operations or activities;
 - the nature of the group's operations or activities and the extent to which they are similar across the group; and
 - The extent to which the group's business model integrates the use of information technology (IT);
- Regulatory factors impacting the entities and business units in the group; and
- The measures used internally and externally to assess the financial performance of the entities or business units;

We also identify the components that make up the group and may involve component auditors in obtaining this understanding.

Group Audit | How may our understanding of the group's organizational structure and its business model impact our risk assessment? [ISA | 1482.160223]

Our understanding of the group's organizational structure and its business model helps us to identify the components that make up the group.

It may also enable us to understand matters, such as the following:

Matter	Risk assessment considerations
The complexity of the group's structure	A group may be more complex than a single entity because a group may have several subsidiaries, divisions, or other business units. Also, a group's legal structure may be different

	<p>from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased risks of material misstatements, such as whether goodwill, joint ventures, or variable interest entities are accounted for appropriately and whether adequate disclosures have been made.</p>
The geographic locations of the group's operations	<p>Having a group that is located in multiple geographical locations may give rise to increased risks of material misstatements. For example, different geographical locations may involve different languages, cultures, and business practices.</p>
The similarity of operations or activities across the group	<p>Understanding the degree to which the group's operations or activities are similar may help to identify similar risks of material misstatement across components and design an appropriate response.</p>
The structure and complexity of the group's IT environment	<p>A complex IT environment often introduces factors that may give rise to increased risks of material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.</p>
The ownership, and relationships between owners and other people or entities, including related parties	<p>Understanding the ownership and relationships can be more complex in a group that operates across multiple jurisdictions and when there are changes in ownership through formation, acquisition, disposal, or</p>

joint venture. These factors may give rise to increased risks of material misstatements.

[Group Audit | How may our understanding of regulatory factors impacting the entities and business units inform our risk assessment?](#) [ISA | 1482.160225]

Different laws or regulations may introduce factors that may give rise to increased risks of material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations. We think about whether greater risk assessment procedures are needed the higher the risk of material misstatement is associated with the regulatory factors impacting the entities and business units.

[What is a location?](#) [ISA | 1482.12444]

A location is a physical site where an entity conducts aspect(s) of its business. Locations may be in the same country as the entity or abroad. Examples of locations include entities or business units of a group, branches of a retailer, warehouses that hold inventory or regional sales offices. Certain operational and financial records (i.e., supporting documentation) may physically exist at the locations.

[Group Audit | What is a component?](#) [ISA | 1482.1700]

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

[Group Audit | How do we identify components that make up the group?](#) [ISA | 1482.1600]

As the group auditor, we identify the components that make up the group by thinking about matters such as the group structure, how financial information is reported in the group and the group's information system.

We think about the operational structure, as well as the legal structure of the group. Often, obtaining an organizational chart or legal entity chart is the best place to start when gaining an understanding of how an entity is organized and how financial reporting is managed. Another consideration that may be relevant to our determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework. Some entities or business units may be organized and aggregated into different operating segments and reportable segments that may represent 'sub-groups'.

Where there are multiple layers to the group, we also think about whether our procedures are best performed at intermediate levels (e.g. business units, regional headquarters) or down lower at the individual operating units.

We also think about how the group's information system is set up. For example, a group may be organized according to its legal structure, but its information system may be organized by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes.

Based on our understanding, we may determine that the financial information of certain entities or business units may be considered together forming a component for purposes of planning and performing our audit procedures.

For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, we may decide to treat these three legal entities as one component.

[Group Audit | What are examples of sources of information that can help us identify entities or business units of a group?](#) [ISA | 1482.160226]

The following sources of information can help us identify entities or business units of a group:

Sources of information
Consolidating hierarchies, schedules and reporting packages
Listings of: <ul style="list-style-type: none">• reporting units or cash generating units• operating and reportable segments• statutory financial statements
Management hierarchies and reporting lines (operational and accounting/finance)
Organizational charts displaying: <ul style="list-style-type: none">• management structures• tax/legal entity structures• geographic locations.
Flowcharts/narratives over: <ul style="list-style-type: none">• processes• IT systems/information flows

[Group Audit | What are other considerations when identifying components?](#) [ISA | 1482.12424]

The following table includes considerations that are helpful to keep in mind when identifying components:

Structure of the entity	Considerations whether it is a component or not

Parent entity	The parent entity may be a component. The parent of a group is the entity that controls one or more subsidiaries. It may be just a holding company or it may also be an operating company.
Head office / corporate function	<p>The head office function is the group's function responsible for the consolidation process and for accounting for various significant accounts at a group level, for example:</p> <ul style="list-style-type: none"> accounting for significant accounts across the group (e.g. debt, goodwill and intangible assets, income taxes and share-based compensation); accounting for certain income or expenses (e.g. personnel expenses for executive management). These income and expenses may be part of the financial information of a component for which separate discrete financial information is prepared; <p>We may identify the head office function as a separate component.</p>
Centralized Services	<p>It is common for entities to use centralized services to process transactions across the group. We may identify the centralized services as a separate component when the transactions of entities or business units subject to those centralized services are considered as a single population for purposes of planning and performing our audit procedures.</p> <p>To determine whether the centralized services is a component, we understand the flow of transactions.</p> <p>See activity 'Determine whether centralized services are relevant to the audit' for further information.</p>
Equity method investment	An equity method investment is considered to be a component unless we intend to use the financial information of the equity method investment as information used in an audit. See activity " Determine the approach for obtaining audit evidence for equity method investments " for further information.
Acquired business	An acquired business may be a component. We obtain an understanding of the post-acquisition financial reporting structure to determine whether the acquired business represents a separate component (or group of components) or has been combined with one or more existing components.
Disposal group	The pre-divestiture activity of a disposal group is a component.

1.2 Group Audit | Obtain an understanding of the applicable financial reporting framework of the group

[ISA | 8155]

What do we do?

Obtain an understanding of the applicable financial reporting framework and the consistency of accounting policies and practices across the group (i.e. the use of uniform accounting policies).

Why do we do this?

We obtain this understanding to identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

Execute the audit

What is a financial reporting framework? [ISA | 8155.7468]

All financial statements are prepared in accordance with a 'financial reporting framework' — i.e. a set of criteria used to determine how material items are measured, recognized, presented and disclosed in the financial statements. Commonly used financial reporting frameworks include US GAAP and IFRS.

Group Audit | What is the "applicable financial reporting framework" in a group audit? [ISA | 8155.12187]

Reference to "the applicable financial reporting framework" means the financial reporting framework that applies to the group financial statements.

What matters might we consider when obtaining an understanding of the financial reporting framework?

[ISA | 8155.7469]

When obtaining an understanding of the entity's applicable financial reporting framework, and how it applies in the context of the nature and circumstances of the entity and its environment we may consider:

- The entity's financial reporting practices in terms of the applicable financial reporting framework, such as:
 - Accounting principles and industry-specific practices, including for industry-specific significant classes of transactions, account balances and related disclosures in the financial statements (for example, loans and investments for banks, or research and development for pharmaceuticals).
 - Revenue recognition.
 - Accounting for financial instruments, including related credit losses.
 - Foreign currency assets, liabilities and transactions.
 - Accounting for unusual or complex transactions including those in controversial or emerging areas (for example, accounting for cryptocurrency).
- Other accounting rules, regulations and guidance that may apply. For example:

- Entities in the banking industry may follow other regulatory reporting requirements specific to the jurisdiction in which the entity operates.
- Entities filing with the SEC also follow SEC rules, regulations and interpretative guidance.

[Group Audit | What may we consider when understanding the consistency of accounting policies and practices across the group?](#) [ISA | 8155.160238]

We consider whether uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted when necessary in terms of the applicable financial reporting framework.

[Group Audit | What does 'uniform accounting policies' mean?](#) [ISA | 8155.12188]

Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units use to report similar transactions consistently. These policies are usually described in the financial reporting procedures manual and reporting package issued by group management.

1.3 Group Audit | Obtain an understanding of the group's system of internal control

[ISA | 8156]

What do we do?

Obtain an understanding of the group's system of internal control

Why do we do this?

We obtain this understanding to identify and assess the risks of material misstatement of the group financial statements, including with respect to the consolidation process.

Execute the audit

[How do we obtain an understanding of the group's system of internal control?](#) [ISA | 8156.160239]

We obtain an understanding of the group's system of internal control similar to [obtaining an understanding](#) in a standalone audit by:

- [obtaining an understanding of the CERAMIC components of ICFR \(control environment, risk assessment, information and communication, and monitoring\)](#)
- [obtaining an understanding of control activities that are relevant to the audit](#), which includes obtaining an understanding of business or financial reporting processes, identifying process risk points (PRPs), and evaluating the design and implementation of control activities that are relevant to the audit.

Our understanding of the group's system of internal control also includes the following:

- [Assess whether control activities across the group are homogeneous](#)
- [Determine whether centralized services are relevant to the audit](#)

- Understand the consolidation process used by the group, including understanding 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.

1.3.1 Assess homogeneity of control activities [ISA | 3749]

What do we do?

IF we are testing controls across locations THEN we assess whether control activities are homogeneous

Why do we do this?

When we identify that an entity has homogeneous control activities across locations, we design our audit approach accordingly. Consequently, in order to validate the appropriateness of our audit approach, we perform procedures to support our assessment that control activities are, in fact, homogeneous.

Execute the Audit

How do we assess whether control activities are homogeneous? [ISA | 3749.1300]

We assess whether control activities are homogeneous by considering whether locations subject to those control activities have shared characteristics, which indicate homogeneity

When there are shared characteristics, we then:

- Determine the number of locations to obtain evidence from
- Perform procedures to confirm our initial assessment of homogeneity
- Reassess our conclusions and consider the impact on the audit if we identify information that may contradict our initial assessment

What is a location? [ISA | 3749.12444]

A location is a physical site where an entity conducts aspect(s) of its business. Locations may be in the same country as the entity or abroad. Examples of locations include entities or business units of a group, branches of a retailer, warehouses that hold inventory or regional sales offices. Certain operational and financial records (i.e., supporting documentation) may physically exist at the locations.

What are examples of sources of information that can help us identify locations? [ISA | 3749.160250]

The following sources of information can help us identify locations:

Sources of information
Management hierarchies and reporting lines (operational and accounting/finance) Organizational charts displaying: <ul style="list-style-type: none">• management structures• geographic locations

Flowcharts/narratives over:

- processes
- IT systems/information flows

Geographical codes in the general ledger

Refer to "[What are examples of sources of information that can help us identify entities or business units of a group?](#)" when locations are entities or business units of a group.

1.3.1.1 Consider shared characteristics that may indicate homogeneity [ISA | 3750]

What do we do?

IF we are testing controls across locations THEN consider whether controls at locations have shared characteristics, which indicate homogeneity of control activities.

Why do we do this?

We perform an initial assessment of homogeneity to determine whether we can take advantage of a homogeneous approach to locations, when performing controls testing. We determine homogeneity by first identifying whether locations share certain characteristics. When we are able to employ a homogeneous audit approach to testing control activities, we can use the results of our control testing at individual locations to draw a conclusion about the operating effectiveness across all locations within that homogeneous population.

Execute the Audit

[How do we perform an initial assessment of whether control activities are homogeneous?](#) [ISA | 3750.1300]

To perform an initial assessment of whether control activities are homogeneous (i.e. 'homogeneous control activities'), we consider whether locations share characteristics, which indicate homogeneity.

[What are homogenous control activities?](#) [ISA | 3750.160278]

Homogenous control activities are control activities designed centrally and implemented as designed at locations such that they operate consistently across locations.'

[What is a location?](#) [ISA | 3750.12444]

A location is a physical site where an entity conducts aspect(s) of its business. Locations may be in the same country as the entity or abroad. Examples of locations include entities or business units of a group, branches of a retailer, warehouses that hold inventory or regional sales offices. Certain operational and financial records (i.e., supporting documentation) may physically exist at the locations.

[What shared characteristics indicate homogeneity?](#) [ISA | 3750.1400]

The following is a listing of characteristics we consider when assessing the homogeneity of control activities across locations:

Shared characteristics	Indications that control activities may not be homogenous
The nature and complexity of business activities and types of transactions (sales of products and/or services)	We expect that homogeneous control activities are more likely to be designed and implemented for the processing of more routine transactions that are of the same nature as compared to transactions that are more complex or involve a greater degree of judgment, knowledge and/or expertise. For example, sales of one product across multiple locations that follow the same simple revenue recognition model is more likely to have homogeneous control activities than more complex multiple-element revenue arrangements or unique percentage-of-completion construction projects. Transactions that are more complex or involve a greater degree of judgment, knowledge and/or expertise indicates the related control activities may not be homogenous.
Policies, practices and procedures	Since homogeneous control activities are centrally designed and implemented as designed at locations, differences in policies, practices and procedures indicate the related control activities are not homogenous, because the control activity will not be implemented as designed.
The IT system (the application and instance with general IT controls (GITCs)) used to process the transactions	The use of different IT systems and/or instances introduces the possibility of different business processes and different control activities. Processes that use different IT systems, different instances of IT systems or inconsistent RAFITs and/or GITCs across locations indicates the related automated control activities and manual control activities that rely on information from the system are not homogenous.
Process risk points (PRPs)	If there are different PRPs at the locations, it is likely that the nature of the business activities or transactions at the locations are different. Control activities are unlikely to be designed to operate homogeneously when the nature of the business activities or transactions at the locations are different.
Risks of material misstatement (RMM) (including fraud risks)	If we identify that the RMMs are different, it is likely that the nature of the business activities or transactions at the locations are different. Control activities are unlikely to be designed to

	operate homogeneously when the nature of business activities or transactions at the locations are different.
Control environment, risk assessment process, monitoring of controls and information and communication	When locations are subject to different control environments, risk assessment processes, information and communication, and/or monitoring activities, it indicates control activities over those locations are less likely to be designed centrally to operate homogeneously across those locations.

