

33. In applying ISA 315 (Revised 2019),²³ based on the understanding obtained in paragraph 30, the group auditor shall take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process. (Ref: Para. A108-A113)

²³ ISA 315 (Revised 2019), paragraphs 28–34

Considerations When Component Auditors Are Involved

34. In applying ISA 315 (Revised 2019),²⁴ the group auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A114-A115)

²⁴ ISA 315 (Revised 2019), paragraph 35

ISA Application and Other Explanatory Material: ISA 600.A108-A115

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 33)

A108. The process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic, and may be challenging, particularly when the component's activities are complex or specialized, or when there are many components across multiple locations. In applying ISA 315 (Revised 2019),⁷⁷ the auditor develops initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

⁷⁷ ISA 315 (Revised 2019), paragraph A126

A109. The initial expectations about the potential risks of material misstatement take into account the auditor's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures as they may have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

A110. For identified risks of material misstatement at the assertion level, the group auditor is required to take responsibility for assessing inherent risk. Such assessment involves assessing the likelihood and magnitude of misstatement, which takes into account how, and the degree to which:⁷⁸

- Inherent risk factors affect the susceptibility of relevant assertions to misstatement.

- The risks of material misstatement at the group financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.

⁷⁸ ISA 315 (Revised 2019), paragraph 31

A111. Based on the risk assessment procedures performed, the group auditor may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction or in entities or business units that have similar operations or activities.

A112. Appendix 3 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process.

Fraud

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

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

⁷⁹ ISA 240, paragraphs 26, 31

Considerations When Component Auditors Are Involved (Ref: Para. 34)

A114. When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains responsible for having an understanding of the

group and its environment, the applicable financial reporting framework and the group's system of internal control to have a sufficient basis for the identification and assessment of the risks of material misstatement of the group financial statements in accordance with paragraph 33.

A115. When the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement, ISA 315 (Revised 2019)⁸⁰ requires the auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

⁸⁰ ISA 315 (Revised 2019), paragraph 35

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

1 Identify risks of misstatement [ISA | 562]

What do we do?

Identify risks of misstatement using information from risk assessment procedures and considering the characteristics of the accounts and disclosures

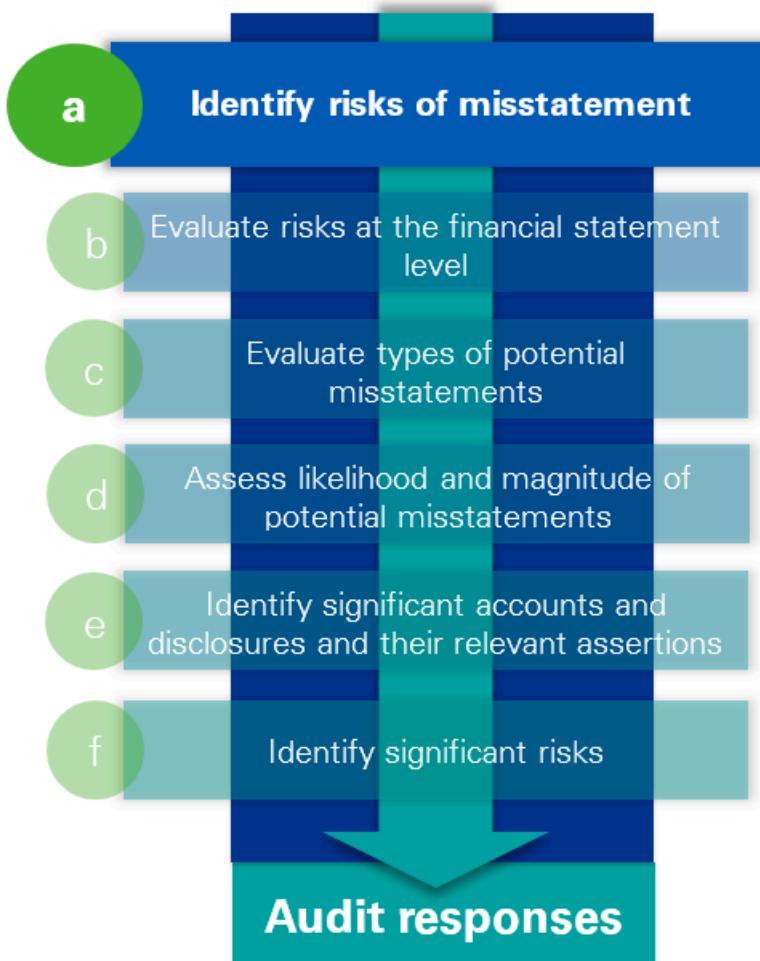
Why do we do this?

Understanding the population of risks of misstatement, allows us to narrow the population down to those risks that are risks of material misstatements (RMMs) to provide a basis for designing and performing further audit procedures.



Execute the Audit

Where are we in our risk assessment? [ISA | 562.1300]



What are risks of misstatement? [ISA | 562.1400]

Risks of misstatement (RMs) are risks that could result in a misstatement to the financial statements. There are two types of RMs.

Type of risks	What are they?	Example
Assertion-level RMs	<p>Risks that:</p> <ul style="list-style-type: none"> relate to specific assertions for classes of transactions, account balances, or disclosures; and relate to misstatements that can 	We expect assertion-level RMs to be similar across entities with similar types of transactions Additions to property, plant and equipment are not completely identified and recorded.

	<p>arise when the financial reporting framework (e.g. IFRS, US GAAP), is not applied appropriately</p>		
Financial statement-level RMs	<p>Risks that:</p> <ul style="list-style-type: none"> • relate pervasively to the financial statements as a whole • may affect many accounts and/or assertions • don't necessarily relate to applying particular accounting policies or principles • may arise from the entity and its environment, including business risks and broad internal control issues 	<p>We expect financial statement-level RMs to be distinct to a particular entity or industry, and more dependent on the entity and its environment</p>	<p>Weakening economic conditions that negatively affect the value of many of the entity's assets</p>

How do we identify RMs? [ISA | 562.8601]

To identify an RM, we consider all information gathered during audit planning and our risk assessment procedures.

When we learn something during the audit, it helps to ask ourselves:



What risks or problems could arise, resulting in a misstatement to one or more accounts or disclosures?

We draw on both our knowledge from risk assessment and our general knowledge about the nature of the accounts and disclosures and how they work — e.g. specific industry knowledge and general accounting knowledge.

Identification of an RM is based on whether it applies to the entity during the current period (e.g. did the entity have this type of transactions in the audit period?) and not based on hypothetical situations (e.g. could it happen to the entity?). For example, if the risk applies to other entities within the industry but the entity under audit does not have that type of transaction, we do not identify it as an RM.

The table below sets out examples of the types of information we may obtain during risk assessment and one instance of an RM that we might identify. However, our risk assessment will help us to identify many RMs, including those that relate to error or fraud.

Information gained during risk assessment	Example RM
One of the entity's external analysts recently reduced their stock price target for the entity's stock to 30% below the current price because the entity is not meeting the analyst's quarterly sales forecasts	For performance obligations satisfied at a point in time, revenue is not recognized when control is transferred to the customer, resulting in revenue not being recognized in the correct period (this may also be a fraud risk).
The entity has certain revenue streams with significant variable consideration that is difficult to determine	
We notice significant swings in revenue between quarters	
Sales have decreased and accounts receivable increased, when we expect the two metrics to move in the same direction	Receivables are not accurately recorded.
Rapid technological changes in the industry render certain products that the entity sells obsolete	An inappropriate amount is estimated for the net realizable value (NRV) of inventory, or an inaccurate amount is recorded for the lower of cost or NRV.
There is unfavorable change in the inventory turnover ratio from the prior period	

A significant lawsuit threatens the entity	Loss contingencies are not completely identified and/or accurately recorded.
A new accounting standard is being adopted in the current period	Disclosures of significant accounting policies or principles that are an integral part of the financial statements are incomplete, inaccurate, or not fairly presented.

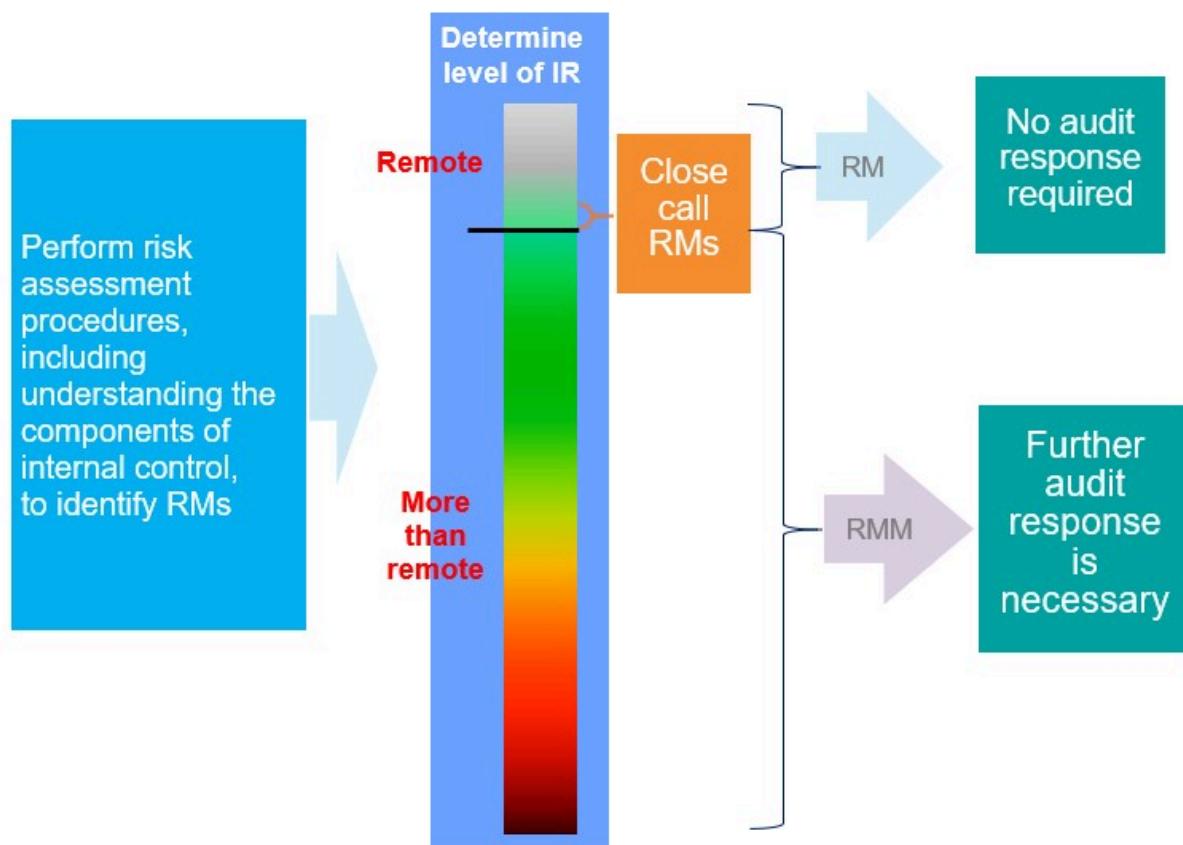
Do we document every RM we identify? [ISA | 562.8602]

No. We only document those RMs that we identify and assess as RMMs or close call RMs.

We evidence our considerations for close call RMs so that it helps support our thought process and gives a reviewer insight into why we concluded that a particular RM is not a RMM. It also helps demonstrate how we apply professional scepticism in our audit.

What are close call RMs? [ISA | 562.8604]

We think about inherent risk as a continuum - different RMs may fall at different points along that continuum. There is a point along the continuum where an RM becomes an RMM. Close call RMs are RMs where we assess the risk as being on the threshold or close to the threshold between RMs and RMMs.



If we are struggling to decide whether an RM is an RMM, or there is a debate on it within the engagement team (e.g. during our [RAPD meeting](#)), those are indicators of a close call RM.

In order to decide whether an RM is an RMM or not, refer to the factors discussed in the question '[What factors do we consider in assessing likelihood and magnitude and level of inherent risk?](#)'.

Not assessing a risk as an RMM has ramifications — it means we don't address it further in our audit*.

* There are certain areas within the financial reporting process where procedures are always performed even if there is no RMM (e.g. disclosures: agree/reconcile information in the disclosure to the underlying accounting records).

[Group Audit | Do we identify different risks in a group audit?](#) [ISA | 562.10975]

Yes. As the group auditor, we also identify RMMs related to the consolidation process, including on sub-consolidations, which are not linked to any specific significant accounts. However, we respond to consolidation RMMs similar to assertion-level RMMs (i.e., design substantive procedures and when applicable, identify PRPs and relevant control activities), rather than designing overall responses like we do for financial statement-level RMMs.

[How do we identify risks related to disclosures?](#) [ISA | 562.1700]

Information obtained during our risk assessment procedures may indicate the existence of RMs related to disclosures, which may include omissions, presentation of inaccurate or incomplete disclosures and obscuring financial information.

Obtaining that information may involve, for example:

- identifying possible constraints on the availability of capital and credit;
- determining that there are certain entities or business segments to be sold;
- learning about inquiries into the entity's operations or financial results by regulatory or government bodies;
- identifying new or evolving legal matters affecting the entity;
- identifying transactions that are recorded based on management's intent — e.g. a bond investment where management intends to hold the assets until their scheduled maturity (held-to-maturity) versus one where management are willing to sell (available-for-sale);
- identifying new accounting pronouncements that could apply to the entity;
- identifying events or circumstances that could lead to recognizing an impairment loss;
- learning about changes in assumptions about the future;
- identifying additional related parties and related party transactions;
- identifying new share-based payment arrangements; or
- identifying changes in assumptions used in the entity's valuation techniques.

[Group Audit or Component Audit | How do we identify RMMs of the group financial statements?](#) [ISA | 562.2100]

It is an iterative process. We follow the same process for identifying RMMs as in the stand-alone audit.

However, since most assertion-level RMMs of the group financial statements, or group RMMs, will arise in components, we, as the group auditor, will often involve component auditors when identifying the group RMMs.

As the group auditor, based upon our understanding of the group and its environment, the applicable reporting framework and the consistency of accounting policies and practices across the group, and the [group's system of internal control](#), we develop an initial expectation of accounts and disclosures that have potential group RMMs (i.e. potential significant accounts and disclosures).

Based on the initial expectations, we may involve component auditors in risk assessment procedures to identify and assess RMMs in those potential significant accounts and disclosures, because they may have direct knowledge and experience with the components that may be helpful in understanding the activities and related risks, and where RMMs of the group financial statements may arise in relation to those components.

[Group Audit | Who is responsible for identifying risks of material misstatement in a group audit?](#) [ISA | 562.160252]

The lead group auditor takes responsibility for identifying the risks of material misstatement of the group financial statements in a group audit.

[Group Audit | What does 'take responsibility for' mean?](#) [ISA | 562.160253]

'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 or Component Audit | Do we document every RMM of the group financial statements in the group engagement file?](#) [ISA | 562.1900]

No. As the group auditor, we identify RMMs of the group financial statements, or group RMMs, in the group engagement file to the extent that they relate to:

- the consolidation process and the preparation of the consolidated financial statements
- those RMMs that arise at the group level due to the activities performed by group management. For example, RMMs related to deferred tax assets not being recoverable and goodwill not being appropriately valued may be addressed by group management.
- Elevated RMMs and significant risks of the group financial statements

Component auditors document group RMMs that arise at the component in their engagement file when:

- performing risk assessment procedures to help the group auditor identify and assess group RMMs and/or
- performing further audit procedures over group RMMs

Where we, as the group auditor, also perform work at a component, we document the group RMMs arising from processes occurring at the component level in the group or component engagement file.

[At what level do we identify our RMs?](#) [ISA | 562.6461]

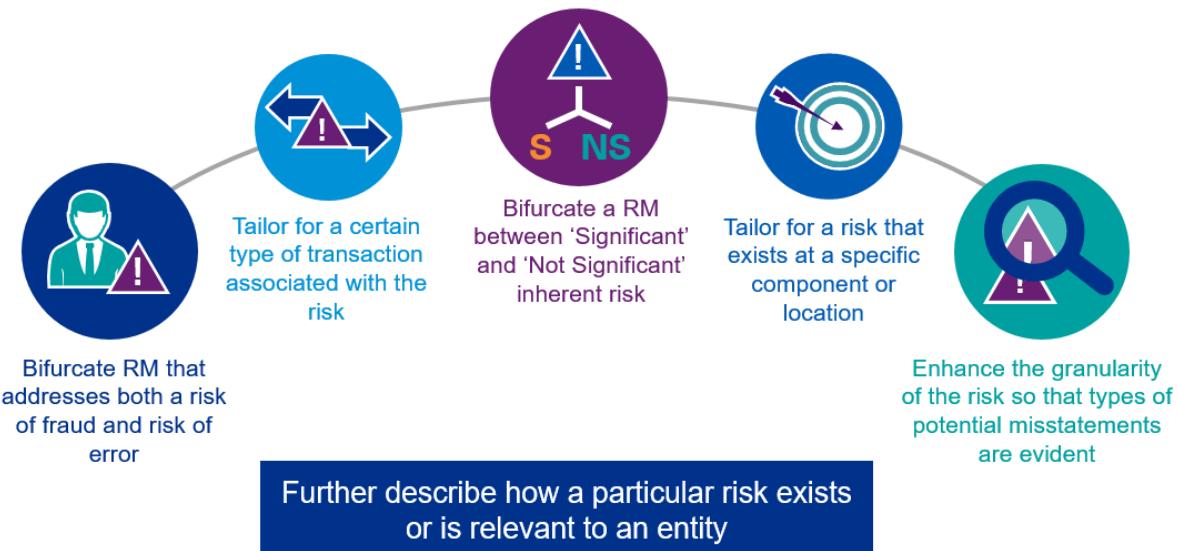
We identify risks at a granular enough level to design our audit procedures to address the specific risks we identify and assess — so failing to identify risks at the right level can lead us to perform the wrong procedures.