What sources of information may be used to identify whether locations have the shared characteristics that are indicative of homogeneity? [ISA | 3750.1600]

Sources of information may include the following:

- considering prior year audit results
- inquiring of management regarding changes in business, people, processes and transactions

For example, if management does not believe a deficiency identified in one location would apply across the other locations, this is an indicator that control activities are non-homogeneous.

As we assess homogeneity, it is helpful if we ask ourselves the same question. If we later decide that a deficiency does not apply to other locations, we are implicitly concluding that the control activity is not homogeneous.

- considering the results of our evaluation of CERAMIC components
- inquiring of internal audit and inspecting internal audit reports, and
- understanding the flow of transactions.

What do we do if we assess that control activities are homogeneous? [ISA | 3750.1700]

If we assess that control activities are homogeneous, then we may treat them as a single population when performing our audit procedures and draw conclusions across all the locations subject to those control activities.

1.3.1.2 Determine the number of locations to obtain audit evidence from for homogenous control activities

[ISA | 3751]

What do we do?

IF we are testing control activities that operate homogeneously across locations THEN determine the number of locations to obtain audit evidence from, considering relevant factors

Why do we do this?

When we are taking advantage of the 'homogeneous approach' for controls testing, we extrapolate our findings at one location to others within the homogeneous population. We therefore do not necessarily perform procedures at every location. In order to draw our conclusions, we determine a sufficient number of locations at which to perform procedures so we can both confirm our initial assessment of homogeneity and to gain audit evidence over the locations to address our identified risks of material misstatement (RMMs).

Execute the Audit

Do we obtain audit evidence from all locations when we are testing process control activities that operate homogeneously across locations? [\[ISA | 3751.1300\]](#)

Not necessarily. We have a few possible approaches to obtaining audit evidence across locations.

The chart below describes the potential approaches:

Scenario	Guidance
Audit evidence can be obtained centrally but locations are not subject to centralized services	<p>When audit evidence for all locations can be obtained centrally but the locations are not subject to centralized services, we may aggregate the populations of the locations into a single population and perform procedures on that population centrally - for example, by selecting one overall sample from the combined population. When deciding whether to test one overall sample for locations with centralized accounting records, we think about the quality of evidence we are able to obtain centrally, for example whether we will be examining original documentation or we will be speaking directly to personnel that are familiar with the controls and transactions.</p> <p>When audit evidence can be obtained centrally, because centralized services are used to process transactions on behalf of each location, we follow the guidance in 'Design specific procedures to be performed over the centralized services'.</p>
Audit evidence exists at each location	<p>We may obtain evidence from certain locations when our initial assessment indicates that the process control activity operates homogeneously at all of the locations. When we have determined that the combined population is homogeneous, we can apply our conclusions from the locations we obtained audit evidence from to all locations. We follow the guidance in this activity and 'Allocate the control sample size when testing homogenous control activities' to determine the number of locations, sample sizes and number of items at each location.</p>

How do we determine which approach to use to obtain audit evidence across locations? [\[ISA | 3751.12482\]](#)

When it is not practical to obtain audit evidence from all locations or obtain audit evidence centrally from an aggregated population, we select some locations to obtain evidence from.

How do we determine the number of locations when we are obtaining audit evidence from certain locations? [\[ISA | 3751.1400\]](#)

We use the suggested number of locations table as a starting point to assist us in determining the number of locations to obtain evidence from when we are testing the operating effectiveness of control activities that operate homogeneously across locations. The suggested number of locations is not a minimum number.

When determining the number of locations to obtain evidence from, we consider the assessed RAWTC to determine whether the suggested number in the locations table is appropriate to the specific circumstances or whether it is necessary to adjust the number (either up or down).

Suggested number of locations table:

Total number of locations subject to the homogeneous control activity	Suggested number of locations to obtain audit evidence from
3 or less	All
10	3
25	7
50	12
100	20
1,000+	30

Where our total number of locations is not shown in the table we may pro rate the suggested number of locations to obtain audit evidence from. For example, if there are 40 locations, it may be appropriate to determine the suggested number of locations to be 10 locations (calculated as $(12-7)/(50-25)*(40-25)+7$) and then consider any necessary adjustments based on RAWTC.

For example, in a scenario where an entity has 10 locations subject to a homogeneous control activity, and RAWTC is Base, we have chosen to obtain evidence from 3 of those locations. In the event we have identified an elevated RAWTC, we may decide to obtain evidence from 4 locations. When selecting locations to obtain evidence from, we may also want to include an element of unpredictability.

Do we obtain audit evidence from all locations when there are 3 or fewer locations? [\[ISA | 3751.6249\]](#)

There may be situations where we determine not to obtain audit evidence from all locations when there are 3 or fewer locations.

For example, if inventory is maintained in 3 locations and only a small proportion of transactions are processed at one location and make up a small proportion of the relevant account balance, we may decide it is appropriate to only obtain audit evidence from the two locations that contain the vast majority of the transactions and account balance.

If we can treat the results of testing for one location as applying to all, why do we obtain evidence from more than one location? [ISA | 3751.1600]

We obtain audit evidence from more than one location to gain sufficient appropriate audit evidence that the control activity operates homogeneously across locations. We obtain audit evidence from enough locations and perform controls testing to support our initial assessment that the control activity operates homogeneously across locations.

How do we select the locations to obtain audit evidence from? [ISA | 3751.1700]

We select the locations randomly or haphazardly - i.e., without bias. This may include selecting different locations from the prior year.

Can we exclude certain locations from selection? [ISA | 3751.12484]

No, we cannot exclude any locations from selection and all locations are eligible for selection each audit period. When we assess control activities as homogeneous, we are saying that operation of the control activity at one location is deemed representative of the operation of the control activity at all locations.

If a location has no chance of selection (for example, because of remote geographical location), it is excluded from the population and treated as a separate population.

1.3.1.3 Perform procedures to confirm homogeneity assessment [ISA | 3752]

What do we do?

IF we are testing control activities that operate homogeneously across locations THEN perform procedures to confirm our initial assessment of homogeneity.

Why do we do this?

Our initial assessment is based only on *indications* of homogeneity from shared characteristics. We do not reach a conclusion on homogeneity until we perform our audit procedures and evaluate the related findings. After completing our initial assessment, we perform procedures to confirm that assessment. The procedures we perform allow us to:

- Confirm that the control activity at the locations is in fact homogeneous in nature (through our procedures to obtain an understanding of the business processes and through our tests of the design of the control activity); and
- Reach a conclusion on the design and effective operation of the control activity that address the RMM(s) at those locations.

Execute the Audit

Enhanced | What procedures do we perform when confirming a control activity is homogeneous? [ISA |

3752.1300]

We perform the following procedures at locations we obtain evidence from to confirm that the control activity operates homogeneously:

- Evaluate the design and implementation, and test the operating effectiveness of the control activity
- Compare the results of the procedures at locations. If we identify deficiencies at certain locations that we determine are isolated, and not representative of control failures at the other locations, this may indicate the control activity does not operate homogeneously across locations.
- Consider the results of substantive procedures related to the RMMs addressed by the control activity. If we identify misstatements at certain locations that we determine are isolated, and not representative of misstatements at the other locations, this may indicate the control activity does not operate homogeneously across locations.

We may also perform the following procedures at locations we obtain evidence from to confirm that the control activity operates homogeneously:

- Confirming that the relevant CERAMIC processes, such as monitoring activities, are applied at the locations
- Performing either (i) a walkthrough or (ii) inquiry and observation or inspection of the process that contains the homogeneous control activity. See question "[How do we obtain an understanding of business processes?](#)" for guidance on when to perform (i) a walkthrough or (ii) inquiry and observation or inspection based on the applicable International-Enhanced methodology.

If we are not performing procedures over the location ourselves, we may provide flowchart/process narratives and tests of design results to the participating auditor performing the work.

Core and Less Complex | What procedures do we perform when confirming that a control activity is homogeneous? [ISA | 3752.1301]

We perform the following procedures at locations we obtain evidence from to confirm the control activity operates homogeneously:

- Evaluate the design and implementation, and test the operating effectiveness of the control activity.
- Compare the results of the procedures at locations. If we identify deficiencies at certain locations that we determine are isolated, and not representative of control failures at the other locations, this may indicate the control activity does not operate homogeneously across locations.
- Consider the results of substantive procedures related to the RMMs addressed by the control activity. If we identify misstatements at certain locations that we determine are isolated, and not representative of misstatements at the other locations, this may indicate the control activity does not operate homogeneously across locations.

We may also perform the following procedures at locations we obtain evidence from to confirm that the control activity operates homogeneously:

- Confirming that the relevant CERAMIC processes, such as monitoring activities, are applied at the locations

- Performing either (i) a walkthrough or (ii) inquiry and observation or inspection of the process that contains the homogeneous control activity. See question '[How do we obtain an understanding of business processes?](#)'

If we are performing procedures at the location ourselves, we provide flowchart/process narratives and tests of design results to the participating auditor performing the work.

[What do we do if we find information that disconfirms our initial assessment of homogeneity?](#) [ISA |

3752.1400]

If we find information that disconfirms our initial assessment of homogeneity, we perform procedures in accordance with the activity '[Reassess homogeneity and consider audit impact if we identify disconfirming information.](#)'

1.3.1.4 Reassess homogeneity and consider audit impact if we identify disconfirming information [ISA | 3753]

What do we do?

IF we identify information that may disconfirm our initial assessment of the homogeneous operation of control activities across locations THEN reassess homogeneity and consider impact on the audit

Why do we do this?

Although we may initially determine that certain control activities operate homogeneously across locations, we continue to reassess this conclusion throughout the audit. If we identify disconfirming evidence to this assessment when performing our audit procedures, it calls into question the appropriateness our audit approach.

Execute the Audit

[How do we reassess the homogeneity of control activities?](#) [ISA | 3753.1300]

To reassess the homogeneity of control activities, we:

- Consider confirming/disconfirming evidence to determine whether our initial assessment that the control activities operate homogeneously across locations remains appropriate
- Assess whether the disconfirming evidence means it is necessary to change our initial assessment

[When do we reassess homogeneity of control activities?](#) [ISA | 3753.1400]

We reassess the homogeneity of control activities throughout the audit and each audit period that we are engaged as the auditor. It is not a "one-off" assessment and is performed as soon as we are aware of disconfirming information.

[What information may contradict our initial assessment of homogeneity?](#) [ISA | 3753.1500]

Any of the following occurrences (in isolation or in combination with others) may be information that disconfirms our initial assessment of homogeneity as it implies that locations may not share characteristics that indicate that a control activity operates homogeneously across those locations:

- Control deficiencies and/or misstatements identified by us at certain locations that we determine are isolated and not representative of control failures or misstatements at the other locations.
- Changes in the business activities of one or more of the locations
- Changes in the factors at certain locations that impact RAWTC - e.g. turnover of personnel operating the control activities, implementation of new IT systems.
- The results of management's assessment of internal controls or internal audit findings suggesting that the control activities do not operate homogeneously.

What is the impact of determining that control activities do not operate homogeneously across locations?

[ISA | 3753.1600]

When control activities do not operate homogeneously across some locations, we identify the control activities at those locations as separate controls and determine if they are relevant control activities.

We update our audit plan for these changes in accordance with activity '[Modify the audit strategy and audit plan if circumstances change](#)'. Since we wouldn't be able to draw a conclusion across those locations, we may also perform procedures at more locations than originally selected for testing. We also may have new risks to address, for example, new process risk points, at those locations.

If we incorrectly identify control activities as homogeneous, this can lead to significant levels of additional work towards the end of the audit, and impact on our ability to report in accordance with the timetable agreed with entity management. We therefore apply appropriate skepticism to our initial assessment that control activities operate homogeneously across locations.

1.3.2 Determine whether centralized services are relevant to the audit

[ISA | 1627]

What do we do?

Determine whether centralized services, including shared services centers, exist and understand the centralized services to determine if they are relevant to the audit

Why do we do this?

Groups centralize services to perform consistent transaction processing, record keeping and IT services for locations. In order to efficiently and effectively perform audit procedures, we identify whether they exist and understand and plan the work to be performed over these centralized services.

Execute the Audit

What are centralized services? [ISA | 1627.1301]

Centralized services may be performed by centralized service teams that may be part of the head office or an entity or business unit or by a formal shared services center (SSC) that is a separate entity or business unit within an organization focusing only on the services provided. SSCs or centralized

service teams are responsible for the execution of specific tasks (i.e. services) for the parent entity and/or entities or business units within that group (i.e. Centralized Services users). Examples of centralized services include transactional accounting, procurement, payroll, information technology, and facility management.

Centralizing services enables larger entities to standardize procedures and practices, save costs by creating economies of scale and improve the control environment through separation and centralization of certain activities within an organization.

For example, often IT systems are centralized within an organization and managed by a centralized IT team.

When third parties provide centralized services to an organization, they are service organizations, and we perform the activities in the chapter on service organizations ([AS 2601](#), [ISA 402](#), [AU-C 402](#)).

[Who gets involved in an audit of an entity that centralizes services?](#) [ISA | 1627.1400]

When we audit an entity that centralizes services, the following participants are involved in the audit:

Participant	Description
Centralized Services (CS) user	A CS user is who receives or uses the centralized services provided.
Centralized Services (CS) user auditor	The CS user auditor is an auditor who performs procedures on the financial statements/financial information of the CS user. This could be as part of an entity with multiple locations, a group audit, or separate stand-alone audits (e.g., statutory audits).
Centralized Services (CS) auditor	The CS auditor is the auditor who performs audit procedures over the centralized services on behalf of the CS user auditors. The CS auditor may be: <ul style="list-style-type: none">• the group auditor,• a CS user auditor, or• another auditor.

[How do we determine whether centralized services are relevant to the audit?](#) [ISA | 1627.1500]

We determine whether centralized services are relevant to the audit by:

- [Determining whether centralized services exist](#)
- [Obtaining an understanding of the centralized services and determine whether those are relevant to the audit.](#)

1.3.2.1 Determine whether centralized services exist

What do we do?

Determine whether centralized services, including shared services centers (SSC's), exist.

Why do we do this?

To plan the audit appropriately, we identify whether the entity centralizes services. This may influence the nature, timing and extent of our audit procedures.

Execute the Audit

How do we determine whether centralized services exist? [ISA | 1628.1300]

During our risk assessment procedures, when we obtain an understanding of the entity, we may:

- inquire of management about the existence of centralized services, including SSC's,
- review information to understand how the entity is organized, e.g.:
 - consolidating hierarchies, schedules and reporting packages
 - management hierarchies and reporting lines (operational and accounting/finance)
 - organizational charts displaying management structures, tax/legal entity structures, and geographic locations
 - listings of reporting
- obtain information from CS user auditors.

We may share our understanding of the centralized services with the CS user auditors in the group audit instructions or audit instructions to participating auditors.

In addition to our initial understanding, we and the CS user auditors may become aware of the existence of centralized services throughout our audit. For example, when we:

- understand the nature of transactions within CS users
- perform audit procedures over the expenses recorded at CS users.
- perform process understanding (e.g. during a walkthrough we may identify that transaction processing is performed by another party such as centralized service team or SSC), etc.

Are centralized services a component? [ISA | 1628.1400]

Centralized services may be identified as a component. We may identify centralized services as a component when it is appropriate to combine the significant account balances of entities or business units subject to the centralized services into a single population for purposes of group audit scoping and performing substantive audit procedures.

For example, it may be appropriate to combine the payroll-related significant accounts for multiple entities or business units and identify a centralized services component when:

- centralized payroll services are performed and

- we plan to perform substantive audit procedures over those payroll-related significant accounts as a single population.

However, it may not be necessary to identify a centralized services component when:

- the centralized services only pertain to GITCs and do not include transaction processing (i.e. initiating and recording transactions) and
- we plan to perform substantive audit procedures over the significant accounts of the entities or business units separately.

[Group Audit | What is a component?](#) [ISA | 1628.1700]

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

1.3.2.2 Obtain an understanding of the centralized services

[ISA | 1629]

What do we do?

Obtain an understanding of the centralized services to determine whether they are relevant to our audit.

Why do we do this?

Understanding the centralized services helps us to identify whether they are relevant to the audit and enable us to plan the work to be performed over the centralized services, including shared services centers (SSCs).

Execute the Audit

[What types of centralized services do centralized service teams, including SSCs, provide?](#) [ISA | 1629.1300]

Centralized services can be classified into the following main categories:

Service	Description
Transaction processing	<p>A centralized service team or SSC may initiate and/or record transactions authorized by the Centralized Services (CS) users and report back information about the processed transactions.</p> <p>An example of centralized services related to the initiation of transactions would be a centralized service team that negotiates all rental agreements for CS users and maintains the signed agreements centrally. After negotiation, the CS user is responsible for accounting for those agreements.</p>

	An example of centralized services related to the recording of transactions would be a centralized service team that processes monthly payroll approved by the CS user's management, which includes processing payroll disbursements and recording the monthly payroll amounts in the CS user's sub ledger and general ledger.
Financial statement processing/ Financial information processing	A centralized service team or SSC prepares and reports on the financial statements / financial information of a CS user. When a centralize service team or SSC performs these services, they may be non-routine and require more judgement. This may also include decision-making processes.
IT services	A centralized service team or SSC manages IT systems on behalf of CS users (e.g. performs GITCs).
Hybrid of the above	A centralized service team or SSC may provide some or all of the service categories described above to the CS user.

[What do we do to obtain an understanding of the centralized services?](#) [ISA | 1629.1400]

As part of understanding the entity during risk assessment, we may:

- request group management, management of the user entity, and/or management of the centralized service team or SSC to provide a list of:
 - all the centralized services provided to the CS users
 - the CS users
- inquire of group management, management of the user entity, and/or management of the centralized service team or SSC as to which components issue separate standalone audited financial statements.

We may perform these procedures and then share our understanding with the CS user auditors.

[What information is relevant to our understanding of the centralized services provided to Centralized Services \(CS\) users?](#) [ISA | 1629.160032]

The following table sets out relevant information to our understanding of the centralized services provided to the Centralized Services (CS) users.

Understanding over the centralized services, including SSCs	Information that can enhance our understanding
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Management	Organizational structure of management
Nature of the centralized services provided and the list of CS users	<p>List and description of:</p> <ul style="list-style-type: none"> • the CS users and services provided to them and the related processes and controls relevant to financial reporting • the key features of any agreements in place with the CS user.
IT environment	<ul style="list-style-type: none"> • Description of the IT systems within the relevant processes. • Description of the IT-interface that exists, if any, between the IT systems used by the centralized service team or SSC and the CS users. • Description of the IT processes related to the centralized services • Whether a central IT system is addressed by the same GITCs for all or part of the group and who manages them. • Whether control activities within an IT system are common for all or some CS users. • Description of cybersecurity risks and incidents related to the centralized services
ICFR over the centralized services, including at the SSCs	<ul style="list-style-type: none"> • Flowcharts of the centralized processes, including PRPs and process control activities • Whether the processes identified are subject to common controls and procedures that apply consistently across all CS users. • CERAMIC principles/elements that are addressed by the centralized service team or SSCs. • Layers of technology, RAFITS and GITCs relevant to the centralized services.
Use of another service provider	<ul style="list-style-type: none"> • List of any service providers used by the centralized service team or SSC, the services they provide, and any relevant controls at the service provider.
Internal audit	<p>If the internal audit department performs procedures over the centralized services or at the SSC, information about internal audit may include:</p> <ul style="list-style-type: none"> • whether the centralized services or SSC are included in the group's internal audit scope or monitored by a separate internal audit department • whether internal audit performs its own testing • who receives the results of testing performed by the internal audit department

	<ul style="list-style-type: none"> whether the findings of internal audit over the centralized services are responded to in writing
Reporting	<ul style="list-style-type: none"> To whom does management of the centralized service team or SSC report Whether the centralized services include preparation of periodic financial statements/ financial information for the CS users.

What do we do when centralized services use another service provider? [ISA | 1629.160033]

When the additional service provider is internal to the group ('centralized subservices'), we treat them as centralized services and follow the guidance for centralized services. In this circumstance, the subservice CS auditor will often interact directly with the CS user auditors, rather than reporting to the CS auditor.

In this case, the CS auditor identifies the controls at the centralized subservice provider that are relevant to the centralized services.

When the service provider is external to the group, the CS auditor applies the service organizations topic ([AS 2601](#), [AU-C 402](#), [ISA 402](#)). In this case, the CS auditor often evaluates the work performed by the service organizations and communicates this evaluation to the CS user auditors.

Are all centralized services relevant to our audit? [ISA | 1629.1500]

Centralized services may include operational services that have no financial reporting implications, such as asset management or logistical services. If we do not consider these services relevant to our audit, we may identify these services but indicate they are not relevant to our audit.

What factors do we evaluate when determining whether the centralized services are relevant to our audit?

[ISA | 1629.1600]

The following factors help us determine which centralized services may be relevant to our audit:

- the nature and materiality of the transactions centrally processed whether relevant controls over process risk points (PRPs) for each RMM or risks arising from IT (RAFIT) are performed by the centralized service team or SSC or by the CS user,
- whether substantive procedures alone cannot provide sufficient appropriate audit evidence, and
- whether information necessary to perform substantive procedures is available at the at the CS user or is maintained by the centralized service team or SSC.

When might centralized services be relevant to an audit? [ISA | 1629.1700]

The centralized services and the controls over them, may be relevant to an audit of the following:

- audits of entities with multiple locations
- group financial statements,
- financial statements/financial information of CS users performed for group audit purposes, and/or
- audited financial statements of CS user prepared for statutory or other local reporting purposes (e.g. statutory audits).

What do we do when the centralized services are relevant to the audit of the CS user(s)? [ISA | 1629.1800]

In developing our audit plan, we determine who will perform the procedures over the centralized services and the type of procedures to be performed (see activity '[Determine who will perform the procedures over the centralized services and the type of procedures to be performed](#)').

Who documents the understanding obtained over the centralized services provided by the centralized services, including SSCs? [\[ISA | 1629.160034\]](#)

The CS auditor is typically responsible for documenting the understanding of the centralized services. However, the group auditor and/or the CS user auditors may share their understanding of the centralized services and the related processes and controls to assist the CS auditor with their documentation.

Examples

What is an example of how we determine whether the centralized services are relevant to our audit? [\[ISA | 1629.8881\]](#)

Fact pattern

As part of understanding the group and its environment, we identify a shared services center that provides centralized payroll services for the rest of the business units within the group. Specifically, the centralized services include:

- determining the biweekly payroll based on data provided by group HR
- paying the calculated payroll after approval by business unit management, and
- posting the necessary journal entries to record the payroll.

Analysis

We and the component auditors (CS user auditors) determined that those centralized services are relevant. Because of geographical considerations, the group auditor involves a separate CS auditor to perform procedures over the relevant services provided by the SSC.

1.3.3 Group Audit or Component Audit | Understand the consolidation process [\[ISA | 1483\]](#)

What do we do?

Obtain an understanding of the consolidation process, including understanding 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.

Why do we do this?

Group financial statements include the financial information of all entities or business units aggregated together. In order to plan the group audit appropriately, as the group auditor, we understand how the financial information of individual entities or business units is organized and consolidated into the group

financial statements. The consolidation process is the main financial reporting process of a group and it is used to:

- properly reflect the financial information of individual entities or business units in the group financial statements; and
- correctly eliminate intercompany transactions/balances and record consolidation adjustments.

In addition, obtaining an understanding of how group management communicates significant matters to management of entities or business units may affect our identification and assessment of the risks of material misstatement of the group financial statements. For example, inadequate communication may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed or that accounting policies are incorrectly applied.

Execute the Audit

What is the consolidation process? [ISA | 1483.12469]

A consolidation process is one part of the financial reporting process. A consolidation process includes:

- Consolidation, proportionate consolidation, or an equity method of accounting in accordance with a financial reporting process;
- the presentation in combined financial statements of the financial information of the entities or business units that have no parent but are under common control or common management; or
- the aggregation in combined financial statements of the financial information of components that are under common control.

The term 'consolidation process' as used in this activity is not intended to have the same meaning as 'consolidation' or 'consolidated financial statements' as defined or described in financial reporting frameworks. Rather, the term 'consolidation process' refers more broadly to the process used to prepare group financial statements.

Group Audit | What do we understand about the consolidation process? [ISA | 1483.1400]

As the group auditor, we obtain an understanding of the consolidation process, including sub-consolidations, if any, and consolidation adjustments. We think about matters such as:

Matters relating to...	Considerations
the applicable financial reporting framework	<ul style="list-style-type: none">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 and how relevant information to support related disclosures is gatheredthe process for determining that uniform accounting policies are used for financial information of all entities and business units that is included in the group financial statements, including how differences in accounting policies are identified and adjusted where applicable

	<ul style="list-style-type: none"> • the extent to which management of the entity and business units in the group have an understanding of the applicable financial reporting framework • the process for identifying and accounting for entities and business units in the group (e.g. entities or business units are not included in the consolidation that should be, or entities or business units are included that should not be) • the process for identifying reportable segments for segment reporting • the process for identifying related party relationships and related party transactions • process for obtaining information on subsequent events • the procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.
the consolidation, including sub-consolidation, if any, process	<ul style="list-style-type: none"> • process for ensuring proper and timely financial reporting by the entities or business units • whether consolidation occurs manually or using an IT system • how entity or business unit information is entered into the consolidation system • how the functional currency of the entities or business units is determined • the process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements • how IT is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved • how the results of the consolidation process are incorporated into the financial reporting process • whether there are multiple layers to the group such that a sub-consolidation occurs to aggregate the financial information of entities or business units into different operating segments or reportable segments
consolidation adjustments	<ul style="list-style-type: none"> • the process for recording consolidation adjustments • the knowledge and experience of personnel responsible for the consolidation • the consolidation adjustments required by the applicable financial reporting framework • the business purpose for the consolidation adjustments • standing consolidation adjustments • how non-standard consolidation adjustments are identified

	<ul style="list-style-type: none">frequency, nature and size of transactions between entities or business units in the groupthe procedures for identifying and eliminating intra-group transactions, unrealized profits, and intra-group account balancesprocess for obtaining a fair value for acquired assets and liabilitiesprocess for impairment testing of goodwillcalculation of the minority interestsarrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g. an obligation of the minority interest to make good such losses).
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[Group Audit | What is the "applicable financial reporting framework" in a group audit?](#) [ISA | 1483.12187]

Reference to "the applicable financial reporting framework" means the financial reporting framework that applies to the group financial statements.

[Group Audit | What does 'uniform accounting policies' mean?](#) [ISA | 1483.12188]

Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units use to report similar transactions consistently. These policies are usually described in the financial reporting procedures manual and reporting package issued by group management.

[Core and Less Complex | Group Audit | How do we obtain an understanding of the consolidation process?](#) [ISA | 1483.1500]

As the group auditor, we obtain an understanding of the group's consolidation process by either performing (i) a walkthrough of the process or (ii) through inquiry and observation or inspection. Walkthroughs may be the most effective way to obtain our understanding. See question '[How do we obtain an understanding of the period-end financial reporting process?](#)' for further information.