The risks captured in the Library are at an appropriately granular level. However, the description from the Library can be enhanced with an additional risk description where appropriate.

[When might we include an 'additional risk description'? \[ISA | 562.11016\]](#)

We may include an 'additional risk description' to enhance the granularity of our risks, which can be particularly helpful in the following circumstances:

Additional risk descriptions



Additional risk descriptions may not be necessary for every risk. However, they can help us further describe the specific risk and its relevance to an entity, as well as help support how our assessment and planned audit response is responsive to the specific risk.

[When would we identify a custom risk? \[ISA | 562.6462\]](#)

We may identify risks that are unique to an entity and are not in the Library, from our risk assessment procedures. However, because most risks are closely tied to the accounting standards and the risks in the Library are derived from evaluating the risks from the accounting standards, you may not identify any custom risks.

But before we decide to identify custom risks, we think about:

- whether we can use the additional risk description functionality to tailor an existing risk from the library (e.g. rather than identifying a custom risk, we start with the existing risk and tailor it, but retain the meta tagging of the library core account / risk, etc.)
- whether we may have confused a process risk point as a risk; and
- that certain required content, minimum expected substantive procedures, etc. may not be delivered in the workflow.

When it is appropriate to add a custom risk, we describe the custom risk with appropriate granularity such that the risk is not too broad, not too narrow.

For example, when determining whether a custom risk for revenue cut-off is necessary, we consider that:

We can link the risk related to revenue cut-off to the risk of misstatement below from the ASC Topic 606 /IFRS 15:

- Over-time revenue recognition: 'An inappropriate, inconsistent or inaccurate measure of progress is used when revenue is recognized over time.'
- Point-in-time revenue recognition: 'For performance obligations satisfied at a point in time, revenue is not recognized when control is transferred to the customer, resulting in revenue not being recognized in the correct period.'

When our inherent risk assessment is different for revenue cut-off, we duplicate the RM, and use the additional risk description to further describe the risk. Therefore, it is not necessary to create a custom risk for revenue cut-off in this example.

[When might we disaggregate RMs?](#) [ISA | 562.11112]

When performing our risk assessment, we may identify situations when it is appropriate to duplicate an RM to better disaggregate an account/location/fund/component because of differing risk profiles.

For example, we may disaggregate an RM related to the physical existence of inventory at warehouses because the inventory management process at warehouses is different (i.e. some warehouses are subject to cycle counts and use a perpetual inventory system and some warehouses are subject to periodic inventory counts and use a periodic inventory systems).

[Is there anything additional we consider when accounting estimates are involved?](#) [ISA | 562.10984]

Yes. We perform the risk assessment procedures related to accounting estimates in the KAEG chapter on estimates (ISA 540, AU-C 540 or AS 2501).

[Is there anything additional we consider when the financial reporting process is involved?](#) [ISA | 562.6463]

Yes. 'Risk considerations' are used when available, within the financial reporting process screens in KPMG Clara workflow - i.e. financial statements, cash flows, segment information, disclosures - and may assist us in:

- identifying the risks of misstatement (RMs);
- determining whether the RMs are risks of material misstatement (RMMs); and/or
- designing appropriate audit responses for those assessed as RMMs.

[What are 'risk considerations' in the context of the financial reporting process?](#) [ISA | 562.6464]

'Risk considerations' are requirements from the applicable financial reporting framework that provide more detailed information about the RMs within the financial reporting process screens in KPMG Clara workflow, which are more general in nature (i.e. not at a granular level).

2 Assess likelihood and magnitude of potential misstatements to determine RMMs [ISA | 565]

What do we do?

Assess the likelihood and magnitude of potential misstatements, including the possibility of multiple misstatements, to determine RMMs and inherent risk

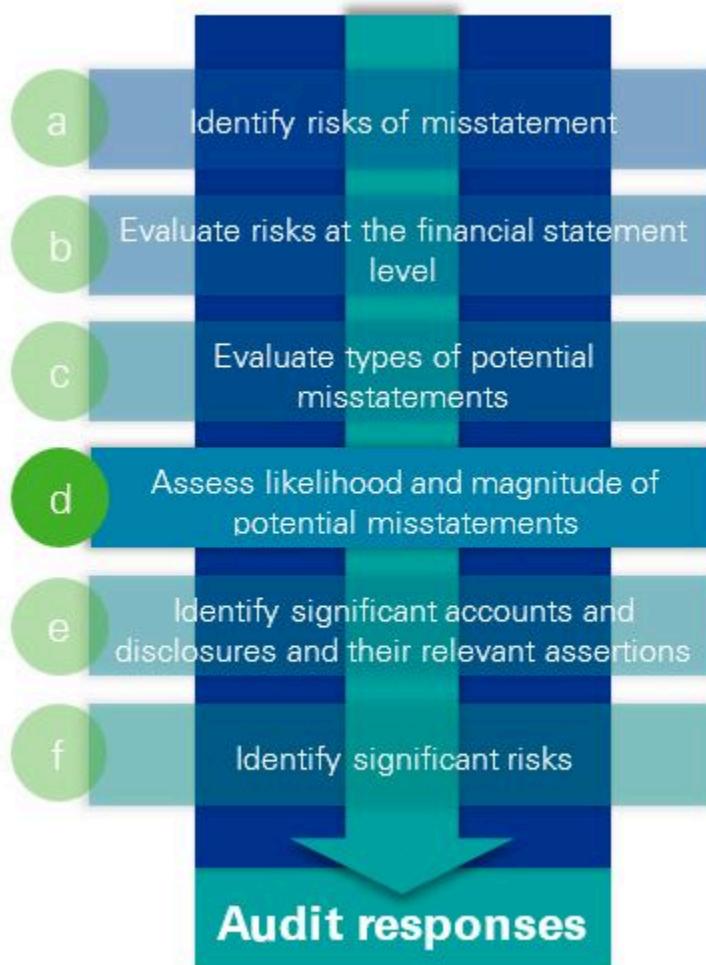
Why do we do this?

We assess the likelihood and magnitude of potential misstatements to:

- Identify risks of material misstatements (RMMs);
- Determine where on the continuum of inherent risk the RMM sits (which informs our design of further audit procedures to respond to the RMM); and
- Assist in the determination of significant risks.

Execute the Audit

Where are we in our risk assessment? [ISA | 565.1300]

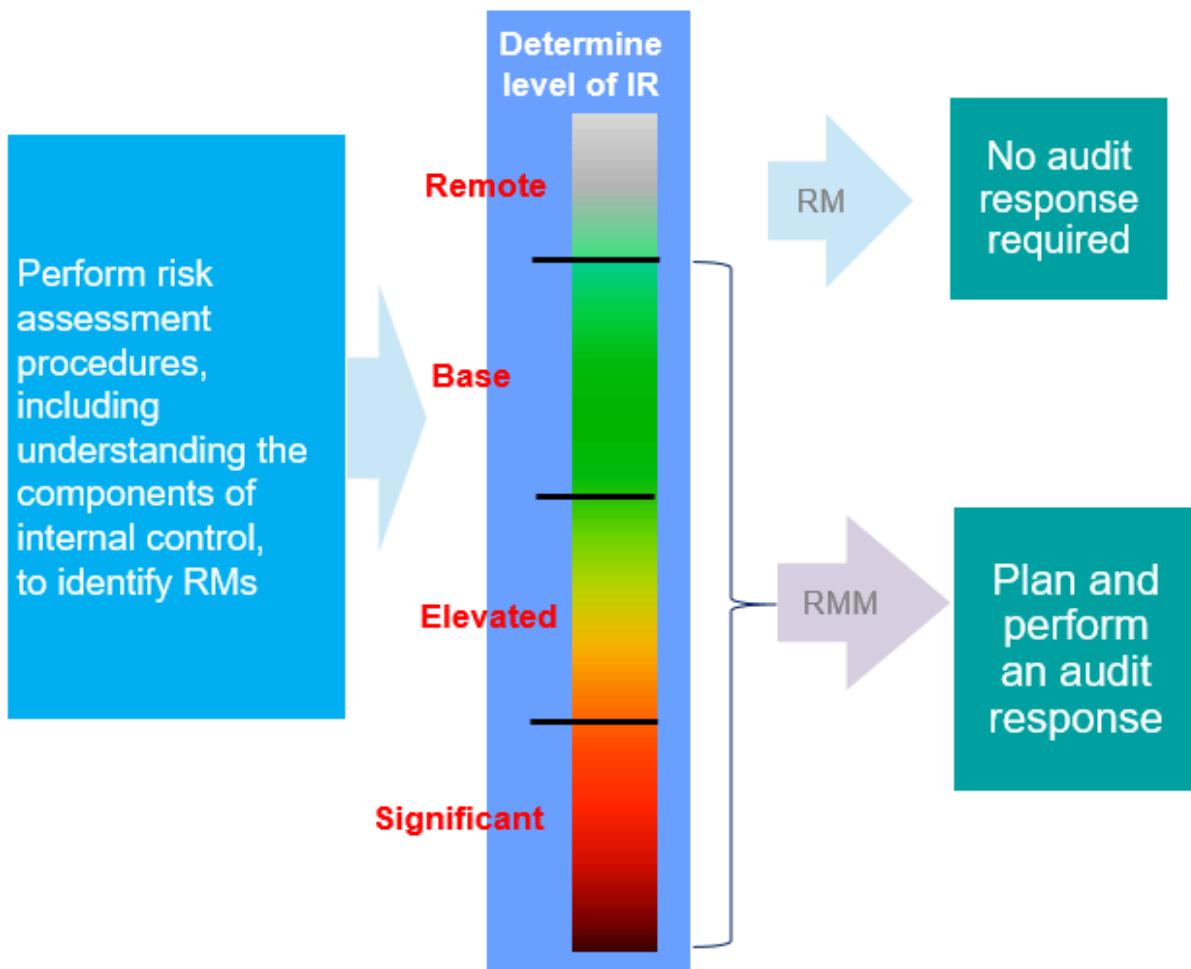


How does assessing likelihood and magnitude of potential misstatements help us determine RMMs and level of inherent risk? [ISA | 565.8701]

Assessing the likelihood and magnitude of potential misstatements helps us gauge where we are on the inherent risk continuum and whether we've reached the level where inherent risk is more than remote for that risk. An RM is simply a risk on the "remote" part of the inherent risk continuum, where no audit response is necessary*.

When the likelihood and magnitude of potential misstatement is more than remote, we assess inherent risk for each RMM at one of three levels - Base, Elevated or Significant, depending on where it is on the continuum (significant risks are closer to the upper end of the continuum).

The following diagram illustrates the inherent risk continuum and how we think about RMs, RMMs and our inherent risk assessment in relation to that continuum:



Not assessing a risk as an RMM has ramifications — it means we don't address it further in our audit*.

* There are certain areas within the financial reporting process where procedures are always performed even if there is no RMM (e.g. disclosures: agree/reconcile information in the disclosure to the underlying accounting records).

How do internal controls affect our assessment of likelihood and magnitude? [ISA | 565.1700]

We don't consider the effects of control activities when we determine which risks are RMMs.

Our understanding of CERAMIC, however, can influence our assessment of inherent risk. When there are deficiencies in CERAMIC, it may highlight an increased chance of material misstatements occurring. For example, when we identify deficiencies related to the entity's ability to attract, develop, and retain competent individuals, there is a higher likelihood of misstatements occurring broadly because unqualified or lower competence individuals are more prone to record transactions incorrectly.

How do we assess likelihood and magnitude? [ISA | 565.8704]

The table below sets out examples of how an engagement team might assess likelihood and magnitude when they determine RMMs and level of inherent risk.

Description of RM and related accounts / disclosures and assertions	Considerations related to likelihood and magnitude of potential misstatement	Assessment of RMM and level of inherent risk
Prepayments are not accurately recorded or do not exist. (Existence of prepaid expenses)	<ul style="list-style-type: none"> • The size of the prepaid expenses account is less than two times performance materiality and has not changed significantly from the prior year, which is consistent with our expectations. • The account comprises a small number of routine prepayments to vendors for materials that the entity expects to consume within 12 months. • The individual balances are homogeneous and not subject to accounting complexities. • There is no risk of aggregation with other non-significant accounts. 	<p>Although the engagement team has identified an RM, they assess that the likelihood and magnitude that a material misstatement may occur is remote given the low number and dollar value of transactions and lack of accounting complexity associated with the risk.</p> <p>The engagement team assess the risk as not an RMM.</p>
Indicators that an asset or cash-generating unit may be impaired are not appropriately identified. (Valuation of PP&E)	<ul style="list-style-type: none"> • The size of the PP&E account is relatively large (40 times performance materiality) and has not changed significantly from the prior year. • All of the PP&E is included within a single long-lived asset group. • The information identified from our inquiries of management indicated no changes in the use of the PP&E. • The favorable interim results of operations reviewed 	<p>Given the more favorable economic conditions and reduced complexity (e.g. not having a significant number of different asset groups), there is a <i>lower</i> likelihood of a material misstatement occurring.</p> <p>However, given the magnitude of the balance of PP&E and susceptibility in recent periods to changes in value, the engagement team concludes that there is still <i>more than a remote</i> chance of a material misstatement occurring.</p>

	<p>in our planning analytical procedures indicate a reduced risk of exposure to losses in this account.</p> <ul style="list-style-type: none"> Asset values have fluctuated in the past and there have been impairments taken in the last three years. 	<p>The engagement team assesses the risk to be an RMM and inherent risk is assessed to be Base.</p>
<p>An inappropriate amount is estimated and recorded for the value of rights of return.</p> <p>Additional risk description: Risk relates to products sold through a new distribution channel. (Existence and Accuracy of revenue and accounts receivable)</p>	<ul style="list-style-type: none"> Based on our risk assessment procedures, we identified that the entity planned to begin selling a new product to resellers in the last quarter of the fiscal year. Previously, the entity had only sold its products directly to end users and these new contracts include unique rights of return. The entity has relatively little experience with product returns and limited data related to these new sales arrangements. Although the product is new, the entity expects its sales volumes to represent approximately 10% of revenue for the year. 	<p>Given the complexity and judgment in determining the estimate for returns, there is an increased chance that a misstatement could occur. Considering the increased likelihood along with the fact that the revenue from the new product is a substantial portion of total revenues, resulting in magnitude of potential misstatement being material, the engagement team concludes that there is more than a remote chance of a material misstatement occurring.</p> <p>The engagement team assesses the risk to be an RMM and considering the degree of complexity in the measurement of the estimate for returns, and the wide range of measurement uncertainty, the inherent risk assessment is Significant.</p>
<p>The disclosure is incomplete, inaccurate, or not fairly presented.</p> <p>Additional risk description: Risk related to the required disclosures of</p>	<ul style="list-style-type: none"> The entity is manufacturer with point-of-sale revenue recognition. Revenue is material to the financial statements and important to its users. There have not been new accounting pronouncements or changes in the entity's accounting policies for 	<p>Given there is no judgment or complexity in the policies, and no changes nor expected changes in the revenue accounting policies disclosures, the engagement team assesses the risk to be an RM.</p>

revenue accounting policies	revenue in the past two years.	
The disclosure is incomplete, inaccurate, or not fairly presented. Additional risk description: Risk relates to the required disclosure of disaggregated revenue amounts. (Presentation of revenue)	<ul style="list-style-type: none"> • Revenue is material to the financial statements and important to users of the financial statements. • The entity completed an acquisition in the current reporting period, adding a new business line in a geographic region in which the entity has not previously operated. 	<p>Given the magnitude of the balance of revenue and changes in the disclosure from the prior period given the entity's acquisition, the engagement team assesses the risk to be an RMM.</p> <p>As disaggregating revenue amounts does not require judgment, inherent risk is assessed to be Base.</p>

[Group Audit | How do we assess RMMs of the group financial statements?](#) [ISA | 565.2200]

As the group auditor, we assess the risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process by applying the same guidance for assessing RMMs in a stand-alone audit. However, since most assertion-level RMMs of the group financial statements, or group RMMs, will arise in components, we, as the group auditor, will often involve component auditors in risk assessment procedures to assess group RMMs.

[Group Audit | Who is responsible for assessing the RMMs of the group financial statements?](#) [ISA | 565.160255]

The lead group auditor takes responsibility for assessing the RMMs of the group financial statements in a group audit.

[Group Audit | What does 'take responsibility for' mean?](#) [ISA | 565.160253]

'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 | Do we assess different RMMs in a group audit?](#) [ISA | 565.11097]

Yes. As the group auditor, we also assess RMMs related to the consolidation process, including sub-consolidations, which are not linked to any specific significant accounts or disclosures. However, we respond to consolidation RMMs similar to assertion-level RMMs (i.e., design substantive procedures and when applicable, identify PRPs and relevant control activities) rather than designing overall responses like we do for financial statement-level RMMs.