For most business processes, obtaining an understanding involves following a single 'transaction' from initiation to the recording of the transaction in the entity's transaction processing systems. However, obtaining an understanding of the consolidation process does not involve following a single transaction in the same way because individual transactions are often batched or accumulated with many others into an entity's or business unit's financial information. Rather, we follow the flow of data and information from the entity or business unit reporting packages to the consolidation systems (which includes making consolidation adjustments) and subsequent reporting of the accumulation of financial information of entities or business units into the group financial statements similar to how we would follow a transaction when walking through business processes.

[Enhanced | Group Audit | How do we obtain an understanding of the consolidation process?](#) [ISA | 1483.12189]

As the group auditor, we obtain an understanding of the group's consolidation process based on the applicable International-Enhanced methodology as follows:

Applicable International-Enhanced methodology	Type of process	Obtain an understanding of the process by:
International-Enhanced PIE methodology	Consolidation process	Performing a walkthrough
International-Enhanced Non-PIE methodology	Consolidation process where we evaluate D&I of process control activities that address RMMs	Performing a walkthrough
	Consolidation adjustments within the consolidation process (*)	Performing a walkthrough
	Consolidation process, except for consolidation adjustments, where we do not evaluate D&I of process control activities that address RMMs	Either performing (i) a walkthrough or (ii) through inquiry and observation or inspection. Walkthroughs are encouraged.
<p>(*) The consolidation adjustments are considered post-closing adjustments and therefore we perform a walkthrough as indicated in the question "How do we understand the process and procedures related to journal entries and other adjustments?"</p>		

See question "[Which control activities do we obtain an understanding of and are relevant to the audit?](#)" for guidance on when we evaluate D&I of process control activities that address RMMs.

For most business processes, obtaining an understanding involves following a single 'transaction' from initiation to the recording of the transaction in the entity's transaction processing systems. However, obtaining an understanding of the consolidation process does not involve following a single transaction in the same way because individual transactions are often batched or accumulated with many others into an entity's or business unit's financial information. Rather, we follow the flow of data and information from the entity or business unit reporting packages to the consolidation systems (which includes making consolidation adjustments) and subsequent reporting of the accumulation of financial information of entities or business units into the group financial statements similar to how we would follow a transaction when walking through business processes.

How may group management communicate significant matters to management of entities or business units? [\[ISA | 1483.160241\]](#)

Group management may communicate 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 by issuing instructions.

What do the instructions issued by group management to components include? [ISA | 1483.1700]

Instructions issued by group management to management of entities or business units (e.g. group reporting manual) generally specify the requirements for preparing financial information of entities or business units. These also often include information on the financial reporting procedures and a group reporting package.

Usually, the instructions issued by group management to management of entities or business units include matters such as:

- the accounting policies that management of entities or business units should use. These are specific principles, bases, conventions, rules, and practices adopted by the group that the entity or business units use to report similar transactions consistently.
- Information necessary to prepare disclosures for the applicable to the group financial statements that are sufficient to comply with the requirements of the applicable financial reporting framework:
 - related party relationships and transactions;
 - segment information;
- Information necessary for making consolidation adjustments, including:
 - intra-group transactions and unrealized profits;
 - intra-group account balances;
- a reporting timetable.

The management instructions are part of the group's internal control over financial reporting (i.e. the information and communication component of [CERAMIC](#)).

What is a group reporting package? [ISA | 1483.12190]

A group reporting package ordinarily consists of standard formats, templates and schedules for providing financial information for incorporation in the group financial statements. Reporting packages generally do not take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework. In some groups, management of entities or business units may obtain this information electronically through the group's IT systems.

The group reporting package is provided by management of entities or business units to group management for consolidation purposes and to provide additional information for inclusion in the group financial statements.

How do we understand the instructions group management issues to management of entities or business units? [ISA | 1483.1800]

As the group auditor, our understanding of the instructions group management has issued to management of entities or business units may include examining:

- the clarity and practicality of the instructions for completing the group reporting package;
- whether the instructions:
 - adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;

- address information necessary to prepare disclosures that are relevant for group financial statements (e.g., disclosure of related party relationships and transactions);
- address information necessary for the preparation of consolidation adjustments (e.g., intra-group transactions and unrealized profits, intra-group account balances)
- include a reporting timetable.

What do we do when group management does not issue instructions to management of entities or business units? [ISA | 1483.1900]

As the group auditor, we may have to obtain this understanding by inquiring of both group management and management of the entities or business units and observing how the group management communicates with and coordinates with management of the entities or business units.

In doing this, we focus on:

- how group management determines that accounting and financial reporting is consistent throughout the group, and
- whether the procedures, policies and actions undertaken by group management are sufficient to create consistency across the group and result in a proper consolidation process.

If we believe that there may be inconsistency across the group, we consider the impact on the group audit, including whether:

- this represents a control deficiency;
- modifications are necessary to our procedures over any entries adjusting the component's financial information for the consolidation purposes;
- modifications are necessary to the procedures we perform at components; and
- revisions to our original risk assessments are necessary.

In some circumstances, we may consider whether it is possible to perform the group audit.

2 Group Audit | Determine components at which audit procedures will be performed

[ISA | 1492]

What do we do?

Determine components at which audit procedures will be performed.

Why do we do this?

Doing this helps us identify and assess the risks of material misstatement (RMMs) of the group financial statements that arise at components and perform appropriate procedures to address those RMMs to support the group audit opinion.

Execute the Audit

How do we determine at which components audit procedures will be performed? [ISA | 1492.1300]

As the lead group auditor, to determine components at which audit procedures will be performed, we:

- identify quantitatively significant components

- [identify additional components considering factors](#)
- [evaluate remaining financial information](#)

What types of work can be performed at a component? [ISA | 1492.160263]

The following types of work may be performed at components:

- (1) [Risk assessment procedures](#)
- (2) [Further audit procedures](#)

Can we use the work performed for a statutory audit for group audit purposes? [ISA | 1492.160264]

An audit of a component may be performed for statutory, regulatory or other reasons. As the group auditor, we may decide to use that work to respond to RMMs of the group financial statements for the group audit. When this is the case, we apply the relevant KPMG Audit Execution Guide related to group audits for this component and the component auditor. Our responsibilities to direct and supervise the component auditor and review their work is no different than a component auditor who performs work only for the purpose of the group audit.

Factors that may affect our decision whether to use work from the statutory audit to provide audit evidence for the group audit include:

Factor	Considerations
Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements	The extent of differences between the financial reporting frameworks will affect whether we can use their audit. If the volume or amount of adjustments is small and a simple reconciliation can be performed to adjust the statutory financial statements for the purposes of the group financial statements, we may be able to use the statutory audit, with limited additional procedures performed by us or the component auditor.
Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements	We use audit work when it is in accordance with the auditing standards that we report under. The greater the differences between the auditing standards the less likely we are to use their work.

2.1 Group Audit | Identify quantitatively significant components [ISA | 1494]

What do we do?

Identify quantitatively significant components.

Why do we do this?

As the size a component increases, the risk of material misstatements of the group financial statements increases. Therefore, we perform audit procedures over quantitatively significant components.

Execute the Audit

[What is a 'quantitatively significant component'? \[ISA | 1494.1300\]](#)

A component is 'quantitatively significant' if the component has 10% or more of either total assets or total revenues of the group.

[How do we determine the amounts of the relevant benchmarks? \[ISA | 1494.160265\]](#)

As the group auditor, we may use the following types of balances to determine the amount of the relevant benchmarks:

- actual amounts of the benchmarks available during planning;

For example, if we identify components where procedures will be performed based on using interim financial information (e.g., half-year, or quarterly results), then we use these half-year results to quantify the benchmarks.

- estimated amounts of the benchmarks at period-end, e.g. using budgets or forecasts for the period.

The table below sets out examples of situations where we may use actual or estimated amounts:

Benchmark	Examples
Actual amounts	When total assets at the component and the group are expected to remain relatively consistent throughout the year. When total revenues at the component are not subject to seasonality or expected changes during the period.
Estimated amounts	When the group expects to dispose of a significant part of a component's assets before period-end. When the component's revenues are subject to seasonality or expected changes during the period.

Our objective is to identify those components that are a large portion of the group, so it doesn't matter if we use monthly, quarterly, half-year, or projected full-year results as long as the results for all components and for the group are consistent.

When we have used interim financial information, we consider the group audit scoping based on the final numbers at the year-end and [confirm or revise our initial identification of components](#).

Do we use pre- or post-consolidation amounts when determining the amounts of the relevant benchmarks? [ISA | 1494.160266]

As the group auditor, we may use pre- or post-consolidation amounts to determine the amount of the relevant benchmarks.

The group financial statements include post-consolidation amounts, meaning inter-company transactions, balances and results are eliminated. Therefore, we think about whether to exclude intercompany transactions and balances in order to determine the amount of the benchmark.

The table below sets out examples of situations where we may use pre- or post-consolidation amounts:

Benchmark	Examples
Post-consolidation amounts	When post-consolidation benchmark values at components are available or can reasonably be determined or estimated. When there is a complex structure that includes entities with significant intra-group transactions that distort the relative size of the entity for one of the benchmarks.
Pre-consolidation amounts	When post-consolidation benchmark values at components are not available or cannot be reasonably determined or estimated. When the group is made up primarily of external trading entities, and there are not significant intra-group transactions within the components.

In determining whether to use pre- or post-consolidation values, we think about our ability to determine post-consolidation component values and the extent to which pre-consolidation values might distort the values we use to determine the relative size of components - for example, significant intra-group revenue that makes a component appear larger.

Regardless of whether we choose to use pre- or post-consolidation amounts, we use them consistently for the components and the group when identifying components where audit procedures will be performed.

What amounts do we use when a discontinued operation has occurred during the period? [ISA | 1494.160267]

The amount of total revenues is based on continuing operations to the extent that a discontinued operation has occurred during the period.

Are the benchmarks used in group scoping the same as the benchmarks used for setting materiality for the financial statements as a whole? [\[ISA | 1494.160268\]](#)

Not necessarily. Although the benchmark for setting materiality may end up being the same as one of the benchmarks for determining size (Total assets and Total revenue), the purpose of the benchmarks is different:

Benchmark for determining...	Purpose
Components at which to perform work	To determine the relative size of the component.
Materiality for the financial statements as a whole	To determine what is material to a user of the financial statements.

How do we determine the size of components as a percentage of the relevant benchmarks? [\[ISA | 1494.160269\]](#)

As the lead group auditor, we determine the size of a component by dividing the amount of the relevant benchmark at the component by the amount of the benchmark at the group. The resulting percentage is rounded to the nearest whole percent.

A depiction of the calculation is as follows:

$$\text{Relative Size of Component} = \frac{\text{Amount of the Benchmark at Component}}{\text{Amount of Benchmark at Group}}$$

We perform procedures at components with 10 percent or more of either total assets or total revenue.

For example, audit procedures are performed at the following components:

- Component A represents 12 % of revenue and 7% of total assets
- Component B represents 4% of revenue and 20 % of total assets
- Component C represents 15% of revenues and 11% of total assets.

Can a higher or lower percentage than 10% be used as a threshold to identify quantitatively significant components where audit procedures will be performed? [\[ISA | 1494.160270\]](#)

We can use a threshold that is lower than 10%, but not higher.

Do we include a component that is disposed of during the period in our identification? [\[ISA | 1494.160271\]](#)

Yes. When a component is disposed of during the period under audit, our audit still considers: 1) the accounting for and disclosure of the divestiture, and 2) the financial information of the divested component up to the date of disposition. The financial information of the divested component consists of the income and expenses up to the date of disposition.

As the group auditor, we consider the same benchmarks and threshold levels applied to the other components up to the date of disposition when determining whether audit procedures will be performed at the disposed component.

[How do we apply the relevant benchmarks to equity method investments identified as components?](#)

[ISA | 1494.160272]

When we have identified an equity method investment as a component, we divide the amount of the equity method investment recorded in the group financial statements by total assets of the group financial statements to determine if the equity method investment is greater than 10% of total assets.

[What types of work do we perform at quantitatively significant components?](#) [ISA | 1494.160273]

We perform the following types of work:

- [risk assessment procedures at the component](#) when risk assessment procedures performed at the group level are not sufficient to identify and assess the risks of material misstatement of the group financial statements (group RMMs) at the component and
- [perform further audit procedures](#) when there are group RMMs at the component, which can be performed centrally at the group level or be performed at the component level.

2.2 Group Audit | Identify additional components where procedures will be performed [ISA | 1501]

What do we do?

Identify additional components where audit procedures will be performed.

Why do we do this?

Considering certain factors enables us to determine whether risks of material misstatement of the group financial statements may be present at a component and whether to perform procedures at them.

Execute the Audit

[How do we identify additional components where audit procedures will be performed?](#) [ISA | 1501.1300]

As the group auditor, we identify additional components considering certain quantitative and qualitative factors.

[What factors do we think about when identifying additional components at which to perform procedures?](#) [ISA | 1501.12210]

As the group auditor, we think about the following factors to identify components where audit procedures may be necessary (i.e. a risk of material misstatement of the group financial statements is present):

Factor	When may the factor indicate that we perform procedures at a particular non-significant component
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Size of the account at the component relative to group performance materiality	<p>We consider the size of the account balances as a multiple of group performance materiality.</p> <table border="1"> <thead> <tr> <th>Group Performance Materiality</th> <th>7x Performance Materiality</th> <th>13x Performance Materiality</th> </tr> </thead> </table>	Group Performance Materiality	7x Performance Materiality	13x Performance Materiality
Group Performance Materiality	7x Performance Materiality	13x Performance Materiality		
	<p>When the account balance at a component is more than 7x group performance materiality, it is an indication that there may be a risk of material misstatement at the component where audit procedures are necessary.</p> <p>Careful consideration is made as the account balance at a component exceeds 13x group performance materiality.</p> <p>The guideline multiples are not safe harbours. Our evaluation includes consideration of qualitative factors and the specific facts and circumstances of the group. The multiples are simply guidelines and act as an indicator to help us identify situations where we may have incorrectly determined that there is not a reasonable possibility of a material misstatement to the group financial statements at a component.</p>			
Nature of assets, liabilities and transactions	<p>The component processes non-routine transactions and the accounts require complex accounting or significant judgments. Additionally, significant unusual transactions have been executed outside the normal course of business.</p>			
Specific risks	<p>The component:</p> <ul style="list-style-type: none"> • has operations that are subject to a high degree of complex regulation; • is newly formed or acquired; • has experienced significant changes; • has significant transactions with related parties; • operates in a country with political/economic instability; or • has abnormal fluctuations identified by our analytical procedures. 			
CERAMIC	<p>Our understanding of CERAMIC indicates that the component is not subject to the group's CERAMIC. For example:</p> <ul style="list-style-type: none"> • group management does not have control over the exercise of authority assigned to others and does not have the ability to effectively supervise activities at the component or • group management does not perform effective and timely monitoring activities over the component. 			

Subject to other audits, such as statutory audits or internal audits	Statutory audits or internal audits have identified significant issues, including audit misstatements that were material to the group financial statements.
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May we vary the components we select to perform procedures at over time? [ISA | 1501.1400]

Yes. While we, as the group auditor, plan to perform procedures at those components where there is more than a reasonable possibility of a material misstatement, there may be opportunities to vary the selection of components where we perform procedures, including:

- when selecting certain components to address a risk of material misstatement that exists in the aggregate across the remaining financial information, we can choose to select certain components on a rotating or cyclical basis,
- we may select components where procedures are normally not performed to [incorporate an element of unpredictability](#).

2.3 Group Audit | Evaluate the remaining financial information [ISA | 1502]

What do we do?

Evaluate the remaining financial information for each account and disclosure of the group financial statements, and determine whether additional procedures will be performed.

Why do we do this?

Appropriately evaluating the remaining financial information enables us to determine:

- whether the risk assessment procedures performed by us, as the group auditor, and component auditors provides an appropriate basis for the identification and assessment of risks of material misstatement of the group financial statements,
- whether the further audit procedures to be performed at components is sufficient
- whether, we, as the lead group auditor, will obtain sufficient appropriate audit evidence on which to base our group audit opinion.

Execute the Audit

What is remaining financial information? [ISA | 1502.1300]

Remaining financial information includes Accounts and disclosures of the group financial statements at the group level or at any component that are not subject to further audit procedures to respond to RMMs.

How do we evaluate the remaining financial information? [ISA | 1502.1500]

As the group auditor, we:

- (1) perform our preliminary evaluation of the remaining financial information during planning after we:
 - have performed risk assessment procedures at the group level,

- identified those accounts, disclosures and assertions that have indicators that they are likely significant accounts or disclosures and relevant assertions, and
- identified components where we plan to perform risk assessment procedures and/or anticipate further audit procedures to be performed.

(2) Our preliminary evaluation of remaining financial information enables us to evaluate whether the audit evidence obtained from the risk assessment procedures performed by us and component auditors provides an appropriate basis for the identification and assessment of risks of material misstatement of the group financial statements.

(3) perform a final evaluation of remaining financial information during risk assessment after we:

- have performed our risk assessment procedures at the group level and component level and
- identified the significant accounts and disclosures and relevant assertions of the group financial statements at components.

(4) Our final evaluation of remaining financial information enables us to [determine whether further audit procedures to be performed at components is sufficient](#).

At what level do we evaluate remaining financial information? [ISA | 1502.160303]

As the group auditor, we evaluate remaining financial information for the accounts and disclosures of the group financial statements.

[What does "reasonable possibility" mean?](#) [ISA | 1502.12242]

Reasonable possibility means that the chance of the future event or events occurring is more than remote, and is therefore a low threshold.

[How do we determine that there is less than a reasonable possibility of a material misstatement in the remaining financial information?](#) [ISA | 1502.12243]

As the group auditor, we evaluate the remaining financial information of the group financial statement accounts, in the aggregate, by considering the remaining financial information as a multiple of group performance materiality along with our consideration of certain qualitative factors, supported by our risk assessment procedures.

We expect there to be:

- stronger qualitative factors supported by more persuasive audit evidence from our risk assessment procedures, and
- more robust documentation

to support our evaluation that there is less than a reasonable possibility of a risk of material misstatement as the multiple of group performance materiality increases.



As we approach 13x group performance materiality, there is an indicator that there may be a risk of material misstatement in the aggregate. Careful consideration is made as the remaining financial information exceeds 53x group performance materiality.

The guideline multiples are not safe harbours. Our evaluation includes consideration of qualitative factors and the specific facts and circumstances of the group. The multiples are simply guidelines and

act as an indicator to help us identify situations where we may have incorrectly determined that there is not a reasonable possibility of a risk of material misstatement in the remaining financial information.

What are the qualitative factors we think about when evaluating the remaining financial information?

[ISA | 1502.12247]

As the group auditor, we think about different qualitative factors, based upon the results of our risk assessment procedures, when evaluating the remaining financial information in aggregate to determine the acceptable multiple of group performance materiality, including:

Factor	Examples of indicators of a higher multiple of performance materiality	Examples of indicators of a lower multiple of performance materiality
Nature of assets, liabilities and transactions	<p>The components process routine transactions and the accounts do not require complex accounting or significant judgments. Additionally, no significant unusual transactions have been executed outside the normal course of business.</p>	<p>The components process non-routine transactions and the accounts require complex accounting or significant judgments. Additionally, significant unusual transactions have been executed outside the normal course of business.</p>
Risks associated with other components	<p>The risks and business activities at these components are dissimilar from components where risks of material misstatement exist and procedures are performed.</p>	<p>The risks and business activities at these components are similar to other components where risks of material misstatement exist and procedures are performed.</p>
Control environment	<p>Our understanding of the group's control environment indicates the following:</p> <ul style="list-style-type: none"> • management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior and • the control environment provides an appropriate foundation for the other 	<p>Our understanding of the group's control environment indicates one or more of the following:</p> <ul style="list-style-type: none"> • management, with the oversight of those charged with governance, has not created and maintained a culture of honesty and ethical behavior, • the control environment has not provided an

	<p>components of ICFR considering the nature and complexity of the group.</p>	<p>appropriate foundation for the other components of ICFR considering the nature and complexity of the group; and/or</p> <ul style="list-style-type: none"> • the control deficiencies identified in the group control environment undermine the other components of the entity's system of internal control.
Risk Assessment Process	<p>Our understanding of the group's risk assessment process indicates group management's risk assessment process is appropriate considering the nature and complexity of the group.</p>	<p>Our understanding of the entity's risk assessment process indicates group management's risk assessment process is not appropriate considering the nature and complexity of the group.</p>
Monitoring activities	<p>Our understanding of the group's monitoring activities indicates that group management performs effective and timely monitoring activities over all entities or business units.</p>	<p>Our understanding of the group's monitoring activities indicates that group management does not perform effective and timely monitoring activities over all entities or business units.</p>
IT systems and IT processes	<p>The recordkeeping and information processing for the components are decentralized, and they do not have the same IT system.</p>	<p>The recordkeeping and information processing for the components are centralized, and they have the same IT system.</p>
Distribution of remaining financial information across components	<p>The remaining financial information is spread across many components (e.g. 50 components, where each is significantly less than group performance materiality).</p>	<p>The remaining financial information is spread across a few components (e.g. 3 components, two of which represent 7x group performance materiality)</p>

Results of reviews or statutory audits, if applicable	The results of reviews or statutory audits performed at remaining components did not identify any significant matters that would indicate there was a risk of material misstatement in the remaining financial information.	The results of reviews or statutory audits performed at remaining components identified significant matters that indicate there could be a risk of material misstatement in the remaining financial information.
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Can analytical procedures performed at the group level help us support a higher multiple of group performance materiality? [ISA | 1502.12252]

Yes. When the account balance or disclosure in the aggregate is at the higher end of the multiple of group performance materiality, we, as the group auditor, may perform additional [analytical procedures at the group level](#) to provide further insight into risks for the account or disclosure.

Analytical procedures may help us support our assessment that there is less than a reasonable possibility of a material misstatement in the remaining financial information for that account or disclosure.

For example, when the remaining financial information for the cost of goods sold account is 50x group performance materiality and it is across 10 components with similar business activities, we may compare the gross margin in similar significant components to the gross margin in each of these 10 components and to the gross margin at these components in the previous year. If the gross margins are consistent, it may imply that there is less than a reasonable possibility of a material misstatement in the remaining financial information for the cost of goods sold account.

We may also leverage information obtained from the analytical procedures performed at components.

Can risk assessment procedures performed at components help us support a higher multiple of group performance materiality? [ISA | 1502.160304]

Yes. If we, as the group auditor, have determined to perform risk assessment procedures at a component, the risk assessment procedures may help us support our assessment that there is less than a reasonable possibility of material misstatement in the remaining financial information for that account or disclosure at that component.

For example, based on our initial group audit scoping, we, as the group auditor, directed a component auditor to obtain an understanding of the Prepaid Expenses business process at Component A. Based on the results of these risk assessment procedures, we determined there is a less than reasonable possibility of a material misstatement occurring in the population. As such, we conclude there is less than a reasonable possibility of a material misstatement in the remaining financial information for the Prepaid Expense account at Component A when performing our RFI assessment at the group level.

Do we re-evaluate the remaining financial information? [ISA | 1502.160301]

Yes. As the group auditor, we re-evaluate whether there is less than a reasonable possibility of a material misstatement in the remaining financial information based upon the final balances of the group financial statements and when changes in circumstances occur during the audit that impact the group structure (i.e. new acquired component, significant changes in financial results, etc.) or the risks of material misstatement of the group financial statements.

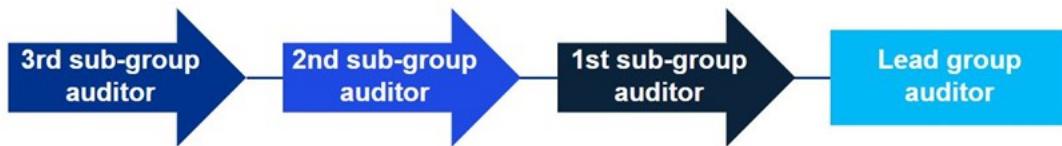
How do we evaluate the remaining financial information for sub-groups? [ISA | 1502.12256]

As the lead group auditor, we evaluate the remaining financial information at the individual component level (i.e. look through the sub-group to the lowest level of components).

We determine components where procedures are to be performed and the type of procedures, but we may use sub-group auditors to help with this process and with evaluating the remaining financial information. We obtain an understanding whether the sub-group auditors are performing additional scoping decisions within their sub-group that reduce the extent of procedures planned for certain accounts or components within that sub-group. In this case, we assess the effect this has on the overall risk assessment and planned audit response for the group audit.

When evaluating the remaining financial information, we satisfy ourselves that the audit work to be performed throughout all levels of components within the group respond to the identified and assessed risks of material misstatement of the group financial statements.

In practice, the sub-group auditor communicates its scoping to the group auditor directly above them. That group auditor will then reflect that sub-group auditor's scoping within their own scoping. By doing this, the scoping decisions made by all of the sub-group auditors will be captured at the highest group level by the lead group auditor.



What do we do when there is more than a reasonable possibility of a material misstatement in the remaining financial information? [ISA | 1502.1700]

As the group auditor, we may address this risk in a number of ways, including:

- select additional accounts at the components at which we have planned to perform procedures based upon the size of the account relative to group performance materiality and the nature of the account (e.g. include non-routine transactions or require complex accounting or significant judgments).
- request the component auditor to perform additional audit procedures, beyond what the component auditors may plan. For example, the group auditor may request the component auditor to perform procedures over an account that falls below its respective component performance materiality (including testing a minimum sample size as appropriate) to adequately address an identified risk of material misstatement of the group financial statements. This approach may be appropriate when a significant portion of a group account balance is spread across many individual components.
- identify additional components where procedures will be performed.

This is an iterative process and the remaining financial information is further evaluated until we conclude that there is less than reasonable possibility of a material misstatement.

[What factors do we think about when identifying additional components at which to perform procedures? \[ISA | 1502.12210\]](#)

As the group auditor, we think about the following factors to identify components where audit procedures may be necessary (i.e. a risk of material misstatement of the group financial statements is present):

Factor	When may the factor indicate that we perform procedures at a particular non-significant component
Size of the account at the component relative to group performance materiality	<p>We consider the size of the account balances as a multiple of group performance materiality.</p> <div data-bbox="600 741 1400 819" style="background-color: linear-gradient(to right, #00AEEF 0%, #FF9900 100%); width: fit-content; margin: auto;"> Group Performance Materiality 7x Performance Materiality 13x Performance Materiality </div> <p>When the account balance at a component is more than 7x group performance materiality, it is an indication that there may be a risk of material misstatement at the component where audit procedures are necessary.</p> <p>Careful consideration is made as the account balance at a component exceeds 13x group performance materiality.</p> <p>The guideline multiples are not safe harbours. Our evaluation includes consideration of qualitative factors and the specific facts and circumstances of the group. The multiples are simply guidelines and act as an indicator to help us identify situations where we may have incorrectly determined that there is not a reasonable possibility of a material misstatement to the group financial statements at a component.</p>
Nature of assets, liabilities and transactions	<p>The component processes non-routine transactions and the accounts require complex accounting or significant judgments. Additionally, significant unusual transactions have been executed outside the normal course of business.</p>
Specific risks	<p>The component:</p> <ul style="list-style-type: none"> • has operations that are subject to a high degree of complex regulation; • is newly formed or acquired; • has experienced significant changes; • has significant transactions with related parties; • operates in a country with political/economic instability; or

	<ul style="list-style-type: none"> • has abnormal fluctuations identified by our analytical procedures.
CERAMIC	<p>Our understanding of CERAMIC indicates that the component is not subject to the group's CERAMIC. For example:</p> <ul style="list-style-type: none"> • group management does not have control over the exercise of authority assigned to others and does not have the ability to effectively supervise activities at the component or • group management does not perform effective and timely monitoring activities over the component.
Subject to other audits, such as statutory audits or internal audits	<p>Statutory audits or internal audits have identified significant issues, including audit misstatements that were material to the group financial statements.</p>

[How do we evidence in our assessment that there is less than a reasonable possibility of a material misstatement in the remaining financial information? \[ISA | 1502.1800\]](#)

As the group auditor, we document our final evaluation of remaining financial information and conclusion that there is less than a reasonable possibility of material misstatement within the remaining financial information for each account and disclosure. Given the judgmental nature of this evaluation, our documentation evidences the specific qualitative factors and risk assessment procedures supporting our conclusions, especially when the remaining financial information represents a higher multiple of group performance materiality. This allows an experienced auditor having no previous connection with the engagement to reach the same conclusions.