Group Audit | Why may RMMs of the group financial statements be assessed differently at components? [ISA | 565.160257]

Examples of when an RMM at the component may be assessed differently than the RMMs of the group financial statements include:

- the component auditor assesses the magnitude of potential misstatements associated with an RMM considering the component performance materiality for the component; however, the potential misstatement to the group financial statements is not considered material or at a magnitude that warrants the same assessment as that at the component; or
- RMMs at the component are identified based on an RMMs that relates to local financial reporting framework which are not RMMs under the financial reporting framework used by the group.

In circumstances where a component auditor has assessed an RMM as either Elevated or Significant that we as the group auditor have not assessed at the same inherent risk level, we document why we consider those RMMs not to be at the same inherent risk level.

For example, suppose that the group auditor has assessed RMMs associated with capitalized software costs as Base because the magnitude to the group financial statements is 2x group performance materiality.

However, a component auditor has assessed RMMs associated with capitalized software costs as Elevated due to the magnitude at the component and the judgment involved in determining the amounts to capitalize. The component auditor communicates this assessment to the group auditor.

The group auditor documents why the RMM is not assessed as Elevated for the group financial statements.

How do we determine whether our assessment of inherent risk for an RMM is Base, Elevated or Significant? [ISA | 565.8705]

In addition to our consideration of inherent risk factors (see question '[What are the inherent risk factors?](#)'), it may be helpful to:

- first determine which risks are closer to the upper end of the inherent risk continuum and are significant risks (see activity '[Determine significant risks](#)'); and
- then assess the remaining risks by evaluating whether they are relatively lower or higher on the inherent risk continuum — i.e. Base or Elevated.

When we are trying to determine whether a risk is Base or Elevated, it may be useful to compare our assessments across non-significant risks.

For example, suppose that:

- the engagement team have assessed risks associated with several smaller and less complex accounts — e.g. prepaid expenses — as Base; and
- they are trying to determine whether a risk associated with a higher-volume, more complex account is Base or Elevated.

The team may find it helpful to consider whether they really believe the lowest level of inherent risk — i.e. Base — makes sense for both types of risks.

Questioning this can help us better determine where the RMM falls on the continuum.

What factors do we consider in assessing likelihood and magnitude and level of inherent risk? [ISA |

565.2000]

We consider:

- Inherent risk factors;
- Significant risk factors (see question '[How do we determine whether any of the identified and assessed RMM are significant risks?](#)'); and
- Estimates risk factors, if applicable (see question '[What are the additional risk factors that we evaluate when identifying significant accounts and disclosures involving accounting estimates?](#)').

We consider each factor for each RM, to gauge whether it is an RMM, and if so where it sits on the inherent risk continuum. When considering these factors, a key consideration is the degree to which the inherent risk factors affect the combination of likelihood of misstatement occurring and magnitude of misstatement. The higher the combination of likelihood and magnitude, the higher the assessment of inherent risk; the lower the combination of likelihood and magnitude, the lower the assessment of inherent risk.

What are the inherent risk factors? [ISA | 565.8706]

The following table describes the inherent risk factors:

Inherent risk factors	Additional description and examples
Factors that affect the susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure	
Quantitative or qualitative significance, including: <ul style="list-style-type: none">• Size and composition of the account• Nature of the account or disclosure• Existence of related party transactions in the account• Possibility of significant contingent liabilities arising from the activities reflected in the account or disclosure• Exposure to losses in the account	<p>Size and composition: As the size of an account increases, so does the potential magnitude of a misstatement in that account or disclosure. Often, this is because in larger account balances, errors that represent a small percentage of the account balance may still exceed materiality. For example, a 2% misstatement in an account that is 60 times materiality exceeds materiality.</p> <p>Understanding the composition of an account helps us evaluate the other factors and determine whether relevant assertions exist for a particular account and whether there is an RMM we haven't yet identified and assessed.</p> <p>For example, if an entity has domestic sales and international sales, the risk for each type may be different. If there are uncertainties about a foreign countries' economic stability, there may be greater risk in their international operations than their domestic operations.</p>

Nature of accounts and disclosures: When we consider the nature, we think about numerous characteristics of an account, disclosure or assertion, including:

- its importance or prominence in the financial statements
- the way it is recorded or presented
- the basic types of transactions that affect it.

These factors, along with others, can affect how likely a material misstatement is to occur for a specific assertion.

For example:

- accrual balances, by their nature, often have more risk of understatement than overstatement
- assertions related to accounting estimates are more likely to contain a material misstatement related to the valuation assertion
- assertion disclosures related to revenue or significant judgments in applying the related revenue accounting policies or principles are important or prominent in the financial statements
- an accounting estimate often involves management making significant judgments about the assumptions to use. These judgments can involve uncertainty, and introduce more potential for human error.

Existence of related party transactions: Related party transactions involve close relationships between parties, so there is more chance that they might involve fraud or be inappropriate, and lack a clear business purpose and not be appropriately disclosed.

These issues may arise because the entity doesn't account for the transaction properly, or because the substance of a related party transaction might be different from its form.

For example, an entity may structure a related party transaction solely to avoid recording and disclosing a liability in the financial statements. The risk to the financial statements increases because the entity and its related parties control both sides of the transaction.

Given this risk, a material misstatement is more likely in an account that includes related party transactions.

Possibility of significant contingent liabilities: The nature of an entity's transactions and business activities could lead to significant contingencies.

	<p>For example, selling goods could lead to sales returns or warranty claims on defective products. Or certain fixed assets may exist (such as underground storage tanks containing gasoline) that could lead to asset retirement obligations or environmental liabilities.</p>
	<p>Contingent liabilities may be difficult to identify, and judgment may be involved to determine the amount to be recorded or disclosed in the financial statements. Therefore, they may be more likely to contain a material misstatement.</p> <p>Exposure to losses in the account: The more exposure an account has to losses, the more chance it may contain an error. Factors in the entity's general environment may expose a particular account to losses. We also think about accounts that may have lower recorded balances but a higher exposure to losses.</p>
	<p>For example, an entity may record a small legal accrual, but face several lawsuits with potential unfavorable outcomes that expose it to significant losses. This potential for loss may increase the likelihood of material misstatement over the completeness, valuation and presentation assertions for the legal accrual.</p>
Volume of activity, complexity and homogeneity of the individual transactions processed through the account or reflected in the disclosure	<p>Volume : The more transactions processed through a class of transactions, account balance or reflected in a disclosure, the greater the chance that it contains a material misstatement. There is more risk that multiple items could be misstated that could aggregate to a material misstatement.</p> <p>We consider the volume of transactions in all accounts and disclosures, but we don't dismiss those with smaller balances without carefully considering the volume of transactions.</p>
	<p>For example, a cash account may have a zero balance at the period end, but the entity may process a high volume of cash transactions through it during the period. This may be an account with a reasonable possibility of a material misstatement.</p>
	<p>Complexity: More complex transactions can suggest more judgment or present a greater opportunity for errors.</p>

	<p>For example, transactions that result from complex calculations often have multiple inputs, each of which may present a possibility for error. Simple calculations with fewer inputs may have a lower chance of error.</p>
	<p>More complex calculations increase the likelihood of material misstatements related to particular assertions — e.g. valuation — of a particular account or disclosure.</p> <p>Homogeneity: In certain cases, when transactions are homogeneous, misstatements in one transaction may indicate additional misstatements in others. As such, multiple errors could occur, which could increase the magnitude of any potential misstatement. In this case, the homogeneity may increase the possibility of a material misstatement. Conversely, when transactions lack uniformity in the composition of the items processed in the account or class of transactions may increase susceptibility to misstatement in the related account or disclosure.</p>
Susceptibility to misstatement due to error	<p>Some accounts, disclosures and assertions, by their nature, are more susceptible to misstatement - including those more likely to be affected by human error.</p> <p>This may be due to the types of transactions processed in an account, the nature of the account or disclosure itself, or many other factors.</p> <p>This higher susceptibility to misstatements increases the likelihood that a material misstatement will occur.</p> <p>For example, when substantial doubt about an entity's ability to continue as a going concern is raised but is alleviated by management's plans, the disclosures could be more susceptible to misstatement whether due to error or fraud.</p>
Factors relating to preparation of the information required by the financial reporting framework	
Complexity, including accounting and reporting complexities associated with the account or disclosure	Complexity arises either from the nature of the information or in the way that the required information is prepared, including when such preparation processes are more inherently difficult to apply.

	<p>For example, complexity may arise in calculating supplier rebate provisions because it may be necessary to take into account different commercial terms with many different suppliers, or many interrelated commercial terms that are all relevant in calculating the rebates due.</p> <p>As another example, complexity may arise in developing disclosures for a business combination because several individuals from different departments may be involved and different sources of information from multiple IT systems may be necessary in preparing the disclosures.</p>
	<p>Complex accounting and reporting can often:</p> <ul style="list-style-type: none">• be more challenging for an entity to evaluate;• involve a greater degree of judgment; and• necessitate a greater degree of skill, knowledge and experience. <p>For example, accounting for income taxes can be complex, especially when an entity operates in multiple jurisdictions.</p> <p>Such complexities can make errors or incorrect judgments more prevalent, and increase the likelihood of material misstatement. Complexity may arise from changes in the applicable financial reporting framework that create new disclosure requirements, or changes in the entity's transactions and activities that result in new accounting policies or principles.</p>
Subjectivity (including judgment in the recognition or measurement of financial information related to the risk)	<p>Subjectivity arises from inherent limitations in the ability to prepare necessary information in an objective manner, due to limitations in the availability of knowledge or information, such that management may need to make an election or subjective judgment about the appropriate approach to take and about the resulting information to include in the financial statements.</p> <p>Because of different approaches to preparing the required information, different outcomes could result from appropriately applying the requirements of the applicable financial reporting framework. As limitations in knowledge or data increase, the subjectivity in the judgments that could be made by reasonably knowledgeable and independent individuals, and the diversity in possible outcomes of those judgments, will also increase.</p>

	<p>For example, management's selection of a valuation technique or model for a non-current asset, such as investment properties.</p> <p>Additionally, subjectivity can arise for disclosures that are subjective in relation to their preparation.</p> <p>For example, disclosures related to a lawsuit and related loss contingency could be more susceptible to misstatement given their subjective nature.</p>
Change(s), including changes from the prior period in account/disclosure characteristics Risk relates to recent significant economic, accounting or other developments	<p>Results from events or conditions that, over time, affect the entity's business or the economic, accounting, regulatory, industry or other aspects of the environment in which it operates, when the effects of those events or conditions are reflected in the required information. Such events or conditions may occur during, or between, financial reporting periods.</p> <p>For example, change may result from developments in the requirements of the applicable financial reporting framework, or in the entity and its business model, or in the environment in which the entity operates. Such change may affect management's assumptions and judgments, including as they relate to management's selection of accounting policies or principles or how accounting estimates are made or related disclosures are determined.</p> <p>As another example, rising interest rates may affect management's projected financial information utilized in the valuation of goodwill, including an impact on the discount rates used and projected revenue and expenses. This change in business environment may also have an impact on management's disclosures of judgments applied in performing the annual impairment test.</p>
	<p>Changes from the prior period may indicate that the risks have changed or that entity has entered into new types of transactions with a different risk profile.</p> <p>The more significant the change, the greater the likelihood that a material misstatement could occur.</p>

	<p>For example, an entity may change its mix of investment securities from government treasury securities to private hedge funds - i.e. from Level 1 investments to Level 3 investments.</p> <p>This change involves a new and potentially more complex valuation model. It may increase the likelihood of a material misstatement related to the valuation and presentation assertions.</p>
Uncertainty	<p>Uncertainty arises when the required information cannot be prepared based only on sufficiently precise and comprehensive data that is verifiable through direct observation (e.g. pending litigation).</p> <p>In these circumstances, an approach may need to be taken that applies the available knowledge to prepare the information using sufficiently precise and comprehensive observable data, to the extent available, and reasonable assumptions supported by the most appropriate available data, when it is not. Constraints on the availability of knowledge or data, which are not within the control of management (subject to cost constraints where applicable) are sources of uncertainty and their effect on the preparation of the necessary information cannot be eliminated.</p> <p>For example, estimation uncertainty arises when the required monetary amount cannot be determined with precision and the outcome of the estimate is not known before the date the financial statements are finalized.</p>
Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk (including significant unusual transactions)	<p>Results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in preparing the information.</p> <p>For example:</p> <p>Opportunities for management and employees to engage in fraudulent financial reporting, including omission, or obscuring, of significant information in disclosures.</p> <p>Significant amount of non-routine or non-systematic transactions including intercompany transactions and large revenue transactions at period end.</p>

Transactions that are recorded based on management's intent, for example, debt refinancing, assets to be sold and classification of marketable securities.

Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgment (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional.

See activity '[Identify fraud risk factors](#)' for additional considerations when considering other fraud risk factors.

We perform risk assessment procedures to obtain an understanding of how these inherent risk factors affect susceptibility of assertions to misstatement and the degree to which they do so, in the preparation of the financial statements in accordance with the applicable financial reporting framework.

It is not expected that an inherent risk factor is selected in the applicable workflow just because it is "relevant", if it does not impact where the risk sits on the inherent risk continuum. For example, where the RM is associated with the transaction (e.g. PPE additions) we would select volume of activity and homogeneity of the transaction, rather than the size and composition of the account as volume of activity and homogeneity factors impact where the risk sits on the inherent risk continuum.

[Will all inherent risk factors be relevant?](#) [ISA | 565.11100]

No. Depending on the specific risk we are assessing, some inherent risk factors may not be relevant or are not impactful to our assessment.

For example, when there are no related party transactions that are associated with a particular risk, that factor is not relevant or important in our assessment.

We focus on the factors that are most relevant to our assessment of whether the risk rises to an RMM and the related level of inherent risk. We also think about the relative significance of each inherent risk factor during our evaluation.

[Does the number of relevant factors impact the level of inherent risk?](#) [ISA | 565.11102]

No. There is not a specific number of factors that are present before something moves from one inherent risk level to another (e.g. base to elevated), because the factors are considered on a continuum and not in a binary manner.

It is often helpful to take a step back and compare the risks aggregated at an account level against other risks from other accounts.

For example, suppose that:

- We have assessed the risks associated with several smaller and less complex accounts, e.g., prepaid expenses, as Base.

- We are trying to determine whether a risk associated with a higher-volume, more complex account is Base or Elevated.

It may be helpful to think about whether the lowest level of inherent risk, (i.e., Base), makes sense for both types of risks.

Furthermore, for a risk to be assessed as higher on the continuum of inherent risk, it does not mean that both the magnitude and likelihood are assessed as high. Rather, it is the intersection of the magnitude and likelihood of the material misstatement on the continuum of inherent risk that will determine whether the assessed inherent risk is higher or lower on the continuum of inherent risk. A higher inherent risk assessment may also arise from different combinations of likelihood and magnitude, for example a higher inherent risk assessment could result from a lower but still reasonable likelihood but a very high magnitude.

[What if the risk is on the threshold between two levels of inherent risk?](#) [ISA | 565.11103]

If, we assess a risk as being on the threshold between two levels of inherent risk — e.g. Base/Elevated or Elevated/Significant — it may be appropriate to 'round up', or pick the higher risk level, documenting our rationale for the decision as part of our assessment of likelihood and magnitude.

Remember: assessing a risk as too low may result in an insufficient audit response and an unacceptable increase in audit risk.

[What if an RMM includes multiple portions of an account balance with varying levels of inherent risk?](#) [ISA | 565.11104]

If this is the case, we may have defined the RMM too broadly. In this situation, it may be appropriate to disaggregate the RMM into separate components that have varying levels of inherent risk and associate a disaggregated RM/RMM to each component. This may mean we create a duplicate RM/RMM. Adding an additional risk description can clarify how the disaggregated RMMs apply to each component.

We then perform our assessment of likelihood and magnitude of potential misstatements for each of the disaggregated RMs we identified. In performing this assessment, we may determine that one or more of the RMs does not rise to the level of an RMM. This concept applies for both accounts and disclosures.

For example, we identify the following RMM: An inappropriate amount is estimated for the net realizable value (NRV) of inventory, or an inaccurate amount is recorded for the lower of cost and NRV.

Raw materials inventory comprises multiple types of raw materials that are subject to different levels of inherent risk - including steel.

If steel prices are volatile, that may increase the risk of steel-based inventory being overvalued.

We assess inherent risk differently for the steel-based raw materials than for the remaining raw materials inventory.

As a result, we break down the risk into two separate risks - one relating to the steel-based raw materials, and the other relating to the remaining raw materials.

This disaggregation leads us to identify and assess one RMM as Significant (the risk relating to steel-based raw materials) and another as Elevated (the risk relating to the remaining raw materials) based on the relevant inherent risk factors.

As another example, we may disaggregate an RM related to the existence of cash and cash equivalent balances between different cash and cash equivalents accounts because management may use them in varying ways in different locations for different purposes (e.g. payroll, accounts payable and expense disbursement, treasury function for interest and dividend receipts, or revenue receipts) and therefore the related inherent risks may vary based on account/location/component because of differing risk profiles.

What do we do if we have identified the same RMM due to error and due to fraud? [ISA | 565.8702]

If we have identified the same RMM due to error and due to fraud, then we create 2 separate RMMs within the KPMG Clara workflow, and assess them separately. A fraud risk is always a significant risk, but a risk due to error may have a different inherent risk assessment.