We also document our re-evaluation of remaining financial information based upon the final balances of the group financial statements.

Examples

[What is an example of how to evaluate remaining financial information for a disclosure? \[ISA | 1502.160306\]](#)

The group auditor determined there was an RMM to the group financial statements related to the presentation and disclosure of future minimum lease payments. However, the group auditor determined it was not necessary to perform work related to amounts included in the disclosure at all components with leases. The group auditor determined that there was less than a reasonable possibility of a material misstatement in the remaining financial information of the disclosure of future minimum lease payments based on:

- no changes in lease accounting policies and stability in the discount rate; and
- for the components included in the remaining financial information, low volume of leases and no lease modifications in the current year, resulting in minimal changes to the amounts included in disclosure.

2.4 Group Audit | Determine the risk assessment procedures to be performed at the component level

[ISA | 1504]

What do we do?

Determine the risk assessment procedures to be performed at the component level and who will perform those procedures.

Why do we do this?

As the group auditor, we obtain an understanding of the group and its environment, the applicable reporting framework, and the group's system of internal control to identify and assess the risks of material misstatement of the group financial statements (group RMMs). Performing risk assessment procedures at the component level enables us to identify and assess group RMMs that arise at components when audit evidence obtained from the risk assessment procedures at the group level does not provide an appropriate basis for the identification and assessment of group RMMs.

Execute the Audit

When are risk assessment procedures at the component level necessary? [ISA | 1504.160279]

We perform risk assessment procedures at the component level when the risk assessment procedures that we perform at the group level do not provide us with enough information to identify and assess the group RMMs at components.

At which components do we perform risk assessment procedures at the component level? [ISA |

1504.160280]

We perform risk assessment procedures at components where:

- there may be a reasonable possibility of a material misstatement to the group financial statements at that component, and
- risk assessment procedures at the group level do not provide us with enough information to identify and assess the group RMMs at that component.

When component level risk assessment procedures are necessary, what risk assessment procedures do we perform? [ISA | 1504.160281]

The risk assessment procedures we perform at the component level fall into 3 categories:

- Category 1 - procedures that are always performed,
- Category 2 - procedures performed when circumstances exist, and
- Category 3 - procedures performed when either:
 - the component contains a reasonable possibility of a material misstatement to the group financial statements for the account and/or disclosures within the relevant process, or
 - we, as the group auditor, cannot determine if there is a reasonable possibility of a material misstatement for the account and/or disclosures within the relevant process

and we, as the group auditor, do not have enough information to identify and assess the group RMMs at the component for the relevant process.

In addition, we, as the group engagement team, may perform analytical procedures or read meeting minutes of owners, management and those charged with governance (TCWG) at components, as considered necessary.

[What risk assessment procedures are in Category 1?](#) [ISA | 1504.160282]

We always perform:

- inquiries of those charged with governance, management, and others related to fraud, and
- an evaluation of whether one or more fraud risk factors are present at the component based upon the information obtained from the risk assessment procedures performed at the component.

[What risk assessment procedures are in Category 2?](#) [ISA | 1504.160284]

We perform procedures in the following areas of risk assessment when circumstances exist:

Area of risk assessment	Circumstances
Understanding the component and its environment, including inquiries related to: <ul style="list-style-type: none">• changes in the entity's business or environment including internal control• changes in circumstances that may give rise to new or revised estimates	When additional information is available at the component to obtain this understanding because for example, the component: <ul style="list-style-type: none">• has different operations or revenue streams• is located in a different jurisdiction than group management or is subject to different laws or regulations.
Understanding the components of internal control related to control environment, risk assessment, monitoring, and communications	When we need to obtain audit evidence at the component level in order to obtain the necessary understanding at the group level.
Understanding the IT environment	When a component operates its own IT environment.
Understanding the financial reporting process, including: <ul style="list-style-type: none">- the component's process and procedures to enter transaction totals into the general ledger- the component's process and procedures used to initiate, authorize, process and record journal entries	When we plan to perform further audit procedures at the component related to the financial reporting area, and the process does not occur through centralized services

<p>and other recurring and non-recurring adjustments</p> <ul style="list-style-type: none">- the component's process and procedures for preparing the component reporting package- the component's consolidation process, including sub-consolidations, if any, and consolidation adjustments- the component's process for identifying subsequent events- the component's process for foreign currency translation <p>Understanding compliance with laws and regulations, including:</p> <ul style="list-style-type: none">- making inquiries of management and TCWG and- inspecting correspondence, if any, with the relevant licensing or regulatory authorities- Obtaining an understanding of how management is made aware of actual or suspected non-compliance and how information is collected, actioned and reported on- Obtaining reports, if any, of matters reported to TCWG <p>Procedures to identify litigation, claims, & assessments:</p> <ul style="list-style-type: none">- making inquiries of management and others at the component, including in-house counsel,- understanding management's policies and procedures,- obtaining management's description and evaluation of litigation- examining documents in the entity's possession concerning litigation, and- reading meeting minutes of owners, management and those charged with governance (TCWG) at components	<p>When audit evidence resides at the component level rather than at the group level</p> <p>When audit evidence resides at the component level rather than at the group level</p>
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Identifying events or conditions relevant to the group's ability to continue as a going concern	When events or conditions at the component level are relevant to the determination of whether conditions raise significant doubt on the group's ability to continue as a going concern.
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What risk assessment procedures are in Category 3? [ISA | 1504.160299]

We perform procedures in the following areas of risk assessment when:

- the component contains a reasonable possibility of a material misstatement to the group financial statements for the account and/or disclosures within the relevant process, or
- we cannot determine if there is a reasonable possibility of a material misstatement for the account and/or disclosures within the relevant process

and the group engagement team does not have enough information to identify and assess the group RMMs at the component for the relevant process.

Area of risk assessment
Understanding the relevant business processes, including understanding the process by which accounting estimates are developed
Understanding the component's related party processes and control activities, including inquiries of TCWG, management, and others regarding related parties
Understanding the component's relevant controls that address significant unusual transactions, including inquiries of TCWG, management, and others regarding SUTs
Understanding relevant control activities
Inquiring of management, TCWG, and others related to debt covenant compliance

Who designs and performs risk assessment procedures at components? [ISA | 1504.160286]

Risk assessment procedures at components may be:

- designed and performed by the group auditor,
- designed and performed by the component auditor, or
- designed by the group auditor and performed by the component auditor.

The group auditor may involve component auditors, because component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. Further, the group auditor's access to a component in a particular jurisdiction may be restricted. However, the

group auditor ultimately takes responsibility for the design and performance of these risk assessment procedures.

Where a group auditor designs the procedures and requests the component auditor to perform the procedures, the audit procedures are communicated with enough detail for the component auditor to understand the procedures to be performed. However, a working knowledge of the KPMG Audit Execution Guide can be taken into account in communicating the audit procedures.

The component auditor [determines whether the audit procedures designed and communicated by the group auditor are appropriate](#) based upon their knowledge of the component.

If the group has centralized services, refer to [who will perform the procedures over the centralized services](#) for additional information.

3 Group Audit | Communicate with component auditors about matters related to risk assessment, related parties and going concern [ISA | 8141]

What do we do?

Communicate with component auditors on a timely basis about matters related to risk assessment, related parties and going concern.

Why do we do this?

As the group auditor, we communicate with component auditors about matters related to risk assessment, related parties and going concern so that they can be alert to and identify potential issues associated with these matters.

Execute the Audit

[What matters related to risk assessment, related parties and going concern do we communicate with component auditors?](#) [ISA | 8141.159871]

As the group auditor, we:

- Communicate to component auditors on a timely basis:
 - [matters relevant to the component auditor's design or performance of risk assessment procedures;](#)
 - [relevant information regarding related parties; and](#)
 - [if applicable, matters relevant to the group's ability to continue as a going concern.](#)
- Request component auditors to communicate on a timely basis:
 - [matters relevant to the identification of RMMs of the group financial statements;](#)
 - [related party information not previously identified; and](#)
 - [any events or conditions that may raise substantial doubt on the group's ability to continue as a going concern for a reasonable period of time.](#)

3.1 Group Audit | Communicate to component auditors matters related to risk assessment

[ISA | 8142]

What do we do?

IF we request component auditors to design and/or perform risk assessment procedures for purposes of the group audit, THEN communicate to component auditors on a timely basis matters relevant to their design or performance of risk assessment procedures.

Why do we do this?

As the group auditor, we communicate to component auditors on a timely basis matters relevant to their design or performance of risk assessment procedures at the component so the component auditor can appropriately design and/or perform those procedures to help us with the identification and assessment of the RMMs of the group financial statements associated with the component.

Execute the Audit

[What matters do we communicate to component auditors relevant to their design or performance of risk assessment procedures?](#) [ISA | 8142.159903]

We, as the group auditor, communicate to component auditors the following matters relevant to their design or performance of risk assessment procedures:

Area	Matters communicated
RMMs	The identified Significant and Elevated RMMs of the group financial statements associated with the component related to the scope of work to be performed for purposes of the group audit
Accounts, disclosures and assertions	The identified significant accounts and disclosures of the group financial statements and their relevant assertions associated with the component related to the scope of work to be performed for purposes of the group audit
	If applicable, the identified material non-significant accounts of the group financial statements associated with the component
Other	Other matters, if relevant to the group audit (see question " What other matters do we communicate to component auditors relevant to their design or performance of risk assessment procedures? ")

[What do we do to facilitate the identification of matters relevant to the component auditor's design or performance of risk assessment procedures?](#) [ISA | 8142.159904]

We, as necessary, hold discussions with and obtain information from component auditors to facilitate the identification of the matters relevant to the component auditor's design or performance of risk assessment procedures for purposes of the group audit.

In particular, we request component auditors (at a minimum, the component engagement partner and component engagement manager) to participate in the group Risk Assessment Planning Discussion (RAPD), either in a single RAPD with all component auditors or through a series of RAPDs.

What other matters do we communicate to component auditors relevant to their design or performance of risk assessment procedures? [ISA | 8142.159905]

As the group auditor, we include the following matters in the instructions to the component auditor related to their design or performance of risk assessment procedures, when they are relevant to the component auditor's work:

Area	Matters communicated
Information about the group	<ul style="list-style-type: none"> • the legal organization chart of the group • public filings and other information about the group, when available • group's significant accounting policies • other accounting and auditing matters relevant to the group audit.
Coordination	<ul style="list-style-type: none"> • changes from the prior period's group audit instructions, if applicable; • significant events which have occurred during the period; • current period audit highlights; • engagement team overview/international coordination; and • management overview. <p style="margin-top: 12pt;">Other resource considerations. For example, the use of the internal audit function, service organizations, approach to centralized services, use of specific team members or specialists.</p> <p>We communicate information about the group audit, as necessary. For example:</p> <ul style="list-style-type: none"> • relevant controls • matters related to our understanding of the group and its environment • matters related to our understanding of the group's CERAMIC • identified control deficiencies • areas to be coordinated centrally (e.g. legal letters, testing the impairment of goodwill, going concern, GITC testing, etc.) • identified or suspected fraud • identified or suspected non-compliance with laws and regulations • litigation, claims and assessments • identification of intercompany balances and transactions that may require disclosure

- | | |
|--|--|
| | <ul style="list-style-type: none">information related to key audit matters (ISA or AICPA group audits) or critical audit matters (PCAOB group audits). |
|--|--|

[What are examples of matters that may be specific to a component that we may communicate?](#) [ISA | 8142.159907]

As the group auditor, we may identify 'component specific matters' (CSMs) that relate to a specific component. For example, we may identify CSMs that:

- affect the risk assessment related to the specific component
- affect the considerations regarding the work to be performed at that component

We may communicate these CSMs to component auditors to the extent that they impact the work performed by them.

[When do we communicate to component auditors matters relevant to their design or performance of risk assessment procedures?](#) [ISA | 8142.159911]

As the group auditor, we communicate to component auditors matters relevant to risk assessment on a timely basis, which in practice means:

- at the beginning of the audit, i.e. during group audit planning, before the component auditors start designing or performing the risk assessment procedures, and
- throughout the audit, when new information is discovered or when considered relevant.

[Group Audit | How do we communicate to component auditors matters relevant to their design or performance of risk assessment procedures?](#) [ISA | 8142.159912]

As the group auditor, we communicate in writing to component auditors matters relevant to their design or performance of risk assessment procedures. For KPMG component auditors, we use the relevant Group Audit Instructions template. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which we adapt accordingly.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication to the component auditor of matters relevant to their design or performance of risk assessment procedures is not always necessary since the component auditor may have direct access to these matters and is therefore aware of them without written communication.