We perform procedures to respond to the fraud risk and demonstrate our special audit consideration in response to the related significant risk. These procedures/responses may differ to our response to the RMM due to error (particularly if our CAR assessment is different). By identifying and assessing these RMMs separately, we can appropriately tailor our response to obtain sufficient appropriate audit evidence for both.

How do we consider whether there is an RMM in aggregate? [ISA | 565.2100]

We assess for each business process and across all business processes if there are any indications that there is an RMM in aggregate within those assertions, transactions, account balances and disclosures that do not have any RMM associated with them. Signs that might indicate that there are reasonable possibilities of RMM in the aggregate include the following:

- identifying multiple risks that relate to the same accounts/disclosures and assertions;
- determining that the combined magnitude of potential misstatements related to the remaining risks is material; or
- identifying multiple risks with similar characteristics, which may indicate several potential misstatements that could aggregate to a material misstatement.

We assess risks in the aggregate in a manner similar to our risk assessment over each risk on an individual basis. That is, when performing this aggregation assessment, we consider the same inherent risk factors (see question '[What factors do we consider in assessing likelihood and magnitude and level of inherent risk?](#)').

When assessing risks in the aggregate across all business processes, we step back and focus on those accounts and disclosures that were not identified as significant and the assertions were not identified as relevant (see question '[How do we identify significant accounts and disclosures and their relevant assertions?](#)').

What do we do when we have determined that RMs identified represent an RMM when assessed in the aggregate? [ISA | 565.11107]

When we have identified that RMs aggregate to one or more RMMs, we

- change the assessment of RMs to RMMs until the remaining RMs do not aggregate to an RMM,
or
- add a custom RMM that identifies the aggregate risk.

[Is there anything we additionally consider when accounting estimates are involved?](#) [ISA | 565.11116]

Yes. We perform the risk assessment procedures related to accounting estimates in the KAEG chapter on estimates (ISA 540, AU-C 540 or AS 2501). We perform certain risk assessment procedures in order to identify and assess RMMs related to accounting estimates, as outlined in '[Perform risk assessment procedures related to accounting estimates](#)'.

[Is there anything additional we consider when the financial reporting process is involved?](#) [ISA | 565.6463]

Yes. 'Risk considerations' are used when available, within the financial reporting process screens in KPMG Clara workflow - i.e. financial statements, cash flows, segment information, disclosures - and may assist us in:

- identifying the risks of misstatement (RMs);
- determining whether the RMs are risks of material misstatement (RMMs); and/or
- designing appropriate audit responses for those assessed as RMMs.

[How do the 'risk considerations' assist us in determining whether the RMs are RMMs?](#) [ISA | 565.6469]

The 'risk considerations' let us see more clearly the individual items that contribute to the corresponding RMs within the financial reporting process, individually or in combination.

As a result, we can appropriately assess the inherent risk for the RMs, by assessing the likelihood and magnitude of potential misstatements and other relevant factors.

We assess inherent risk at the RM level, not at the risk consideration level.

[How do the 'risk considerations' assist us in designing appropriate audit responses?](#) [ISA | 565.6470]

For each RM we assess as an RMM, we design appropriate audit responses taking into account the more detailed information provided by the 'risk considerations'.

Our response is at the RMM level, not the risk consideration level.

[What do we do with financial statement-level RMs?](#) [ISA | 565.6468]

As with other risks, we assess financial statement-level RMs and determine whether there is a possibility of a material misstatement to the financial statements by considering the likelihood and magnitude of potential misstatements.

When determining whether a financial statement-level RM is an RMM, we also consider whether it affects the assessment of RMMs at the assertion level.

If the financial statement-level RM is an RMM, it affects how we conduct our audit broadly and we design and implement overall responses. See activity '[Design and implement overall responses](#)' for information about overall responses.

[What key success factors might help us in our inherent risk assessment?](#) [ISA | 565.11119]

The table below sets out examples of key success factors that can help us when assessing inherent risk.

Key success factor	How it may help
Timely partner and manager involvement	<p>An effective inherent risk assessment relies on the judgments of the engagement team's most senior members at a sufficiently detailed level early in the audit - especially for risks on the thresholds between Base and Elevated, and Elevated and Significant.</p>
Not being anchored in prior-period inherent risk assessments	<p>We use the information obtained through our risk assessment process to form up-to-date inherent risk assessments based on the current period's factors.</p> <p>Prior-period knowledge is helpful, but we combine it with everything we learn during planning and risk assessment in the current period.</p>
Thinking about inherent risk as a continuum	<p>The inherent risk continuum includes varying levels of risk.</p> <p>Thinking about where each RMM falls on that continuum can help us identify whether an account/disclosure contains components, or groups of transactions, with varying degrees of risk that are subject to different processes and controls.</p> <p>This can help us better identify significant accounts or disclosures.</p>
Paying attention to what's documented in our audit file	<p>Fully capturing how we considered the factors in our inherent risk assessment has several benefits:</p> <p>Our inherent risk assessments involve judgment, and so may warrant more persuasive audit evidence and robust documentation.</p> <p>Documenting the basis for our conclusions demonstrates how we applied professional skepticism.</p> <p>The process of documenting our rationale may lead us to rethink our initial conclusion</p>

	and revisit that assessment when it is not appropriate.
Leveraging management's risk assessment process	Reconciling our inherent risk assessments with management's risk assessments can help us evaluate the effectiveness of management's internal control over financial reporting — i.e. the Risk Assessment component.
Holding risk assessment meetings at the right times	We may hold meetings to discuss risk assessment throughout the audit - not just during planning and before issuing the audit opinion. The best ideas may come when we ask people to invest time thinking about risk assessment before these meetings. Risk Assessment and Planning Discussion (RAPD) meetings provide excellent opportunities to discuss risks holistically - but to be most effective, we plan and conduct these at the right times.
Completion of an Accounting Disclosure Checklist (ADC)	Completion of relevant sections of an ADC during risk assessment in connection with each business process assists in understanding disclosures to be expected for the process. The prior period financial statements and related disclosures, and previously completed ADC combined with current year activity, changes within existing business processes and events and circumstances that may require disclosures, all while being mindful to take a 'fresh lens' approach, assists in assessing inherent risk.

Examples

How do we consider the inherent risk factors when assessing RMs around disclosures? [ISA | 565.159465]

Below are examples of how an engagement team considers the inherent risk factors when assessing RMs around disclosures.

Fact Pattern:

RM	Initial risk assessment to identify and assess RMs
<p>Disclosures of significant accounting policies that are an integral part of the financial statements are incomplete, inaccurate or not fairly presented</p> <p>Additional risk description - goodwill and intangible asset accounting policies</p>	<p>Significant accounting policies related to recognition of goodwill and intangible assets for an acquisition are complex and involve judgment. The entity has not been involved in a significant business combination in several years, and the acquisition is material to the financial statements and intended users.</p> <p>Based on these factors, the engagement team has assessed the risk of the accounting policy disclosures is an RMM.</p>
<p>The disclosures is incomplete, inaccurate, or not fairly presented.</p> <p>Additional risk description - revenue note disclosures.</p>	<p>The entity's revenue streams have significant variable consideration that is difficult to identify and measure.</p> <p>Revenue is significant to the users of the intended users and the recognition policy is complex.</p> <p>Based on these factors, the engagement team has assessed the risk of the revenue note disclosures is an RMM.</p>

[What are additional examples of how we determine the inherent risk level?](#) [ISA | 565.11149]

See some examples below on how we determine the inherent risk levels.

Expected credit losses (ECL) allowance

The engagement team identified the following RMM: An inappropriate amount is estimated and recorded for the expected credit losses (ECL) allowance for financial assets or contracts.

Fact Pattern:

The ECL has several factors that are high on the inherent risk continuum:

- The most complex estimate for the entity (factors *complexity* and *subjectivity* are very high on the risk continuum, and possibly *exposure to losses*, *significant accounting*, or *economic factors*, *susceptibility of error*, etc.)
- The most heavily scrutinized by regulators and investors (factors *nature of the account*, *exposure to losses*).

Analysis:

Based on these factors alone, the engagement team assesses the inherent risk as Significant for related RMMs.

Deposits

The engagement team identified the following RMM: Deposits are recorded inappropriately when:

- they are not accurately recorded
- they do not meet the recognition requirements or
- they do not exist.

Fact Pattern:

The only factor that is higher on the risk continuum is volume/amount. All other factors are quite low on the risk continuum (low complexity even on a relative basis to other processes, no judgment, no exposure to losses, no SUTs or related parties, etc.).

Analysis:

Based on this fact pattern, the engagement team assesses the inherent risk of RMMs associated with deposits as Base.

Product Returns

The engagement team identified an RMM related to the rights of return estimate, including the related disclosures.

Fact Pattern:

While volume/amount are lower on the risk continuum, exposure to losses and changes from the prior period are higher on the risk continuum (given certain changes in the entity's revenue contracts and uncertainty in the economic environment).

Analysis:

Based on this fact pattern, the engagement team assesses the inherent risk for both the account and related disclosures as Elevated.

3 Group Audit | Identify significant risks of the group financial statements [ISA | 1490]

What do we do?

Take responsibility for identifying the significant risks of the group financial statements.

Why do we do this?

As the lead group auditor, we take responsibility for identifying significant risks of the group financial statements to enable us to:

- determine which components, due to its specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements and the type of procedures to be performed at these components;
- determine our involvement with component auditors; and
- plan our audit procedures to seek more persuasive evidence in areas with the greatest inherent risk.

Execute the Audit

What is a significant risk? [ISA | 1490.1400]

A significant risk is a risk of material misstatement (RMM) which is:

- close to the upper end of the continuum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
- fraud risks; or
- significant unusual transactions with related parties.

We document special audit considerations in response to significant risks.

Which significant risks do we identify? [ISA | 1490.12554]

We identify significant risks of the group financial statements. Assertion-level significant risks of the group financial statements may include the following:

- significant risks related to significant accounts and disclosures and their relevant assertions that relate to the business processes that occur at the group level;
- significant risks related to the consolidation process; and
- risks in components which are, individually or in aggregate, significant risks of the group financial statements.

How do we identify significant risks of the group financial statements? [ISA | 1490.1500]

It is an iterative process and is performed in conjunction with other group risk assessment activities (e.g., determining where to perform procedures at the component level and what likely procedures are planned to be performed at components). As the group auditor, we follow the guidance in activity '[Determine significant risks](#)' and identify significant risks of the group financial statements based on our [understanding of the group and its environment](#) and consider whether:

- any of the RMMs we have assessed at the group level are significant risks; and
- there are any other risks that arise at the components that, individually or in aggregate, are significant.

Component auditors may identify significant risks as part of their audit procedures and communicate those to us. As part of identifying significant risks of the group financial statements, we consider if those significant risks communicated to us by component auditors rise to the level of a significant risk of the group financial statements.

As we continue to enhance our understanding of the group and its environment throughout the audit, we may revise our identification of significant risks.

[How do we identify significant risks of the group financial statements related to an estimate?](#) [ISA |

1490.12216]

When we identify significant risks of the group financial statements related to an estimate, we initially identify and assess the significant risk as related to the RMM associated with the selection of the methods, assumptions, or data and/or the RMM associated with the application of the methods, assumptions, and data.

Individual methods, assumptions, or data or application of the methods, assumptions, and data with a significant inherent risk are identified when responding to the assessed RMM(s) of the group financial statements either by the group auditor or by the component auditor.

[What information can we use to identify significant risks of the group financial statements?](#) [ISA | 1490.1600]

As the group auditor, we may use information such as the following:

- information from prior year audits;
- information obtained from group management, including group management's assessment of risks within the group;
- information obtained from internal audit function, including their internal audit plan;
- discussions about risks with component management that may identify risks at the group level;
- discussions with component auditors.

[How do we identify which risks are significant risks?](#) [ISA | 1490.1700]

As the group auditor, we think about the same [factors we do in a stand-alone audit](#) when identifying significant risks of the group financial statements.

[Are significant risks at components significant risks of the group financial statements?](#) [ISA | 1490.1800]

Possibly. When we or component auditors identify significant risks as part of the work performed at components, we, as the group auditor, determine whether these represent significant risks of the group financial statements.

If it is not considered to be a significant risk of the group financial statements, we document why we don't consider those significant risks to be significant to the group financial statements.

[Why would a risk of material misstatement be significant at the component level and not at the group level?](#) [ISA | 1490.12217]

Examples of when a component auditor may identify a significant risk at the component level that is not considered to be a significant risk of the group financial statements include:

- the component auditor assesses the magnitude of potential misstatements associated with an RMM considering the lower component performance materiality levels; however, the potential misstatement to the group financial statements is not considered material or at a magnitude that warrants assessment as a significant risk;
- significant risk at the component level is identified based on RMMs that relates to local financial reporting framework which differs from the financial reporting framework used by the group.

[Are significant risks of the group financial statements linked to all components that have that account balance or disclosure?](#) [ISA | 1490.160258]

Not necessarily. When we, as the group auditor, define significant risks appropriately (i.e. not too narrow and not too broad), they may relate to a few specific components.

[How do we assess a risk as significant at components when the risk is present in a number of components?](#) [ISA | 1490.160259]

A significant risk may be present in a larger number of components (i.e. many components contain the same risk, which was deemed significant by the group), but we, as the group auditor, may determine that it is not necessary to respond with special audit consideration at each of those components to address the significant risk of the group financial statement.

Relevant factors to think about when determining those components that contain the significant risk include:

- the nature of the significant risk; and
- the likelihood and magnitude of the risk in each component, including considerations about materiality and the level of judgment and subjectivity

[Can there be situations where only one component contains a significant risk of the group financial statements?](#) [ISA | 1490.160260]

Yes, all of the significant risk may arise in one component.

For example, a group has global operations and engages in hedging strategies to manage risk. It has a number of complex financial instruments which are all held by a single component. We identify a significant risk of the group financial statements related to the valuation of derivative financial instruments and determine that it arises only in this one component

[Are there specific matters we document when identifying significant risks of the group financial statements at components?](#) [ISA | 1490.160261]

Yes. We document how we determined that our identification of components where we will respond with special audit consideration is sufficient to address the significant risk of the group financial statements.

4 Identify significant accounts and disclosures and their relevant assertions

[ISA | 566]

What do we do?

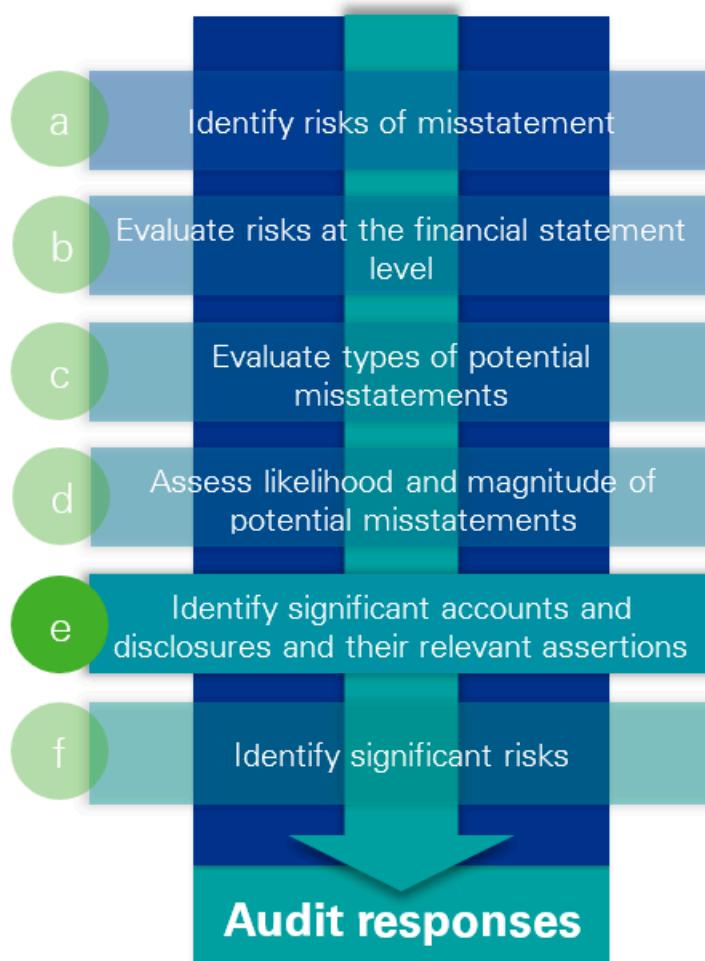
Identify significant accounts and disclosures and their relevant assertions

Why do we do this?

Determining relevant assertions and significant accounts and disclosures helps us identify the specific elements of the financial statements to focus on in our audit and design procedures in response to the identified risks of material misstatements (RMMs).

Execute the Audit

Where are we in our risk assessment? [ISA | 566.1300]



What is a significant account or disclosure, and what is a relevant assertion? [ISA | 566.1400]

Significant accounts and disclosures and their relevant assertions are those with a reasonable possibility of containing a material misstatement. In other words, they relate to an RMM.

Relevant assertion	Each assertion that has one or more RMM
Significant account or significant disclosure	Each account or disclosure that has one or more relevant assertion (and therefore one or more RMM)

Following that logic, if we *don't* identify an assertion as relevant, or an account or disclosure as significant, then we've concluded that there is a remote chance of a material misstatement arising, both individually and when aggregated with others.

In other words, it doesn't relate to an RMM — so we may perform *no* specific audit procedures over that assertion, financial statement line item or disclosure.*

- * There are certain areas within the financial reporting process where procedures are always performed even if there is no RMM (e.g. disclosures: agree/reconcile information in the disclosure to the underlying accounting records).

How do we identify significant accounts and disclosures and their relevant assertions? [ISA | 566.8693]

We have already associated each RMM with the specific accounts, disclosures and assertions it affects. This means we've essentially identified our initial population of significant accounts, disclosures and relevant assertions.

After identifying our initial population, we perform three additional activities that help validate the population of significant accounts, disclosures and relevant assertions.

1	Evaluate inherent risk factors	<p>Evaluate the inherent risk factors (see question 'What factors do we consider in assessing likelihood and magnitude and level of inherent risk?') related to each financial statement line item and disclosure and their assertions.</p> <p>This helps us consider whether we missed any significant accounts, disclosures and relevant assertions through our initial analysis.</p>
2	Step back and assess accounts and disclosures we did not identify as significant, and assertions we did not identify as relevant	<p>Consider the accounts and disclosures we did not identify as significant and the assertions we did not identify as relevant.</p> <p>Step back and assess whether those accounts, disclosures and assertions — both individually and in the aggregate — have a reasonable possibility of containing a material misstatement.</p> <p>This aggregate assessment includes considering possible similarities in the accounts and disclosures. This acts as an additional check on our population of significant accounts, disclosures and relevant assertions.</p> <p>We perform the individual assessment on an assertion-by-assertion basis for each account and disclosure. This aggregate assessment includes thinking about:</p> <ul style="list-style-type: none"> • similarities that may exist in these accounts, disclosures and assertions; and • other factors that may increase the chances of multiple misstatements aggregating to a material misstatement. <div style="background-color: #D9D9D9; padding: 10px; margin-top: 10px;"> <p>For example, we may look at the total impact these accounts have on:</p> <ul style="list-style-type: none"> • total current assets/liabilities; • total assets/liabilities; • total revenue/expenses; or </div>

		<ul style="list-style-type: none"> net income.
		<p>When we evaluate these accounts, disclosures and assertions in the aggregate, we think about the same inherent risk factors we evaluated in step 1.</p>
3	Step back and evaluate whether for material classes of transactions, account balances or disclosures, that have not been determined to be significant classes of transactions, account balances or disclosures, this remains appropriate	<p>As a final step, we consider those material accounts that we did not identify as significant accounts and evaluate whether this remains appropriate.</p> <p>This helps us to challenge and properly analyse our initial conclusions before we plan and perform audit procedures.</p>

Do we perform substantive procedures for material accounts and disclosures we have not identified as significant? [\[ISA | 566.8879\]](#)

Yes. See activity '[Design and perform substantive procedures for accounts and disclosures with no RMMs](#)'.

What accounts are considered 'material accounts'? [\[ISA | 566.11297\]](#)

Material accounts are accounts that are equal to or greater than materiality.

What if we identify an RMM after our initial assessment? [\[ISA | 566.11216\]](#)

If we determine there is a reasonable possibility of a material misstatement arising in:

- the accounts and disclosures we did not initially identify as significant; or
- the assertions we did not initially identify as relevant,

then we revisit our risk assessment decisions and identify additional RMMs. This may indicate that we didn't obtain a sufficient understanding of the entity's processes during risk assessment and may prompts us to reassess our understanding of the entity, including the flow of information for transactions, events and conditions.

When we identify additional significant accounts and relevant assertions, we also think about why we selected those accounts as opposed to the other accounts. We then identify the RMMs that led us to this conclusion.

Group Audit | How do we identify the significant accounts and disclosures and their relevant assertions in a group audit? [\[ISA | 566.1510\]](#)

As the lead group auditor, we take responsibility for the identification of all significant accounts and disclosures and their relevant assertions based on the group financial statements.

It is an iterative process. Since most assertion-level RMMs of the group financial statements will arise in components, we in practice, as the lead group auditor, may perform the following:

- (1) perform initial risk assessment procedures at the group level and evaluate qualitative and quantitative risk factors to identify those accounts, disclosures and assertions that have indicators that they are likely significant accounts or disclosures and relevant assertions
- (2) identify components for which more granular risk assessment procedures will be performed based upon the likely significant accounts and disclosures and their relevant assertions
- (3) use our knowledge from the risk assessment procedures we perform at the group level or component level
- (4) communicate with component auditors (i.e. RAPD or other two way communication) regarding their knowledge from the risk assessment procedures that they perform at the component level, including their identification of significant accounts and disclosures and their relevant assertions.

[Group Audit | What does 'take responsibility for' mean?](#) [ISA | 566.160253]

'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

[At what level do we identify accounts and disclosures?](#) [ISA | 566.1600]

Our goal is to find the highest level of accounts and disclosures where similar risks exist. Therefore, we may start by capturing each financial statement line item. If the financial statement line item contains general ledger accounts or groups of general ledger accounts with different inherent risks of error, inherent risk of fraud, control risks, or controls in place, we may disaggregate them further to the level of general ledger accounts or a group of such accounts.

For example, within trade receivables there may be general ledger accounts for domestic and foreign receivables with different inherent risks that warrant disaggregating into separate accounts.

We may also disaggregate a general ledger account if that is appropriate for our purposes.

For example, the audited entity records all provisions in one general ledger account but for the purpose of our audit we disaggregate this general ledger account into separate provisions because each provision is subject to sufficiently different inherent risks of error, risks of fraud, control risks, or controls in place.

Similarly, for disclosures we may start by capturing each distinct note in the financial statements. Then we may look at the underlying source of the disclosed information to determine if each disclosure is supported by general ledger accounts, subledger accounts, documents prepared by the entity, or external documents (e.g. laws and regulations, group accounting instructions) or a combination of different sources. We may consider whether these sources have different inherent risk characteristics

that warrant disaggregating a disclosure. We may consider how the accounts related to the disclosure have been disaggregated in the business process(es). Additionally, it may be helpful to associate the significant accounting policies (often from Note 1 in financial statements) with each distinct disclosure in the financial statements.

For example, the property and equipment significant accounting policies in Note 1 and the property disclosures in Note 5 have similar inherent risks and relate to the PP&E business process. We may aggregate these into a distinct disclosure in the PP&E business process.

[What if a certain financial statement line item or disclosure contains different types of transactions?](#) [ISA | 566.1700]

Some of an entity's financial statement line items or disclosures will contain several different types of transactions. This is often the case for accounts that contain several different components — e.g. miscellaneous, other and general accounts.

In order to consider all possible risks affecting the account, we understand the different types of transactions included in the accounts and the types of misstatements that could arise. This can help us disaggregate the account risks and properly identify all the RMs and RMMs related to those different types of transactions.

Our audit response addresses each RMM we identify, so we design procedures that consider these different types of potential misstatements.

[Do we perform substantive audit procedures for accounts or disclosures that don't have an RMM?](#) [ISA | 566.8695]

Yes. We perform substantive audit procedures for accounts or disclosures that don't have an RMM, but those instances are limited to:

- when we perform procedures related to material non-significant accounts (MNSAs) (see activity '[Design and perform substantive procedures for accounts and disclosures with no RMMs](#)' for additional information);
- when we perform procedures specifically to incorporate an element of unpredictability in our audits (see activity '[Incorporate elements of unpredictability](#)' for additional information);
- when we perform additional substantive procedures in response to possible undetected misstatements that could make the financial statements materially misstated (see activity '[Consider the possibility of undetected misstatements and its implications](#)' for additional information);
- certain areas within the financial reporting process where procedures are always performed even if there is no RMM (e.g. disclosures: agree/reconcile information in the disclosure to the underlying accounting records).

[What are financial statement assertions?](#) [ISA | 566.11274]

Financial statement assertions are representations by management, explicit or otherwise, that are embodied in the financial statements, as used by us to consider the different types of potential misstatements that may occur.

In representing that the financial statements are in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding recognition, measurement and presentation of classes of transactions and events, account balances and disclosures.

For example, when management provides us with a draft of the financial statements, they are implicitly asserting that accounts payable is complete. We relate these assertions associated with significant accounts to the potential types of RMs when identifying RMMs and ultimately designing our planned audit procedures to gather audit evidence that is responsive to those RMMs.

[What financial statement assertions do we use?](#) [ISA | 566.11276]

The following table describes the relevant assertions for classes of transactions, account balances and their related disclosures, which is derived from the standards:

KPMG Assertion	Income Statement Classes of Transactions	Balance Sheet Account balances
C Completeness	All transactions and events have been recorded. These transactions and events have been recorded in the correct accounting period (i.e. no understatement due to cut-off).	All assets, liabilities and equity interests have been recorded.
E Existence (account balances) and Occurrence (class of transaction)	Transactions and events that have been recorded have occurred. These transactions and events have been recorded in the correct accounting period (i.e. no overstatement due to cut-off).	Assets, liabilities and equity interests exist.
A Accuracy	Amounts and other data relating to recorded transactions and events have been recorded correctly.	Amounts and other data relating to recorded assets, liabilities and equity interests have been recorded correctly.

V Valuation	<p>Transactions and events have been recorded at appropriate amounts (i.e. are appropriately valued).</p>	<p>Assets, liabilities and equity interests have been recorded at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded</p>
O Obligations and Rights	<p>The entity has the rights and obligations to transactions and events that it has recorded (i.e. transactions and events pertain to the entity).</p>	<p>The entity holds or controls the rights to assets. Liabilities and equity interests are the obligations of the entity.</p>
P Presentation	<p>Financial information is appropriately presented and disclosed in the financial statements.</p> <p>Classes of transactions and events or assets, liabilities and equity interests:</p> <ul style="list-style-type: none"> • have been recorded in the proper accounts and are classified to the appropriate financial statement line item; • are appropriately aggregated or disaggregated and clearly described; • have occurred and/or are relevant to the accounting period; and • pertain to the entity. <p>Disclosures related to classes of transactions and events or assets, liabilities and equity interests:</p> <ul style="list-style-type: none"> • are relevant and understandable in the context of the requirements of the applicable financial reporting framework; • are complete (i.e. all disclosures related to classes of transaction, account balances and other matters have been included in the financial statements); and • are disclosed at appropriate amounts (i.e. are appropriately measured and described). 	

Other matters disclosed in the financial statements are disclosures not directly related to recorded classes of transaction or account balances.

For example, the entity may describe its exposure to risks arising from financial instruments, including:

- how the risks arise;

- the objectives, policies and processes for managing the risks; and
- the methods used to measure the risks.

Examples

How do we consider accounts, disclosures and assertions not identified as significant in the aggregate?

[ISA | 566.11279]

Fact pattern:

Entity X records operating expenses in multiple accounts.

Account	Balance (\$)
Payroll expense	37,000
Depreciation expense	29,000
Rent expense	8,500
Advertising expense	7,600
Utilities expense	750
Amortization expense	250
Total operating expenses	\$83,100

First, the engagement team identify RMMs related to payroll expense and depreciation expense, making these significant accounts. The relevant assertions for those identified RMMs are Completeness, Existence and Accuracy.

Analysis:

Stepping back, the team analyze the remaining accounts, disclosures and assertions that they did not identify as significant or relevant.

Their initial decision to identify no RMMs over the completeness of each remaining expense account remains appropriate. But they reach a different conclusion when they step back and consider these accounts in combination — i.e. that an RMM exists in the aggregate relating to the Completeness of these expense accounts.

In this case, they identify that the performance of procedures over the Completeness assertion of the other expense accounts are necessary. They identify RMMs relating to the Completeness of rent expenses (\$8,500) and advertising expenses (\$7,600). They then step back and conclude that there is no longer a reasonable possibility of material misstatement in the remaining expense accounts.

If the team hadn't been able to identify specific accounts for which Completeness was relevant, they might instead have identified Completeness as a relevant assertion for *all* the remaining expense accounts, and included them as significant accounts.

5 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	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.	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.
Risks associated with other components	The risks and business activities at these components are dissimilar from components where risks of material misstatement exist and procedures are performed.	The risks and business activities at these components are similar to other components where risks of material misstatement exist and procedures are performed.
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 components of ICFR considering the nature and complexity of the group. 	<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 appropriate foundation for the other components of ICFR considering the nature and complexity of the group; and/or • the control deficiencies identified in the group control environment

		undermine the other components of the entity's system of internal control.
Risk Assessment Process	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.	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.
Monitoring activities	Our understanding of the group's monitoring activities indicates that group management performs effective and timely monitoring activities over all entities or business units.	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.
IT systems and IT processes	The recordkeeping and information processing for the components are decentralized, and they do not have the same IT system.	The recordkeeping and information processing for the components are centralized, and they have the same IT system.
Distribution of remaining financial information across components	The remaining financial information is spread across many components (e.g. 50 components, where each is significantly less than group performance materiality).	The remaining financial information is spread across a few components (e.g. 3 components, two of which represent 7x group performance materiality)
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	The results of reviews or statutory audits performed at remaining components identified significant matters that indicate there could be a risk of material misstatement

	misstatement in the remaining financial information.	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.

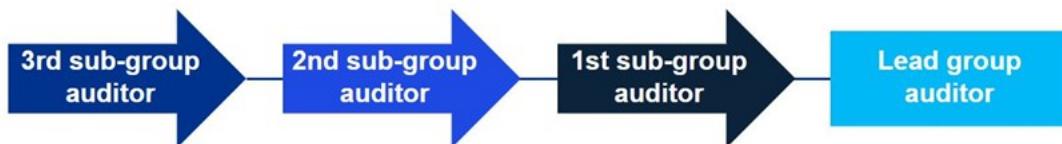
How do we evaluate the remaining financial information for sub-groups? [ISA | 1502.12256]

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>  <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	Our understanding of CERAMIC indicates that the component is not subject to the group's CERAMIC. For example: <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.

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.

Materiality

International Standards on Auditing: ISA 600.35-36

Materiality

35. In applying ISA 320²⁵ and ISA 450,²⁶ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group auditor shall determine:

- a. Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A116-A120)
- b. The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A121)

²⁵ ISA 320, paragraph 11

²⁶ ISA 450, Evaluation of Misstatements Identified During the Audit, paragraph 5

Considerations When Component Auditors Are Involved

36. The group auditor shall communicate to the component auditor the amounts determined in accordance with paragraph 35. (Ref: Para: A122-A123)

ISA Application and Other Explanatory Material: ISA 600.A116-A123

Materiality

Component Performance Materiality (Ref: Para. 35(a))

A116. Paragraph 35(a) requires the group auditor to determine component performance materiality for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

A117. This ISA does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, ISA 320⁸¹ requires a determination of the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. In these circumstances, the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.⁸²

⁸¹ ISA 320, paragraphs 10 and A11-A12

⁸² ISA 320, paragraph A13

A118. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the group auditor may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).
- Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example:
 - Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions).
 - The nature and extent of misstatements identified at the component in prior audits.

A119. To address aggregation risk, paragraph 35(a) requires component performance materiality to be lower than group performance materiality. As explained in paragraph A118, as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements. When determining component performance materiality for a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may take into account the group's ownership percentage and the share of the investee's profits and losses.

A120. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., not disaggregated across components). In such cases, group performance materiality often will be used for purposes of performing these procedures.

"Clearly Trivial" Threshold (Ref: Para: 35(b))

A121. The threshold for communicating misstatements to the group auditor is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA 450,⁸³ this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

⁸³ ISA 450, paragraph A3

Considerations When Component Auditors Are Involved

Communicating Component Performance Materiality (Ref: Para. 36)

A122. In some cases, it may be appropriate for the group auditor to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor's knowledge of the component and potential sources of misstatement of the component financial information. In this regard, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.

A123. Component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial information. Therefore, ongoing communication between the component auditor and the group auditor is important, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.

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

1 Group Audit | Determine Component Performance Materiality [ISA | 1526]

What do we do?

Determine component performance materiality.

Why do we do this?

Component performance materiality is used to plan and perform audit procedures at a component for purposes of the group audit. Therefore, component performance materiality is set at an amount lower than group performance materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds group materiality (the aggregation risk).

Execute the Audit

What is component performance materiality? [ISA | 1526.1400]

Component performance materiality is a measure we use to identify, assess and respond to risk at the account or disclosure level at the component. If we audited each account or disclosure using the group performance materiality, aggregation risk would be too high. Component performance materiality, therefore, is an amount less than group performance materiality.

For which components is component performance materiality determined? [ISA | 1526.1500]

Component performance materiality is determined for those components where audit work related to a component is performed.

How is component performance materiality determined? [ISA | 1526.159735]

We, as the group auditor, determine component performance materiality by determining component materiality and then determining the amount of component performance materiality based upon the assessed level of aggregation risk at the component.

If we decide to use work from a component auditor's statutory audit for the group audit, [we determine whether the local statutory performance materiality is appropriate for purposes of the group audit.](#)

At the end of the audit, we [re-evaluate and determine whether to revise component performance materiality, as necessary.](#)

1.1 Group Audit | Determine Component Materiality

[ISA | 1527]

What do we do?

IF an audit work related to a component is performed THEN determine component materiality as an amount lower than group materiality as the first step in determining component performance materiality to reduce group aggregation risk to an appropriately low level.

Why do we do this?

As the group auditor, we determine component materiality as the first step in determining component performance materiality to respond to the aggregation risk at the group level that stems from performing procedures on financial information of components in the group.

Execute the Audit

What is component materiality? [ISA | 1527.1300]

Component materiality is the materiality for a component determined by the group auditor for the purposes of determining component performance materiality.