3.2 Group Audit or Component Audit | Communicate to component auditors relevant information regarding related parties [ISA | 4316]

What do we do?

Communicate to component auditors relevant information regarding related parties and related party relationships or transactions.

Why do we do this?

As the group auditor, we communicate information about related parties to component auditors so that they can be alert to and identify potential issues associated with related parties, including identifying related parties and related party relationships or transactions that management has not disclosed to us.

Execute the Audit

[Group Audit | What information do we communicate about related parties to component auditors? \[ISA | 4316.1600\]](#)

As the group auditor, we communicate in our group audit instructions the following related party information to component auditors:

- the names of the related parties; and
- the nature of the group's relationships and the types of transactions with those related parties.

We may also communicate any other related party information to the component auditors that we believe is relevant. For example, we may determine to communicate more detailed information if the transactions:

- are quantitatively significant (for example, they are a large amount);
- are qualitatively significant (for example, management or those charged with governance are financially involved with the transaction); or
- they involve a complex arrangement with multiple parties, including multiple related parties.

We may coordinate our communication of related parties with our communication of related entities for independence purposes.

[Group Audit | What is an example of our communications to component auditors regarding related parties? \[ISA | 4316.12326\]](#)

The following is an example of our communication to component auditors regarding related parties:

			Optional information:
Name	Relationship	Types of transactions	Other relevant information
Related Party 1	Supplier to group entity CEO has significant influence over RP	Group entity purchases all raw material from RP1	Transactions are disclosed in the group financial statements occurring on terms equivalent to those prevailing in an arm's-length transaction

Related Party 2	Financier (senior debt)/ Entity also holds 45% equity holding in the group entity (significant influence)	Financing/ No interest payments	There was a new debt transaction executed in the current period.
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[Group Audit | To which component auditors do we communicate related party information?](#) [ISA | 4316.1800]

As the group auditor, we communicate related party information to each of the component auditors involved in the group audit, regardless of the scope of procedures we ask them to perform.

[Group Audit | How do we communicate related party information to component auditors?](#) [ISA | 4316.1300]

As the group auditor, we communicate related party information in writing to component auditors. For KPMG component auditors, we use the relevant Group Audit Instructions template. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which we adapt accordingly.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication to the component auditor of related party information is not always necessary since the component auditor may have direct access to this information and is therefore aware of it without written communication.

[Group Audit | When do we communicate related party information to component auditors?](#) [ISA | 4316.1400]

As the group auditor, we communicate related party information in our group audit instructions issued to component auditors at the beginning of the audit, during planning, based on the information provided by group management, and any other related parties or related party relationships and transactions of which we are aware.

Our communications to component auditors regarding related parties continue throughout the audit, as we become aware of additional related parties or related party relationships or transactions not initially communicated in our group audit instructions (see question '[What related party information do we communicate to the engagement team, including component auditors \(step 4\)?](#)' for further information).

We may become aware of additional related party information from:

- our group audit procedures; or
- component auditors.

[Component Audit | How might component auditors use the related party information communicated to them?](#) [ISA | 4316.1900]

Component auditors may use the related party information communicated from the group auditor to:

- Inform and assist in the performance of the component auditor's risk assessment for the component entity, including inquiries with management regarding related parties;
- Provide a basis for determining if the component auditor has identified any additional related parties or related party relationships or transactions to communicate to the group auditor.

- When relevant, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the component reporting in accordance with the group's financial reporting framework

3.3 Group Audit | Communicate to component auditors matters related to going concern [ISA | 8143]

What do we do?

Communicate to component auditors on a timely basis matters related to going concern that are relevant to the work of the component auditor.

Why do we do this?

As the group auditor, we communicate to component auditors on a timely basis relevant matters related to our going concern procedures so the component auditor can consider the impact on their design or performance of audit work related to the component and, if applicable, their statutory audit.

Execute the Audit

What matters do we communicate to component auditors related to going concern? [ISA | 8143.159879]

As the group auditor, we are responsible for evaluating whether there is substantial doubt about the group's ability to continue as a going concern for a reasonable period of time and determining whether the use of the going concern basis of accounting is appropriate.

If group management or we, as a result of our procedures, identify events or conditions that may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time, we communicate these events or conditions to component auditors that are relevant to their work, including a description of the possible impact of the events or conditions on the group's ability to continue as a going concern and on the group audit.

Additionally, we may communicate to component auditors other matters related to going concern that we consider relevant to their work. For example, communication in relation to the disclosures to be included in the group's financial statements and auditor's report.

Refer to the question '[Are there any specific considerations relevant to going concern when performing a group audit?](#)' for further guidance on communication of going concern matters between us and component auditors.

In what circumstances may information related to going concern be relevant to component auditors?

[ISA | 8143.159882]

Examples of circumstances where the information of events or conditions that may raise substantial doubt about the group's ability to continue as a going concern may be relevant to component auditors are:

- The component auditor is performing a statutory audit,
- We, as the group auditor, request the component auditor to perform additional procedures at the component related to going concern for purposes of the group audit,

- the component auditor designs and performs other audit procedures not directly related to going concern, such as those related to impairment, which design would be influenced by events or conditions that may raise substantial doubt about the group's ability to continue as a going concern.

When do we communicate to component auditors matters related to going concern? [ISA | 8143.159883]

As the group auditor, we communicate to component auditors matters related to going concern on a timely basis, which in practice means as soon as we become aware of those matters.

How do we communicate to component auditors matters related to going concern? [ISA | 8143.159885]

As the group auditor, we communicate in writing to component auditors matters related to going concern.

When those matters are known at the time of issuing the group audit instructions during the planning phase, we use the relevant Group Audit Instructions template for KPMG component auditors. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which is adapted accordingly.

When those matters are known after the group audit instructions have been issued, we communicate the matters in a separate communication, i.e. and addendum to the group audit instructions.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication to the component auditor of matters related to going concern is not always necessary since the component auditor may have direct access to these matters and is therefore aware of them without written communication.

3.4 Group Audit | Request component auditors to communicate matters related to risk assessment

[ISA | 8144]

What do we do?

IF we request component auditors to perform risk assessment procedures for purposes of the group audit, THEN request the component auditors to communicate on a timely basis matters relevant to the identification and assessment of RMMs of the group financial statements.

Why do we do this?

Component auditors performing risk assessment procedures may identify matters related to the financial information of the component that they determine to be relevant to the identification and assessment of the RMMs of the group financial statements that we, as the group auditor, were not aware of or had not previously communicated to the component auditors. We request component auditors to communicate this additional information to us in a timely manner so we can consider the impact on our risk assessment, identification and assessment of RMMs of the group financial statements, and design of further audit procedures.

Execute the Audit

What matters do we request component auditors to communicate that are relevant to the identification and assessment of RMMs of the group financial statements? [ISA | 8144.159878]

If we request component auditors to perform risk assessment procedures for purposes of the group audit, we request those component auditors to communicate the following matters relevant to the identification and assessment of the RMMs of the group financial statements:

Area	Matters requested
RMMs	Significant and elevated RMMs identified at the component not previously communicated by us as Significant or Elevated RMMs of the group financial statements associated with the component
Accounts, disclosures and assertions	Any of the significant accounts and disclosures and relevant assertions of the group financial statements communicated by us that the component auditor considers not to be significant accounts and disclosures and relevant assertions at the component related to the scope of work to be performed for purposes of the group audit
Financial information of the component	Matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of the RMMs of the group financial statements, whether due to fraud or error (see question " What relevant matters related to the component's financial information do we request component auditors to communicate? ")

What information do we request from component auditors about significant and elevated RMMs in the component? [ISA | 8144.159884]

We request the following information from component auditors regarding significant and elevated RMMs identified in the component which were not previously identified by us as RMMs of the group financial statements associated with the component:

- A detailed description of the significant/elevated risk(s),
- Inherent risk,
- The related significant accounts and/or disclosures and their relevant assertions, and
- If the component auditor believes it is a significant risk, whether the significant risk is related to a risk of error, fraud, or both.

What relevant matters related to the component's financial information do we request component auditors to communicate? [ISA | 8144.159886]

We, as the group auditor, request component auditors performing risk assessment procedures at the component for purposes of the group audit to communicate the following relevant matters related to the component's financial information that may impact the identification and assessment of the RMMs of the group financial statements:

- Significant unusual transactions (SUTs)
- Significant matters, which include, but are not limited to, the following:
 - matters involving the selection, application, and consistency of accounting principles, including related disclosures
 - the existence of material misstatements (including omissions in the component's financial information) based on component performance materiality
 - any deficiencies in internal control. We, as the group auditor, conclude as to the severity of each deficiency in internal control.
 - circumstances that cause significant difficulty in applying auditing procedures
- Any other matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of group RMMs.

For example, the existence of events (including transactions) or conditions that may indicate the existence of an RMM of the group financial statements, such as:

- the application of accounting policies by the component that differ from those applied to the group financial statements
- accounting measurements or disclosures that involve complex processes used by the component, such as accounting for complex financial instruments
- operations that are subject to a high degree of complex regulation
- acquisitions, disposals or reorganizations in the component
- identified fraud risk factors, or identified or suspected fraud
- identified or suspected non-compliance with laws and regulations
- litigations, claims and assessments.

How do we request from component auditors matters relevant to the identification and assessment of group RMMs? [ISA | 8144.159887]

As the group auditor, we communicate in writing our request from component auditors to report also in writing any matters relevant to the identification and assessment of RMMs of the group financial statements. For KPMG component auditors, we use the relevant Group Audit Instructions template. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which we adapt accordingly.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication from the component auditor of matters relevant to the identification and assessment of RMMs of the group financial statements is not always necessary since we have full access to the component auditor's documentation in their audit file. In this case, when the component auditor's work is not documented in the same file as the group auditor's file, it is important that sufficient documentation of matters relevant to the group audit is included in the group auditor's file (e.g. additional RMMs identified by the component auditor and our analysis of whether they are RMMs of the group financial statements).

When do we request component auditors to communicate matters relevant to the identification and assessment of group RMMs? [ISA | 8144.159888]

As the group auditor, we request component auditors to communicate matters relevant to the identification and assessment of RMMs of the group financial statements on a timely basis, which in practice means:

- at a point in time after the component auditors have performed their risk assessment procedures, and
- throughout the audit, as soon as possible when the component auditor identifies new matters or changes to existing matters that they determine to be relevant to the identification and assessment of RMMs of the group financial statements.

3.5 Group Audit or Component Audit | Request component auditors to communicate related party information not previously identified [ISA | 4317]

What do we do?

Request component auditors to communicate any related parties or related party relationships or transactions that were not previously included in our communications AND, if received, perform additional procedures.

Why do we do this?

The component auditor may identify related parties or related party relationships or transactions while performing audit work related to a component that we, as the group auditor, were not aware of and had not communicated to the component auditor. We request that the component auditor communicates this additional information to us in a timely manner so we can consider why group management may not have disclosed the information to us and consider the impact to the group audit.

Execute the Audit

Group Audit | What related party information do we request from component auditors and how do we request it? [ISA | 4317.1300]

We, as the group auditor, use the group audit instructions to request that component auditors communicate any related parties or related party relationships or transactions, including the name of the related parties, the nature of the component's related party relationships and/or the nature and the amount of related party transactions, that were not included on the list that we provided to the component auditor.

We may make further inquiries during the course of the group audit in our two-way communication with the component auditors.

Component Audit | How and when do we inform the group auditor of additional related parties or related party relationships or transactions? [ISA | 4317.1400]

We, as the component auditor, inform the group auditor of any additional related parties or related party relationships or transactions in writing on a timely basis throughout the audit, as requested by the group auditor in the group audit instructions.

Additionally we, as the component auditor, also include a summary of all additional related parties, or related party relationships or transactions identified, as part of our final reporting to the group auditor at the end of the audit - i.e., the Clearance Memorandum

What do we do when the component auditor informs us of additional related parties or related party relationships or transactions? [\[ISA | 4317.1600\]](#)

As the group auditor, we communicate this additional information regarding related parties or related party relationships or transactions, to other component auditors (see activity '[Communicate to component auditors relevant information regarding related parties](#)').

In addition, we, or the component auditor, perform procedures that respond to this new information (see activity '[Perform relevant procedures on previously undisclosed related parties, relationships and transactions](#)') including:

- inquiring of group management;
- evaluating why the related party information was undisclosed to us;
- performing additional procedures to identify other undisclosed related party information, when relevant;
- communicating the undisclosed related party information to the members of the engagement team of the group auditor;
- performing procedures on transactions that are a significant risk or disclosed in the group financial statements; and
- determining whether there are any other implications on our group audit.

3.6 Group Audit | Request component auditors to communicate matters related to going concern [\[ISA | 8145\]](#)

8145]

What do we do?

Request component auditors to communicate on a timely basis matters related to going concern relevant to the group audit.

Why do we do this?

Component auditors may identify matters related to going concern relevant to the group audit while performing their work that we, as the group auditor, were not aware of and or had not communicated to them. We request component auditors to communicate this additional information to us in a timely manner so we can consider the impact on the group audit.

Execute the audit

What matters do we request from component auditors related to going concern? [ISA | 8145.159872]

As the group auditor, we are responsible for evaluating whether there is substantial doubt about the group's ability to continue as a going concern for a reasonable period of time and determine whether the use of the going concern basis of accounting is appropriate.

Consequently, we request component auditors to communicate any events or conditions identified by them that may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time.

Additionally, if the component auditor is performing a statutory audit and the component's ability to continue as a going concern is based on continued financial support by the group or other third party, we request the component auditor to notify us if they plan to request a written evidence of a commitment from the supporting party to provide financial support sufficient to support management's continuing use of the going concern basis of accounting.

Refer to the question '[Are there any specific considerations relevant to going concern when performing a group audit?](#)' for further guidance on communication of going concern matters between us and component auditors.