What is group aggregation risk? [ISA | 1527.1400]

Group aggregation risk is the probability that the aggregate of uncorrected misstatements and undetected misstatements across the group financial statements exceeds materiality for the group financial statements as a whole.

Who determines component materiality? [ISA | 1527.1600]

As the group auditor, we determine component materiality.

In a group with sub-groups or multiple tiers, the sub-group auditor may assist the lead group auditor in determining component materiality for the components in the sub-group. However, the lead group auditor retains ultimate responsibility for determining the appropriate component materiality for all components.

How do we determine component materiality? [ISA | 1527.1800]

As the group auditor, we determine component materiality and document our determination as follows:

For each component for which we are determining component materiality, we:

- [Determine the size of the component relative to the group](#); and
- [Determine component materiality as a percentage of group materiality](#)

For all components subject to audit procedures for purposes of the group audit, including components accounted for under the equity method, we:

- [Determine that the aggregate of component materiality is acceptable.](#)

In practice, we may consider the maximum multiple of group materiality when setting individual component materiality amounts.

In summary:



If we determine a lower group materiality for particular accounts or disclosures, then we also [determine a lower component materiality for those particular accounts or disclosures for relevant components](#)

[How do we determine component materiality for components accounted for under the equity method?](#)

[ISA | 1527.12298]

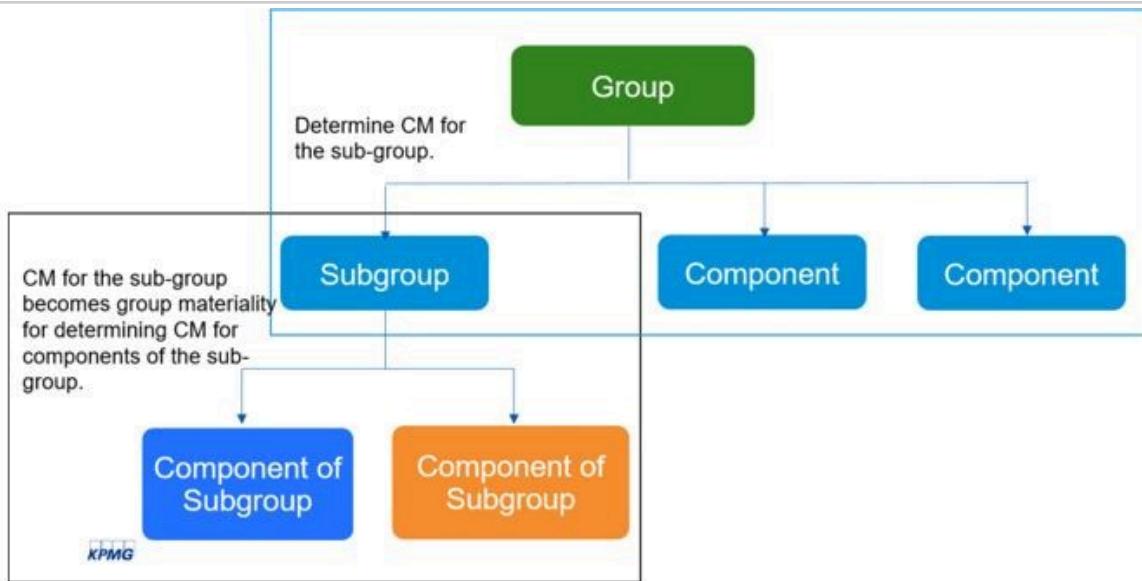
We determine the component materiality for equity method investments in the same way as any other component. In many cases, the benchmark used to determine the relative size of the equity method investment component will be net assets (i.e. the amount of the equity method investment recorded in the group financial statements) or PBTCO.

[How do we determine component materiality in a group with sub-groups or multiple tiers?](#) [ISA | 1527.2100]

We can either:

- (i) determine component materiality for the sub-group and the components of the sub-group in the same way as it is [determined for any component](#). We then determine that the aggregate of component materiality for all components (includes the components of the sub-group but excludes the sub-group itself) is acceptable at the group level.
- (ii) determine component materiality for the sub-group in the same way as it is [determined for any component](#). The sub-group is then considered to be 'another group' and the component materiality set for that sub-group becomes the group materiality used for the purposes of determining component materiality for the components in the sub-group (refer to illustration below).

A separate determination is performed as to whether the aggregate of component materiality for the components is acceptable at the group and the sub-group levels. At the group level, the aggregate of component materiality includes the sub-group but excludes the components of the sub-group.



What are other scenarios where we think about whether to determine a component materiality? [ISA | 1527.2200]

Scenario	Do we determine a component materiality?
Work performed on accounts or disclosures audited at the group level (e.g. goodwill arising on consolidation) -or- consolidation and financial reporting activities.	No - we use group materiality and group performance materiality to plan and perform the work.
Parent entity of the group	Yes, but only when the head office function is determined to be a component and we plan to perform audit procedures for purposes of the group audit.
Head office function of the group	Yes, but only - when the head office function is determined to be a component and we plan to perform audit procedures for purposes of the group audit.
Centralized services that are considered components	Yes
Centralized services that are not considered components	No; however, we use: <ul style="list-style-type: none"> • group materiality and group performance materiality, when our testwork addresses accounts or disclosures at the group level, or

- | | |
|--|--|
| | <ul style="list-style-type: none">the component materiality or component performance materiality of the individual components when our testwork addresses accounts or disclosures at the component level |
|--|--|

1.1.1 Group Audit | Determine the relative size of each component [ISA | 1528]

What do we do?

Determine the relative size of each component in relation to the group.

Why do we do this?

As the group auditor, we determine the relative size of a component in order to determine component materiality and component performance materiality for that component. Determining the relative size of each component allows us to determine an appropriate component materiality, which helps us avoid determining a very large component materiality for a very small component or a very small component materiality for a very large component.

Execute the Audit

Where are we in our determination of component materiality? [ISA | 1528.1300]



How do we determine the relative size of a component? [ISA | 1528.1400]

We determine the relative size of a component by:

- Identifying the primary, secondary or alternative benchmark that best represents the size of each component,
- Determining the amount of the selected benchmark for each component, and
- Determining the size of each component, relative to the group, as a percentage of the selected benchmark.

In summary:



1.1.1.1 Group Audit | Identify the relevant benchmark that best represents a component's size

[ISA | 1529]

What do we do?

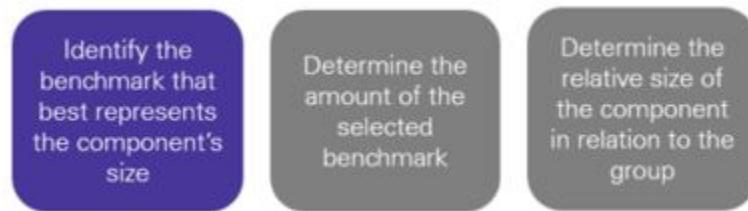
Identify the primary, secondary or alternative benchmark that best represents the size of each component for which we are determining component materiality.

Why do we do this?

As the group auditor, we identify the benchmark (primary, secondary or alternative) that best represents the size of each component relative to the group in order to determine its relative size. This allows us to appropriately determine the relative size of each component and ultimately an appropriate component materiality.

Execute the Audit

Where are we in our determination of the relative size of each component for which we are determining component materiality? [ISA | 1529.1300]



What is the 'primary' benchmark? [ISA | 1529.1400]

The primary benchmark is the metric that is most representative of the relative size of the components for a majority of the components. It is either total revenue or total assets.

Examples of the most common primary benchmark for different industries are included in the table below:

Industry	Example primary benchmark
General for-profit business	Total revenues
Banks	Total assets
Insurance	Total assets
Industries that are asset intensive — e.g. mining, airlines	Total assets
Investment funds/trusts	Total assets
Entities that trade mainly for capital gain — e.g. property investment	Total assets
Pension plans —defined contribution or defined benefit	Total assets

It is also helpful to think about the primary benchmark identified in the prior audit, as it would not be expected to change between periods unless there was a significant change in the group structure or how transactions were recorded across the group.

What is the 'secondary' benchmark? [ISA | 1529.1500]

A secondary benchmark is identified when the primary benchmark is not an appropriate representation of the relative size of all components. It is either total assets or total revenue, whichever is not selected as the primary benchmark.

Primary Benchmark	Secondary Benchmark
Total assets	Total revenues
Total revenues	Total assets

Examples where the primary benchmark may not be an appropriate representation of the size of a particular component relative to the group include:

- a retail entity where the primary benchmark that is most representative of the relative size of the majority of the components is total revenues. However, there is a component that owns all of the group's assets and rents them to the other components. For this component, total assets (the secondary benchmark) would be the more appropriate benchmark for determining the size relative to the group.

- a commercial banking entity where the primary benchmark that is most representative of the size of the majority of the components is total assets. However, there is a component that only provides investment banking services. For this component, total revenues would be the more appropriate benchmark for determining the size relative to the group.

What is an 'alternative' benchmark? [ISA | 1529.1600]

When both the primary and secondary benchmark are not appropriate for determining the relative size of a particular component, we identify an alternative benchmark that is most representative of the size of the component relative to the group.

For example, suppose there is a particular component where a majority of the revenue is intercompany, there are no significant assets and there is a material amount of external expenses recorded. In this case, neither the primary or secondary benchmarks (i.e. total revenue and total assets) are an appropriate representation of the component's size relative to the group. For this component, total expenses would be the more appropriate benchmark for determining the size of the component.

What benchmark do we use when an equity method investment is identified as a component? [ISA | 1529.1700]

Just like other components, when an equity method investment is identified as a component, we select the benchmark that best represents the size of the equity method investment relative to the group. In many cases, the benchmark used to determine the relative size of the equity method investment component will be net assets (i.e. the amount of the equity method investment recorded in the group financial statements) or PBTCO.

1.1.1.2 Group Audit | Determine the amount of the selected benchmark [ISA | 1530]

What do we do?

Determine the amount of the benchmark selected for each component for which we are determining component materiality.

Why do we do this?

The group auditor determines the amount of the benchmark (primary, secondary or alternative) that best represents the size of each component in the group in order to determine its relative size. This allows us to appropriately determine the relative size of each component and ultimately component materiality.

Execute the Audit

Where are we in our determination of the relative size of each component for which we are determining component materiality? [ISA | 1530.1300]

Identify the
benchmark that
best represents
the component's
size

Determine the
amount of the
selected
benchmark

Determine the
relative size of
the component
in relation to the
group

How do we determine the amount of the selected benchmark? [ISA | 1530.1400]

The amount of the benchmark may be based on:

- actual amounts of the benchmark available at the time of determining component materiality during planning, e.g. using interim financial information, or
- estimated amounts of the benchmark at period-end, e.g. using budgets or forecasts for the period.

Regardless of what amounts are used to determine the amount of the selected benchmark, we use them consistently for all the components and the group amounts. It can be helpful to use the same information that we used to determine materiality for the financial statements as a whole.

The table below sets out examples of situations where we may use actual or estimated amounts:

Benchmark	Examples
Actual amounts at an interim date	When the benchmark is total assets, and the amounts at the component and the group are expected to remain relatively stable and consistent at period-end.
	When the benchmark is total revenues, and the component and the group's revenues are not subject to seasonality or the proportion of total revenue earned by components are expected to remain relatively stable and consistent throughout the period.
Estimated amounts for the period	When the benchmark is total assets, and the group expects to make a significant acquisition or dispose of a significant part of a component's assets before period-end.
	When the benchmark is total revenues, and some component or the group's revenues are subject to seasonality or expected changes that affect the proportion of total revenue earned (e.g., significant contract, changes in economic conditions) during the period.

May we use pre or post-consolidation amounts when determining the amount of the selected benchmark?

[ISA | 1530.1500]

Post-consolidation amounts are more representative of the relative size of components. However, we may decide to use pre-consolidation amounts when:

- pre-consolidation amounts approximate post-consolidation amounts, and
- it is not possible to determine or accurately estimate the post-consolidation benchmark amount for each of the components.

Benchmark	Examples
Post-consolidation amounts	When the benchmark is total assets, and a component is a holding company with large investments in group companies.
	When the benchmark is total revenues, and components have large amounts of intercompany revenues that we will not perform procedures over.
Pre-consolidation amounts	When the benchmark is total assets or total revenues, and the component has low levels of intercompany transactions (e.g., intercompany AR, AP, revenue or debt) such that pre-consolidation amounts approximate post-consolidation amounts.

1.1.1.3 Group Audit | Determine the relative size of each component using the selected benchmark [ISA]

1531]

What do we do?

Determine the size, relative to the group, as a percentage of the selected benchmark for each component for which we are determining component materiality.

Why do we do this?

Determining the relative size is simply determining the ratio of the component amount to the group amount for the selected benchmark. This relative size will drive our determination of the component materiality, helping us determine an appropriate amount.

Execute the Audit

Where are we in our determination of the relative size of each component for which we are determining component materiality? [ISA | 1531.1300]



How do we determine the relative size of each component as a percentage of the selected benchmark?

[ISA | 1531.1400]

As the group auditor, we determine the relative size of a component by dividing the amount of the selected benchmark at the component by the amount of the benchmark at the group.

A depiction of the calculation is as follows:

$$\text{Relative Size of Component} = \frac{\text{Amount of the Benchmark at Component}}{\text{Amount of Benchmark at Group}}$$

The resulting percentage is rounded to the nearest whole percent, which represents the size of the component relative to the group.

1.1.2 Group Audit | Determine the amount of component materiality [ISA | 1532]

What do we do?

Determine the amount of component materiality for each component for which we are determining component performance materiality.

Why do we do this?

In order to determine component materiality, as the group auditor, we determine the appropriate percentage of group materiality to be used within a range based on the relative size of the component and other factors impacting the group aggregation risk. Determining the appropriate component materiality enables us to determine component performance materiality and, therefore properly address aggregation risk in a group audit.

Execute the Audit

Where are we in our determination of component materiality? [ISA | 1532.1300]



How do we determine component materiality as a percentage of group materiality? [ISA | 1532.1400]

As the group auditor, we use the following table to determine component materiality as a percentage of group materiality for each component for which we are determining component materiality:

Component size range	Range of component materiality as a percentage of group materiality
<10%	<50%
10 - 25%	25% - 60%
26 - 50%	40% - 80%
51 - 85%	60% - 90%
> 85%	Pro rata plus or minus 5% and < 100%

In order to use the table, we:

- (1) Use the '[relative size of the component](#)' (previously determined) to determine the appropriate 'component size range' (e.g. if the relative size of a component is 15%, then the component size range for that component is 10-25%). The 'component size range' determines the applicable 'range of component materiality as a percentage of group materiality' (e.g. if the relative size of a component is 15%, then the applicable range of component materiality as a percentage of group materiality is 25%-60%).
- (2) Determine the percentage of group materiality that we deem appropriate from within the 'applicable range'.
- (3) We multiply the determined percentage of group materiality by group materiality, which establishes component materiality. We round component materiality.

How do we determine the percentage of group materiality within the 'applicable range'? [ISA | 1532.12300]

We think about a few different factors and how those factors affect where within the applicable range the percentage of group materiality component materiality may fall:

Factor	Consideration

The relative size of the component within the component's size range	The closer the relative size of the component is to the lower end of the 'component size range', the closer the percentage of group materiality would be to the lower end of the corresponding 'range of component materiality as a percentage of group materiality'.
The expected value of misstatements across all components at the group level	<p>The higher the expected value of misstatements, the closer to the lower end of the range is expected for all components.</p> <p>The expected value of misstatements is influenced by:</p> <ul style="list-style-type: none"> • Deficiencies in CERAMIC at the group. • History of corrected and uncorrected misstatements across all components that were accumulated in audits of the financial statements of prior periods. • Any other factors that may increase the expected value of misstatements across all components.
Statutory materiality considerations	When statutory materiality is applied at several components and is expected to be significantly lower than the component materiality we would otherwise determine, then component materiality at other components may be closer to the higher end of the range. However, the percentages we determine are still within the ranges provided in the table above.
<p>For example, if the relative size of a component is 15%, the applicable 'component size range' is 10 - 25% and the applicable 'range of component materiality as a percentage of group materiality' is 25%-60%. Suppose the group team expects from past history that there could be some misstatements in excess of group AMPT across all components and there are no statutory audits at other components. These factors indicate that a component materiality closer to the bottom of the applicable range would be appropriate; as such, the group team determined component materiality for this component at 30% of group materiality.</p>	

Can we determine component materiality outside of the applicable range? [ISA | 1532.12301]

When we consider it appropriate and have consulted with DPP, we may exceed the upper end of the applicable range of component materiality as a percentage of group materiality.

We can go below the low end of the corresponding range of component materiality in the following circumstances:

- when using statutory materiality as component materiality; or
- when a component has a relative size that is at the low end of the component size range and the expected value of misstatements across all components at the group level is higher.

How do we determine the component materiality for a component disposed of during the period? [ISA |

1532.1500]

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, if we determine that audit procedures have to be performed over the pre-divestiture income and expenses, when determining component materiality, we:

- identify the benchmark (primary, secondary or alternative) to be used based on the pre-divestiture income statement activity (income and expenses presented line by line), which would ordinarily be total revenue,
- determine the amount of the selected benchmark for both the component and the group at the time the divestiture occurs,
- determine the relative size of the divested component as follows:

$$\text{Relative Size of Divested Component} = \frac{\text{Amount of Benchmark at Divested Component}}{\text{Amount of Benchmark at Group Prior to Divestiture}}$$

- determine component materiality the same as any other component, based on the relative size of the divested component and other factors impacting the group aggregation risk.

For example, the following fact pattern applies:

- A component is disposed of on March 31.
- Component materiality is determined based on interim financial information at May 31 using total revenues as the primary benchmark:

	Revenue		
	Divested Component	Non-Divested Components	Total
January - March	100	400	\$500
April - May	0	400	\$400
Total	\$100	\$800	\$900

The group auditor determined that total pre-divestiture revenue was an appropriate benchmark for the divested component. Based on the fact pattern above, the relative size of the divested component is 20% (i.e., 100/500).

1.1.3 Group Audit | Determine that the aggregate of component materiality is acceptable [ISA | 1534]

What do we do?

Determine that the aggregate of component materiality is acceptable AND consult with DPP when necessary.

Why do we do this?

Component materiality is set individually for each component to determine component performance materiality to address the group aggregation risk that arises because we audit a number of components in the group. To determine whether this group aggregation risk is appropriately addressed, as the group auditor, we evaluate whether the aggregate of component materiality for all components subject to further audit procedures for purposes of the group audit is acceptable.

Execute the Audit

Where are we in our determination of component materiality? [ISA | 1534.1300]



How do we determine that the aggregate of component materiality is acceptable? [ISA | 1534.1400]

As the group auditor, we:

- (1) Calculate the aggregate of component materiality for all components subject to further audit procedures for purposes of the group audit by adding together the component materiality amounts for each component.
- (2) Divide that aggregate by group materiality to calculate the actual multiple of group materiality.
- (3) Compare the actual multiple of group materiality with the maximum multiple of group materiality based on the total number of components subject to further audit procedures".

A depiction of the calculation is as follows:

$$\frac{\text{Maximum Acceptable Multiple of Group Materiality}}{\text{Multiple of Group Materiality}} > \text{Multiple of Group Materiality} = \frac{\text{Aggregate of component materiality}}{\text{Group Materiality}}$$

(4) If the actual multiple of group materiality does not exceed the maximum acceptable multiple, then the aggregate of component materiality is acceptable.

(5) If the actual multiple of group materiality exceeds the maximum acceptable multiple, we evaluate, based on our professional judgment whether component materiality for certain components has been set too high and where we determine it has been set too high, we reduce it accordingly and reconsider if the maximum acceptable multiple is still exceeded.

Refer to the question '[Under what circumstances do we consult with DPP, when we are determining whether the aggregate of component materiality?](#)' for further considerations.

[What is the maximum multiple of group materiality?](#) [ISA | 1534.12334]

The table sets out the maximum multiple of group materiality based on the total number of components subject to further audit procedures for purposes of the group audit.

Number of components	Maximum multiple of group materiality	Number of components	Maximum multiple of group materiality	Number of components	Maximum multiple of group materiality
2	1.5	9 - 10	4.5	32 - 44	8.0
3	2.5	11 - 17	5.5	45 - 56	9.0
4	3.5	18 - 20	6.0	57 - 69	9.5
5 - 8	4.0	21 - 31	7.0	70	10.0

[Which components are included in the 'aggregate of component materiality'?](#) [ISA | 1534.12335]

We include the components where further audit procedures are performed for purposes of the group audit, including components accounted for under the equity method.

The aggregate of component materiality excludes components where risk assessment procedures only are performed without further audit procedures, as they do not provide direct substantive evidence that addresses risks of material misstatement of the group financial statements.

[Can the aggregate of component materiality for all components exceed materiality for the group financial statements?](#) [ISA | 1534.1600]

Yes. Component materiality does not have to be an arithmetical portion of the materiality for the group financial statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed the materiality for the group financial statements as a whole.

Under what circumstances do we consult with DPP, when we are determining whether the aggregate of component materiality is acceptable? [ISA | 1534.1700]

As the group auditor, we consult with DPP if:

- the 'actual multiple of group materiality' exceeds the 'maximum multiple of group materiality'; and
- we evaluate, based on our professional judgement, that the component materiality for all components is still appropriate.

Under what circumstance, is it acceptable for the 'aggregate of component materiality' to exceed the maximum multiple of group materiality? [ISA | 1534.12343]

There are limited circumstances where it may be acceptable to exceed the maximum multiple in the table. The most likely circumstance is where there are a 'high' number of small, similarly sized components; for example 40 or more such components.

1.1.4 Group Audit | Determine lower component materiality for particular accounts or disclosures [ISA | 1535]

1535]

What do we do?

IF we determine a lower group materiality for particular accounts or disclosures THEN determine a lower component materiality for those particular accounts or disclosures for relevant components.

Why do we do this?

As the group auditor, if we decide to use a lower group materiality for particular accounts or disclosures in the group financial statements, we also determine a lower component materiality for those particular accounts or disclosures at those components where the particular accounts or disclosures are subject to audit procedures. This allows us to determine component performance materiality and appropriately respond to the aggregation risk for those particular accounts or disclosures.

Execute the Audit

What is lower component materiality? [ISA | 1535.1300]

Lower component materiality is a component materiality for a particular account or disclosure that is set when a lower group materiality is set for that particular account or disclosure in the group financial statements. We set lower component materiality as a step in setting lower component performance materiality.

Which components are 'relevant components' for which we determine a lower component performance materiality? [ISA | 1535.1400]

'Relevant components' are those components where further audit procedures are performed for the purpose of the group audit over particular accounts or disclosures for which a lower group materiality was determined.

How do we determine a lower component materiality for particular accounts or disclosures for 'relevant components'? [ISA | 1535.1500]

As the group auditor, we determine the lower component materiality for relevant components by multiplying the lower group materiality for the particular account or disclosure by the same percentage of group materiality used to determine component materiality for the component.

A depiction of the calculation is as follows:

$$\text{Lower Component Materiality} = \frac{\text{Lower Group Materiality for the Particular Account or Disclosure}}{\text{X}} \times \frac{\% \text{ of Group Materiality Used to Determine Component Materiality}}$$

Examples

How do we determine a lower component materiality for particular accounts or disclosures? [ISA | 1535.1700]

Fact pattern

Consider an audit where:

- Group materiality is 100.
- A lower group materiality for 'Account A' was determined at 80.
- Audit procedures designed by the group auditor are performed at Component Z and component materiality was determined to be 30 (or 30% of group materiality).

Analysis

The group auditor determines lower component materiality for Account A of 24 at Component Z (i.e. $80 * 30\%$).

1.2 Group Audit | Determine the amount of Component Performance Materiality [ISA | 1536]

What do we do?

Determine component performance materiality as an amount lower than group performance materiality

Why do we do this?

Component performance materiality is used to plan and perform audit procedures at a component for purposes of the group audit. Therefore, component performance materiality is set at an amount lower than group performance materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds group materiality (the aggregation risk).

Execute the Audit

What is component performance materiality? [ISA | 1536.1400]

Component performance materiality is a measure we use to identify, assess and respond to risk at the account or disclosure level at the component. If we audited each account or disclosure using the group performance materiality, aggregation risk would be too high. Component performance materiality, therefore, is an amount less than group performance materiality.

For which components is component performance materiality determined? [ISA | 1536.1500]

Component performance materiality is determined for those components where audit work related to a component is performed.

Who determines component performance materiality? [ISA | 1536.1600]

The group auditor determines component performance materiality. The component auditor may have more knowledge to evaluate the factors related to aggregation risk at the component so, in practice, the component auditor may assist the group auditor in determining the component performance materiality.

How is component performance materiality determined? [ISA | 1536.1700]

We, as the group auditor, perform the following four steps to determine the amount of component performance materiality:

- (1) [Determine component materiality](#)
- (2) [Consider the factors that affect aggregation risk;](#)
- (3) [Assess the level of aggregation risk; and](#)
- (4) [Determine the amount of component performance materiality and, if applicable, lower component performance materiality for particular accounts or disclosures.](#)

We then communicate the amount of component performance materiality and, if applicable, lower component performance materiality to the component auditor (refer to activity '[Communicate to component auditors relevant materiality measures](#) ').

In circumstances where the component auditor assists in determining component performance materiality, we may discuss with the component auditors the factors for determining the level of aggregation risk at the component.

When we use the work of a component auditor performing an audit of the component financial statements for statutory, regulatory or other reasons, we [request the component auditor to provide us with their performance materiality and evaluate the appropriateness if they plan to use that performance materiality for the purpose of the group audit](#).

We document the basis for determining component performance materiality, which includes the relative size of the component and the assessed level of aggregation risk at the component, and may include any other factors considered..

How do we evaluate the appropriateness of the component performance materiality determined by the component auditor for an investment accounted for under the equity method? [ISA | 1536.12345]

When a stand-alone audit of the equity method investment is performed and we identify the equity method investment as a component, we evaluate whether the performance materiality used in the audit is appropriate for purposes of the group audit.

We consider the stand-alone performance materiality used by the investee auditor and the % used by group management to record their investment in the component as follows:

Performance materiality used by the component auditor in the investee's stand-alone audit	X	% used by group management to record its investment in the component	=	Component performance materiality
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We evaluate whether the component performance materiality above is appropriate by comparing it to our determined component performance materiality for the equity method investment. We do this by determining component materiality for the equity method investment (refer to "[How do we determine component materiality for equity method investments?](#)") and multiplying that amount by the percentage limit in activity '[Determine an amount for performance materiality](#)'.

[When do we determine a lower component performance materiality for particular accounts or disclosures?](#) [ISA | 1536.12346]

As the group auditor, when [we have determined a lower component materiality for particular accounts or disclosures](#), we also determine a lower component performance materiality to be applied to those particular accounts or disclosures.

[How do we determine a lower component performance materiality for particular accounts or disclosures?](#) [ISA | 1536.12347]

As the group auditor, we determine lower component performance materiality in the same way as component performance materiality, although using the lower component materiality level for those particular accounts or disclosures instead of component materiality.

Examples

[Why do we determine component performance materiality at an amount lower than group performance materiality?](#) [ISA | 1536.159571]

Fact pattern

Consider an audit of a group that:

- has only a significant account with a consolidated balance of \$100 million;
- has an established group materiality of \$5 million and group performance materiality of \$3.7 million;
- consists of 50 components; and
- the balance of the significant account is distributed evenly across all of those components (\$2 million in each location).

Analysis

In designing and executing an audit approach for each individual component, if we used group performance materiality of \$3.7 million as the component performance materiality, we may determine that little or no audit evidence is required at any component, which would not be appropriate. Because smaller misstatements could arise throughout the components and aggregate to an amount that is material at the group financial statements, we determine component performance materiality for each individual component at levels that are sufficiently less than group performance materiality to address aggregation risk.

Component Audit | If, as a component auditor, we are requested to perform work related to a component using component performance materiality, do we have to do so? [ISA | 1536.159572]

No, we may use a lower performance materiality. Particularly if we are performing an audit for local reporting purposes and set a lower performance materiality for that purpose, it may be appropriate to perform requested audit procedures that are the same for group and statutory purposes once based on that lower performance materiality. In such cases, if we are required by law or regulation to provide auditor's report to the group auditor it may not be appropriate to include a scope limitation for component materiality in the auditor's report to the group auditor.

However, due to timing of component audits, we may perform the procedures necessary to report to the group auditor using component performance materiality and then perform additional testing using the lower performance materiality for local reporting purposes at a later date.

1.3 Group Audit | Determine whether the component's statutory performance materiality is appropriate

[ISA | 1533]

What do we do?

IF a component is subject to a statutory audit AND we use that audit for the group audit THEN determine whether the component's statutory performance materiality is appropriate for the group audit.

Why do we do this?

Where a local statutory audit will be used for our group audit purposes, the component auditor will set a local performance materiality for the statutory audit. When they intend to use their statutory performance materiality for the work done for group audit purposes, it may not be necessary for the group auditor to determine a component performance materiality for that purpose. However, we, as group auditor, determine that the statutory performance materiality used by the component auditor for the work performed for our group audit is appropriate and will enable the group auditor to gain sufficient appropriate evidence to support the group audit opinion.

Execute the Audit

What is a statutory audit? [ISA | 1533.12297]

A statutory audit is an audit required by law, statute, regulation or other reason. In a group audit, the term stand-alone audit may also be used to refer to the statutory audit of a component of the group.

When do we determine whether the component's statutory performance materiality is appropriate? [ISA | 1533.1500]

We determine whether the component's statutory performance materiality is appropriate when:

- we plan to rely on the work performed for the statutory audit for purposes of our group audits; and
- the component auditor plans to use the statutory audit performance materiality to perform the work for purposes of our group audit.

How do we determine whether the component's statutory performance materiality is appropriate for purposes of the group audit? [ISA | 1533.1600]

As the group auditor, if a component is subject to statutory audit and we use that audit for the group audit we:

- request the component auditor to inform us of the amount of statutory performance materiality, and
- determine whether the statutory performance materiality provided by the component auditor is equal to or less than the component performance materiality that we otherwise would have determined following the structured approach.

If we have any concerns about the appropriateness of the statutory performance materiality, we discuss our concerns with the component auditor and, if necessary, agree to any modifications to the amount of statutory performance materiality prior to the component auditor starting audit procedures.

How do we determine whether the performance materiality used in the audit of an equity method investment is appropriate? [ISA | 1533.12302]

When a stand-alone audit of the equity method investment is performed, we determine whether the performance materiality used in the audit is appropriate for purposes of the group audit by comparing the component performance materiality we determined to the stand-alone performance materiality used by the investee auditor, considering the % used by group management to record their investment in the component:



1.4 Group Audit | Re-evaluate and determine whether to revise component performance materiality

[ISA | 1539]

What do we do?

Re-evaluate and determine whether to revise component performance materiality, as necessary.

Why do we do this?

As the group auditor, we ordinarily determine component performance materiality before the end of the period under audit. After component performance materiality is set, events may occur and conditions may change that might affect our initial determination. If we don't re-evaluate component performance materiality and determine whether to revise it, component performance materiality may not be appropriate for the circumstances.

Execute the Audit

[What is the difference between re-evaluating and revising component performance materiality?](#) [ISA | 1539.1300]

As the group auditor, when we re-evaluate component performance materiality, we look at the various factors considered initially when determining component performance materiality (e.g. the amount of the selected benchmark, factors that influence aggregation risk, group materiality) and assess the effect of changes in these factors on the established component performance materiality.

When we revise component performance materiality, we actually change component performance materiality (based on our re-evaluation) and communicate the revised component performance materiality to the component auditor as soon as possible after the change is made. The group auditor is responsible for determining the effect of the change on the risk assessment, planned audit procedures and the results of the audit procedures and may use the assistance of component auditors to make this determination.

[Under what circumstances do we re-evaluate component performance materiality?](#) [ISA | 1539.1400]

As the group auditor, we re-evaluate component performance materiality when:

- we have revised group materiality,
- the number of components subject to further audit procedures has changed, or
- changes in circumstances or new information related to one or more components suggest that the initial amount of component performance materiality may not be appropriate, such as:
 - a significant change to the relative size of a component, or
 - a significant change in the aggregation risk factors impacting group aggregation risk across all components or at individual components.

[How do we re-evaluate component performance materiality?](#) [ISA | 1539.1500]

As the group auditor, we go [back through the steps of setting component performance materiality](#) and determine if the component performance materiality for all components remains appropriate.

[Under what circumstances do we revise component performance materiality?](#) [ISA | 1539.1600]

When, based on our re-evaluation of component performance materiality, as the group auditor, we determine that the component performance materiality initially set for one or more components is no longer appropriate.

What if, after re-evaluating component performance materiality, the actual multiple of group materiality exceeds the maximum multiple? [ISA | 1539.1700]

As the group auditor, we revise component materiality at one or more components (where appropriate) so that the maximum multiple of group materiality is not exceeded and also revise component performance materiality for those components.

If we determine that the component materiality for all components subject to further audit procedures is appropriate and the actual multiple of group materiality still exceeds the maximum multiple of group materiality, then we consult with DPP.

2 Group Audit or Component Audit | Determine AMRT, lower AMRT and their revisions, if applicable

[ISA | 4436]

What do we do?

Determine the Audit Misstatement Reporting Threshold (AMRT) and the lower AMRT for particular accounts and disclosures. Revise those thresholds if applicable.

Why do we do this?

In an audit of the financial statements of a group, we may discover misstatements below group AMPT in more than one component. However, when aggregated, they may amount to a misstatement in an account or disclosure that is material. There is a greater possibility of this happening when the audit involves component auditors, because the group auditor may not have visibility into these smaller misstatements at every component.

As the group auditor, we determine the Audit Misstatement Reporting Threshold (AMRT) and a lower AMRT for particular accounts and disclosures to identify misstatements for which it may be appropriate to accumulate at the group level.

Execute the Audit

How do we set AMRT? [ISA | 4436.1300]

As the group auditor, we set AMRT at an amount up to 75% of group AMPT.

It is appropriate to set up an AMRT amount smaller than group AMPT to minimize the likelihood of not accumulating misstatements in the same account or disclosure that, in the aggregate, may exceed group materiality.

Consider these facts in an audit of the financial statements of an entity:

- the entity has only one significant account with a consolidated balance of \$100,000;
- the established materiality is \$5,000 and AMPT is \$250 (5% of materiality);
- the entity has 25 components;

- the balance of the significant account is distributed evenly across the 25 components (\$4,000 in each component); and
- we perform the audit procedures for one component and involve other independent auditors for the other 24 components.

During our audit procedures, we and the other auditors find a \$240 misstatement within the one significant account in each component. As those misstatements are individually below AMPT, we may not accumulate them in the SAM initially.