Component Audit | Do component auditors perform procedures to evaluate the component's ability to continue as a going concern as part of the group audit? [ISA | 8145.160044]

As component auditors, we do not perform procedures to evaluate the component's ability to continue as a going concern on a stand alone basis as part of the procedures performed for the purpose of the group audit unless requested by the group auditor. However, as part of performing procedures for the group audit, we may become aware of information relevant to the ability of the group to continue as a going concern, in which case we communicate this relevant information to the group auditor.

When do we request component auditors to communicate matters related to going concern? [ISA | 8145.159874]

As the group auditor, we request component auditors to communicate matters related to going concern on a timely basis, which in practice means as soon as they become aware of those matters.

How do we request from component auditors matters related to going concern? [ISA | 8145.159875]

As the group auditor, we request component auditors to communicate matters related to going concern in writing. For KPMG component auditors, we use the relevant Group Audit Instructions template. For non-KPMG component auditors, we may also use the relevant Group Audit Instructions template, which we adapt accordingly.

However, when a component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same KPMG member firm, written communication from the component auditor of matters related to going concern is not always necessary since we have full access to the component auditor's documentation in their audit file. In this case, when the component auditor's work is not documented in the same file as the group auditor's file, it is important that sufficient documentation of matters relevant to the group audit is included in the group auditor's file (e.g. additional events or conditions identified by the component auditor that may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time).

4 Group Audit | Review the component auditor's communication of component Elevated and Significant RMMs

[ISA | 1554]

What do we do?

IF a component auditor communicates Elevated or Significant RMMs not previously communicated as Elevated or Significant RMMs of the group financial statements, THEN review such communication on a timely basis.

Why do we do this?

When a component auditor identifies Elevated or Significant RMMs for a component that were not previously communicated as Elevated or Significant RMMs of the group financial statements associated with the component, as the group auditor, we review the component auditor's communication to determine whether they are also Elevated or Significant RMMs of the group financial statements and the impact on our audit. This allows us to take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements and to provide a basis for designing and performing further audit procedures. We plan our audit procedures to seek more persuasive evidence in areas with the greatest inherent risk.

Execute the Audit

When do we request a component auditor to communicate to us component Elevated and Significant RMMs not previously communicated as Elevated and Significant RMMs of the group financial statements? [ISA | 1554.1400]

In accordance with activity '[Request component auditors to communicate matters related to risk assessment](#)', we, as the group auditor, request component auditors to inform us of any Elevated and Significant RMMs they identify that have not been previously communicated as Elevated and Significant RMMs of the group financial statements associated with that component as part of risk assessment. We also request that the component auditor inform us of any subsequently identified component Elevated and Significant RMMs on a timely basis.

How is the information about component Elevated and Significant RMMs communicated to us? [ISA | 1554.1500]

As part of our group audit instructions, we request that all component auditors communicate, in writing, any Elevated and Significant RMMs at the component they identify that were not already communicated by us as Elevated and Significant RMMs of the group financial statements associated with that component.

[Are there circumstances when written communication between the group auditor and component auditor regarding component Elevated and Significant RMMs is not necessary?](#) [ISA | 1554.159946]

Yes, when the component engagement partner is also a partner for the group auditor and the group and component auditor are part of the same member firm, written communication through the use

of the Group Audit Instructions and related communication templates is not always necessary since the group auditor has full access to the component auditor's documentation in their audit file. For those components, we, as the group auditor, still determine if there are any Elevated or Significant RMMs identified that were not already included as Elevated or Significant RMMs of the group financial statements associated with that component.

What do we do with the Elevated and Significant RMMs we receive? [ISA | 1554.1600]

As the group auditor, when a component auditor communicates to us any component Elevated or Significant RMMs not previously communicated by us as Elevated or Significant RMMs of the group financial statements associated with that component, we:

- review the component auditor's communication and, when necessary, discuss with the component auditor any additional information necessary to understand the risks communicated
- determine whether each identified Elevated or Significant RMM communicated by the component auditor is also an Elevated or Significant RMM of the group financial statements. In doing so, we think about whether the same Elevated or Significant RMM has been communicated by other component auditors, which may indicate it is an Elevated or Significant RMM of the group financial statements in aggregate.
- follow the necessary activities related to evaluation and communication of Elevated and Significant RMMs for those risks we conclude are Elevated or Significant RMMs of the group financial statements, which include:
 - evaluating whether the Elevated or Significant RMM is applicable to other components of the group and determining whether it is necessary to perform audit procedures to address that Elevated or Significant RMM at those components (i.e. determining the work to be performed by the component auditor), and
 - [communicating the new Elevated or Significant RMM of the group financial statements to component auditors](#) where it is relevant for their work.
- if it is not considered to be an Elevated or Significant RMM of the group financial statements, document why we don't consider the Elevated or Significant RMM to be an Elevated or Significant RMM to the group financial statements associated with that component (see activity '[Identify significant risks of the group financial statements](#)' for further information).

When do we review the component auditor's communication of component Elevated and Significant RMMs? [ISA | 1554.1700]

As the group auditor, we review the component auditor's communication of component Elevated and Significant RMMs on a timely basis as part of our planning and risk assessment procedures.

We may also become aware of other component Elevated and Significant RMMs through component auditor reporting - for example, [Early Warning Memorandum](#) or the [Clearance Memorandum](#). As such, we remain alert for these types of changes throughout the audit.

5 Design procedures to be performed over the centralized services [ISA | 1636]

What do we do?

Design audit procedures to obtain sufficient and appropriate audit evidence over the centralized services

Why do we do this?

Since the evidence obtained over the centralized services supports the group auditor and/or the Centralized Services (CS) user auditor's work over components, we design audit procedures to be performed over the centralized services.

Execute the Audit

What type of procedures are performed over the centralized services? [ISA | 1636.1301]

We perform audit procedures over the centralized services for the Centralized Services (CS) user auditors. These procedures may include a variety of procedures, such as:

- evaluating the design and implementation of controls,
- testing the operating effectiveness of controls
- performing substantive testing
- obtaining and documenting the key elements of the understanding of the processes related to the centralized services, including the IT environment
- identifying complementary centralized services user controls for the CS user auditors to test
- identifying controls at the other service providers that are relevant to the centralized services for the CS user auditor to consider
- obtaining a written representation letter from management of the centralized service team or SSC
- other procedures, such as subsequent events procedures

When the centralized service team performs a decision-making role such that all the CS users' transactions processing and financial reporting is part of the centralized services, the CS auditor may perform more extensive procedures, or they may take on the role of the user entity auditor.

How do we design procedures to be performed over the centralized services? [ISA | 1636.1300]

We, as group auditors and/or CS user auditors, are responsible for designing procedures as we would for a standalone audit. Those procedures may consist of understanding internal control over the centralized services, evaluating the design and implementation and testing the operating effectiveness of controls that address certain PRPs and RAFTs and/or performing substantive testing that address RMMs.

However, when we design the audit procedures, we may think about the following factors:

- the nature and significance of the centralized services provided to CS users and the relevance of those services to the audit
- whether the nature, timing and extent of the work to be performed on the financial information of the components are based on an expectation that centralized controls are operating effectively
- whether substantive procedures alone cannot provide sufficient appropriate audit evidence
- whether the accounting records relevant to substantive procedures of a user entity's audit are only available where the centralized services are performed.

In practice, because of their knowledge of the centralized services, the CS auditor may perform the risk assessment procedures and design and perform the procedures to respond to RMMs identified.

When the work is used for the purposes of a group audit, the group auditor takes responsibility for identifying and assessing the RMMs of the group financial statements and the procedures performed to address those RMMs by agreeing to the CS scope document, and/or requesting additional procedures be performed.

When the work is used for the purposes of a statutory audit, the CS user auditor takes responsibility for identifying and assessing the RMMs of the statutory financial statements and the procedures performed to address those RMMs by agreeing to the CS scope document, and/or requesting additional procedures be performed.

[Are there additional considerations when designing audit procedures over centralized services?](#) [ISA | 1636.12976]

CS user auditors think about whether they request additional procedures to be performed by the CS auditor to address RMMs relevant to the financial statements prepared for statutory or other local reporting purposes.

[Who identifies and assesses the RMMs and determines the procedures to be performed over the centralized services?](#) [ISA | 1636.12977]

The group auditor has the ultimate responsibility to:

- identify and assess the RMMs
- determine the appropriate audit procedures the CS auditor performs over the centralized services relevant to the audit, and
- instruct the CS auditor to perform audit procedures as agreed to in the Centralized Services - Scope Document.

The group auditor may use the assistance of CS auditors when performing the procedures above. When a CS user auditor uses the work performed over centralized services to support their statutory audit, the CS user auditor has the ultimate responsibility with respect to the above.

[When do we obtain an understanding of ICFR over the centralized services?](#) [ISA | 1636.160242]

When the internal control over the centralized services forms part of the internal control of a group and its entities and business units, we perform risk assessment procedures to obtain an understanding of internal control over the centralized services, including internal control at SSCs. This may be limited to understanding the flow of CS users' information through the centralized processes or it may include an understanding of the CERAMIC components of internal control over the centralized services or at SSCs or the IT environment to the extent that they are relevant to our evaluation of risk associated with the controls that the CS auditor plans to test.

For example, XYZ Company (XYZ) has a SSC that processes payroll on behalf of XYZ and their components. The processing of payroll is part of the ICFR for XYZ and its components.

XYZ and its components are CS users. As part of risk assessment, it is necessary for the auditors of XYZ and its entities or business units (i.e. group auditor and CS user auditors) to gain an

understanding of how the payroll transactions are initiated, recorded and reported into the general ledger of XYZ and its entities or business units.

The group component auditors and local statutory auditors determine if it is more effective to use an CS auditor to gain this understanding and to perform additional procedures to respond to identified RMMs.

[Do we separately test the controls in operation for each Centralized Services user?](#) [ISA | 1636.1401]

No. There is only one set of controls in place over the centralized services, which are designed to operate consistently across each of the applicable Centralized Services (CS) users. As such, if we have determined to test controls over centralized services, it is not necessary to test separate samples for each CS user to draw a conclusion about the controls.

When we test the controls over the centralized services we use the sample sizes for testing an individual control and considering the total instances of the control occurring as one single population (i.e. complete population of transactions from all CS users that use the centralized services). Samples are drawn from that complete population, such that any of the transactions have an equal chance of being selected. However, regardless of the individual samples selected, the conclusion about the control is still applicable to CS users, even when we do not select any instances for a particular CS user.

[How do we treat GITCs that operate centrally but address RAFITs across locations?](#) [ISA | 1636.6380]

When GITCs are centrally operated (i.e. performed by a centralized IT department) and are designed to operate consistently to address RAFITs across CS user organizations, we may test the operating effectiveness of those GITCs to address the RAFITs by selecting samples from a single relevant population (i.e. complete population from all CS user organizations regardless of whether certain of those CS users or accounts may be included in the remaining financial information - Refer to the question ([What is remaining financial information?](#))). The single relevant population includes layers of technology that are:

- relevant to the audit
- subject to the GITC.

Refer to [Identify and evaluate the design and implementation of GITCs](#) and [Understand Identify relevant layers of technology and RAFITs](#) for further information on GITCs, layers of technology, and RAFITs.

[Under what circumstances do we identify relevant layers of technology and RAFITs?](#) [ISA | 1636.1400]

We identify relevant layers of technology and RAFITs when we:

- plan to rely on and test the operating effectiveness of automated control activities,
- evaluate the design and implementation of automated control activities, even though we do not plan to test their operating effectiveness (e.g., when we evaluate the design and implementation of an automated process control activity that addresses a significant risk or over journal entries). However, when GITCs are a) informal and, therefore, unable to be evaluated for design and implementation or b) expected to be ineffective (i.e. resulting in a control deficiency), we may document our understanding of relevant layers of technology, RAFITs and GITCs in summary

- as part of our understanding of the IT environment rather than identifying the individual layers of technology, RAFITS and GITCs for each automated control activity, or
- decide to address the data integrity risk within the entity's IT system through testing GITCs, when testing management's controls over the accuracy and completeness of internal information to evaluate the reliability of such information.

What if local laws or regulation mandate specifically that controls over transactions be tested for a Centralized Services user? [ISA | 1636.12871]

If local laws or regulations mandate that controls over transaction of that Centralized Services (CS) user are tested for statutory or other reporting purposes:

- the relevant CS user auditor may request such additional tests to be performed by the CS auditor, and
- the CS auditor selects the sample of transactions/control operations from the entire population and then considers if controls for the specific CS user have been selected. If they have not been selected, the CS auditor performs additional testing on controls to meet the request of the CS user auditor.

Do we perform substantive procedures on each Centralized Services user's transactions? [ISA | 1636.1500]

When we design substantive procedures over the CS user's transactions, our design considers which transactions our substantive procedures are applied to (i.e. the appropriate population for our testing). Our design considers why the CS user is requesting the procedure. For example:

- it may be appropriate to perform tests across the whole population of transactions of CS users and it may not be necessary to test separate samples for each individual CS user to draw conclusions. When audit evidence for CS users cannot be obtained centrally, we follow the guidance in Activity '[Determine the substantive sampling approach for multiple locations, seeking assistance if necessary](#)'.
- for statutory or other reporting purposes, we perform substantive procedures on the transactions of each individual CS user separately.

Who is responsible for the sufficiency and appropriateness of audit evidence obtained over the centralized services? [ISA | 1636.1600]

The group auditor retains responsibility for the sufficiency and appropriateness of audit evidence obtained when the group uses centralized services that are relevant to the group audit.

The CS user auditor retains that responsibility when the CS user uses centralized services that are relevant to the stand-alone audit.

Identifying and Assessing the Risks of Material Misstatement

International Standards on Auditing: ISA 600.33-34 Identifying and Assessing the Risks of Material Misstatement