However, when we add them all together, the total misstatement in the account is \$6,000 (\$240 x 25 components), which is above materiality for the financial statements as a whole.

[When and how do we set a lower AMRT for a particular account or disclosure?](#) [ISA | 4436.1500]

As the group auditor, when we establish a lower group AMPT for certain accounts or disclosures, we set a lower AMRT amount for each of those particular accounts or disclosures at an amount up to 75% of lower group AMPT.

[When do we revise AMRT during the audit?](#) [ISA | 4436.1600]

As the group auditor, if, during the audit, we reduce group AMPT or reduce lower group AMPT, we revise AMRT, or lower AMRT.

3 Group Audit | Communicate to component auditors relevant materiality measures [ISA | 8134]

What do we do?

Communicate to component auditors component performance materiality and the audit misstatement reporting threshold and any other materiality measures that are relevant to their work.

Why do we do this?

We, as the group auditor, communicate to component auditors component performance materiality and the Audit Misstatement Reporting Threshold, and other relevant materiality measures so that the component auditors use these amounts when planning and performing their audit work at the component for purposes of the group audit.

Execute the Audit

[What relevant materiality measures do we communicate to component auditors?](#) [ISA | 8134.159914]

As the group auditor, we communicate with component auditors about the following relevant materiality measures:

Area	What we communicate or request to communicate
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Performance materiality	<ul style="list-style-type: none"> • Component performance materiality. • If the component auditor, in addition to performing the audit work requested by us for purposes of the group audit, is also performing a statutory audit of the component, we request the component auditor to inform us whether they plan to use the statutory performance materiality for purposes of the group audit and, if they do, communicate the amount of statutory performance materiality. • If applicable, lower component performance materiality for particular accounts or disclosures. • If applicable, the revised component performance materiality (see activity "Group Audit Re-evaluate and determine whether to revise component performance materiality" for more information).
	<p>If we decide to use a component's statutory audit for purposes of the group audit, we request the component auditor to provide us with:</p> <ul style="list-style-type: none"> • statutory performance materiality for the component financial statements, • lower statutory performance materiality level(s), if any, that the component auditor plans to apply to particular accounts or disclosures and • if applicable, any revisions to the relevant statutory performance materiality measures previously communicated to us.
	<p>If the component is accounted for by the equity method and a stand-alone audit is performed by the component auditor, we request the component auditor to provide us with the materiality and performance materiality amounts used in their audit in order to determine the appropriateness of such amounts for purposes of the group audit (see questions "How do we determine whether the materiality used in the audit of an equity method investment is appropriate?" and "How do we evaluate the appropriateness of component performance materiality for an equity method investment?")</p>
Audit misstatements	<ul style="list-style-type: none"> • The audit misstatement reporting threshold (AMRT) and, if applicable the lower AMRT for particular accounts or disclosures. • The method to be used by component auditors to quantify the audit misstatements reported to us, which is the same method that we use in our group audit. • If applicable, the revised AMRT and lower AMRT for particular accounts or disclosures.

We, as necessary, hold discussions with and obtain information from the component auditor to facilitate determining the relevant materiality measures communicated.

For guidance on determining the relevant materiality measures mentioned in the table above, refer to activity "[Determine Component Performance Materiality](#)", "[Re-evaluate and determine whether to](#)

revise component performance materiality" and "Determine AMRT, lower AMRT and their revisions, if applicable".

To which component auditors do we communicate the relevant materiality measures? [ISA | 8134.159915]

As the group auditor, we communicate the relevant materiality measures to each component auditor where the component auditor is performing audit work related to the component (i.e., risk assessment procedures and/or further audit procedures) or is performing audit procedures designed by us.

When do we communicate to component auditors the relevant materiality measures? [ISA | 8134.159916]

As the group auditor, we communicate to component auditors the relevant materiality measures at the beginning of the audit during planning.

Additionally, if we revise component performance materiality for a component or AMRT during the audit, we communicate the revised component performance materiality or AMRT to the component auditors as soon as possible after the change is made.

How do we communicate to component auditors the relevant materiality measures? [ISA | 8134.159919]

As the group auditor, we communicate in writing to component auditors the relevant materiality measures. 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 of the relevant materiality measures is not always necessary since the component auditor may have direct access to the relevant materiality measures and is therefore aware of the relevant materiality measures without written communication.

Responding to the Assessed Risks of Material Misstatement

International Standards on Auditing: ISA 600.37-44 Responding to the Assessed Risks of Material Misstatement

37. In applying ISA 330,²⁷ the group auditor shall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components. (Ref: Para. A124-A139)

²⁷ ISA 330, paragraphs 6–7

Consolidation Process

38. The group auditor shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include: (Ref: Para. A140)

- a. Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations;
- b. Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications; (Ref: Para. A141)
- c. Evaluating whether management's judgments made in the consolidation process give rise to indicators of possible management bias; and
- d. Responding to assessed risks of material misstatement due to fraud arising from the consolidation process.

39. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

40. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor shall take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.

Considerations When Component Auditors Are Involved

41. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with the component auditor about matters that the group auditor or component auditor determine to be relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.

42. For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA 315 (Revised 2019), on which a component auditor is determining the further audit procedures to be performed, the group auditor shall evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: Para. A142)

43. When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group auditor shall determine the nature and extent of direction and supervision of component auditors and the review of their work. (Ref: Para. A143)

44. The group auditor shall determine whether the financial information identified in the component auditor's communication (see paragraph 45(a)) is the financial information that is incorporated in the group financial statements.

ISA Application and Other Explanatory Material: ISA 600.A124-A143

Responding to the Assessed Risks of Material Misstatement (Ref: Para. 37)

Performing Further Audit Procedures

Performing Further Audit Procedures Centrally

A124. Further audit procedures may be designed and performed centrally if the audit evidence to be obtained from performing further audit procedures on one or more significant classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement, for example, if the accounting records for the revenue transactions of the entire group are maintained centrally (e.g., at a shared service center). Factors that may be relevant to the auditor's determination of whether to perform further audit procedures centrally include, for example:

- The level of centralization of activities relevant to financial reporting.
- The nature and extent of commonality of controls.
- The similarity of the group's activities and business lines.

A125. The group auditor may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.

A126. When further audit procedures are performed centrally, component auditors may still be involved. For example, when the group has multiple shared service centers, the group auditor may involve component auditors in the performance of further audit procedures for these shared service centers.

Performing Further Audit Procedures at the Component Level

A127. In other circumstances, procedures to respond to the risks of material misstatement of the group financial statements that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has:

- Different revenue streams;
- Multiple lines of business;
- Operations across multiple locations; or
- Decentralized systems of internal control.

Large Number of Components Whose Financial Information Is Individually Immaterial but Material in the Aggregate to the Group Financial Statements

A128. A group may be comprised of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. Circumstances such as these in which the significant classes of transactions, account balances or disclosures in the group financial statements are disaggregated over a large number of components may present additional challenges for the group auditor in planning and performing further audit procedures.

A129. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures may also include substantive analytical

procedures in accordance with ISA 520.⁸⁴ Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures. The use of automated tools and techniques may be helpful in these circumstances.

⁸⁴ ISA 520, Analytical Procedures

A130. In other cases, it may be necessary to perform further audit procedures at selected components to address the risks of material misstatement of the group financial statements. The determination of the components at which audit procedures are to be performed, and the nature, timing and extent of further audit procedures to be performed at the selected components, are matters of professional judgment. In these circumstances, introducing an element of unpredictability in the components selected for testing also may be helpful in relation to the risks of material misstatement of the group financial statements due to fraud (also see paragraph A136).

The Nature and Extent of Further Audit Procedures

A131. In response to the assessed risks of material misstatement, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):

- Design and perform further audit procedures on the entire financial information of the component;
- Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
- Perform specific further audit procedures.

A132. Although the group auditor takes responsibility for the nature, timing and extent of further audit procedures to be performed, component auditors can be, and often are, involved in all phases of the group audit, including in the design and performance of further audit procedures.

Design and Perform Further Audit Procedures on the Entire Financial Information of the Component

A133. The group auditor may determine that designing and performing further audit procedures on the entire financial information of a component is an appropriate approach, including when:

- Audit evidence needs to be obtained on all or a significant proportion of a component's financial information to respond to the assessed risks of material misstatement of the group financial statements.
- There is a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to the group auditor's evaluation of group management's assessment of the group's ability to continue as a going concern.

Design and Perform Further Audit Procedures on One or More Classes of Transactions, Account Balances or Disclosures

A134. The group auditor may determine that designing and performing further audit procedures on one or more particular classes of transactions, account balances, or disclosures of the financial information

of a component is an appropriate approach to address assessed risks of material misstatement of the group financial statements. For example, a component may have limited operations but holds a significant portion of the land and buildings of the group or has significant tax balances.

Perform Specific Further Audit Procedures

A135. The group auditor may determine that designing and performing specific further audit procedures on the financial information of a component is an appropriate approach, such as when audit evidence needs to be obtained for one or more relevant assertions only. For example, the group auditor may centrally test the class of transaction, account balance or disclosure and may require the component auditor to perform specific further audit procedures at the component (e.g., specific further audit procedures related to the valuation of claims or litigation in the component's jurisdiction or the existence of an asset).

Element of Unpredictability

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

⁸⁵ ISA 240, paragraph 30(c)

Operating Effectiveness of Controls

A137. The group auditor may rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components. ISA 330⁸⁶ requires the auditor to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. Component auditors may be involved in designing and performing such tests of controls.

⁸⁶ ISA 330, paragraph 8

A138. If deviations from controls upon which the auditor intends to rely are detected, ISA 330⁸⁷ requires the auditor to make specific inquiries to understand these matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

⁸⁷ ISA 330, paragraph 17

A139. When the operating effectiveness of controls is tested centrally (e.g., controls at a shared service center or testing of common controls), the group auditor may need to communicate information about the

audit work performed to the component auditors. For example, when a component auditor is requested to design and perform substantive procedures on the entire financial information of the component, or design and perform substantive procedures on one or more classes of transactions, account balances or disclosures, the component auditor may discuss with the group auditor about the control testing performed centrally to determine the nature, timing and extent of the substantive procedures.

Consolidation Process

Consolidation Procedures (Ref: Para. 38)

A140. The further audit procedures on the consolidation process, including sub-consolidations, may include:

- Determining that the necessary journal entries are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

Consolidation Adjustments and Reclassifications (Ref: Para. 38(b))

A141. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group auditor's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, when applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Evaluating the reconciliation and elimination of intra-group transactions, unrealized profits, and intra-group account balances.

Considerations When Component Auditors Are Involved (Ref: Para. 42-43)

A142. When the group auditor involves component auditors in the design or performance of further audit procedures, the component auditor may determine that the use of the work of an auditor's expert is appropriate and communicate this to the group auditor. In such circumstances, when determining whether the component auditor's design and performance of further audit procedures is appropriate, the group auditor may, for example, discuss with the component auditor:

- The nature, scope and objectives of the auditor's expert's work.
- The component auditor's evaluation of the adequacy of the work of the auditor's expert for the group auditor's purposes.

A143. The appropriate level of the group auditor's involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor's previous experience with the component auditors that perform procedures on the consolidation process, including sub- consolidations,

and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

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

1 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
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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.

1.1 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	<p>When total assets at the component and the group are expected to remain relatively consistent throughout the year.</p> <p>When total revenues at the component are not subject to seasonality or expected changes during the period.</p>
Estimated amounts	<p>When the group expects to dispose of a significant part of a component's assets before period-end.</p> <p>When the component's revenues are subject to seasonality or expected changes during the period.</p>

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.
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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.

1.2 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			
Size of the account at the component relative to group performance materiality	We consider the size of the account balances as a multiple of group performance materiality.  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. Careful consideration is made as the account balance at a component exceeds 13x group performance materiality.	Group Performance Materiality	7x Performance Materiality	13x 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 material misstatement to the group financial statements at a component.
Nature of assets, liabilities and transactions	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.
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.

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](#).

1.3 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
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Nature of assets, liabilities and transactions	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.	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.
Risks associated with other components	The risks and business activities at these components are dissimilar from components where risks of material misstatement exist and procedures are performed.	The risks and business activities at these components are similar to other components where risks of material misstatement exist and procedures are performed.
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 components of ICFR considering the nature and complexity of the group. 	<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 appropriate foundation for the other components of ICFR considering the nature and complexity of the group; and/or • the control deficiencies identified in the group control environment undermine the other components of the entity's system of internal control.

Risk Assessment Process	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.	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.
Monitoring activities	Our understanding of the group's monitoring activities indicates that group management performs effective and timely monitoring activities over all entities or business units.	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.
IT systems and IT processes	The recordkeeping and information processing for the components are decentralized, and they do not have the same IT system.	The recordkeeping and information processing for the components are centralized, and they have the same IT system.
Distribution of remaining financial information across components	The remaining financial information is spread across many components (e.g. 50 components, where each is significantly less than group performance materiality).	The remaining financial information is spread across a few components (e.g. 3 components, two of which represent 7x group performance materiality)
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.

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]

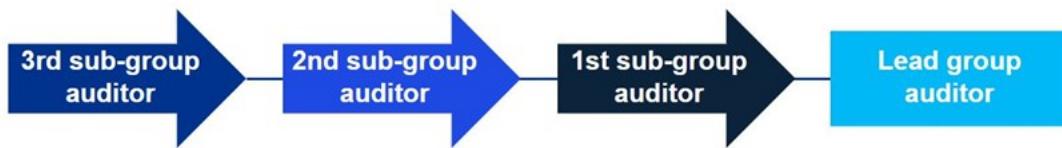
As the lead group auditor, we evaluate the remaining financial information at the individual component level (i.e. look through the sub-group to the lowest level of components).

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
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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" style="margin-left: auto; margin-right: auto;"> <tr> <td style="background-color: #2e9b4e; color: white; padding: 2px;">Group Performance Materiality</td><td style="background-color: #ffcc00; color: black; padding: 2px;">7x Performance Materiality</td><td style="background-color: #c00000; color: white; padding: 2px;">13x Performance Materiality</td></tr> </table> <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>	Group Performance Materiality	7x Performance Materiality	13x Performance Materiality
Group Performance Materiality	7x Performance Materiality	13x Performance Materiality		
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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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.

1.4 Group Audit | Determine the further audit procedures to be performed [ISA | 8154]

What do we do?

Take responsibility for the nature, timing and extent of further audit procedures to be performed for the group audit, including determining the components where further audit procedures will be performed.

Why do we do this?

Performing further audit procedures to address the risks of material misstatements of the group financial statements (group RMMs) provide us with sufficient appropriate audit evidence to reduce audit risk to an

appropriately low level. If our further audit responses are not appropriate, we will fail to reduce audit risk to an appropriate level.

Execute the audit

How do we determine the further procedures to be performed for the group audit? [ISA | 8154.160287]

As the group auditor, we determine the further audit procedures to be performed in the same manner as we would for a standalone audit. However, for a group audit, we determine whether those procedures can be designed and performed centrally at the group level (i.e. at the consolidated account level) or whether the further audit procedures will be performed at the component level.

We also determine who designs and performs the further audit procedures at components.

How do we determine the components where further audit procedures will be performed? [ISA | 8154.160288]

As the lead group auditor, we identify components at which further audit procedures may be necessary by performing the following:

- [identifying quantitatively significant components](#);
- [identifying additional components considering factors](#), including identifying components where special audit consideration is necessary to address a significant risk of the group financial statements (Refer to 'Identify significant risks of the group financial statements'); and
- [evaluating remaining financial information](#)

If, based upon [our risk assessment procedures performed at the group level and at the component level](#), we identify group RMMs that are relevant to the component and perform further audit procedures to address those RMMs in the same manner as we would for a standalone audit.

Who designs and performs further procedures at components? [ISA | 8154.160289]

Further audit 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 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.

For example, as one of the procedures to address the RMMs "Trade receivables are not accurately recorded." and "Recorded trade receivables do not exist.", the group auditor may request the component auditor to perform the following:

Obtain a population of trade receivables by customer invoice as of year-end and agree the population to the general ledger.

Using MUS, the component performance materiality communicated in the group audit instructions, and a combined assessed risk of BN, select a sample of customer invoices. For each invoice, send a positive confirmation to the respective customers to confirm the outstanding balance as of year-end.

Report any differences between the confirmation response and the outstanding balance recorded by entity and the results of MUS evaluation.

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.

Do we perform substantive procedures for material accounts and disclosures of the group financial statements that we have not identified as significant? [ISA | 8154.160291]

Yes. Similar to a standalone audit, we perform activity '[Design and perform substantive procedures for accounts and disclosures with no RMMs](#)'. For a group audit, the procedures may be performed at the group level or at the component level by judgmentally selecting the components at which to perform substantive procedures.

What accounts are considered 'material accounts' of the group financial statements? [ISA | 8154.160292]

Material accounts of the group financial statements are accounts that are equal to or greater than group materiality.

Are there other areas of the audit that may not be directly associated with a significant account/disclosure where we determine whether to perform procedures at the component level? [ISA | 8154.160293]

Yes, there are other areas of the audit that are not directly associated with a significant account/disclosure where we determine whether to perform procedures at the component level. Examples include, but are not limited to, the following:

- overall responses to address financial statement level risks of the group financial statements,
- procedures responsive to risks of management override of controls,
- procedures related to the period-end financial reporting process,
- procedures when non-compliance with laws or regulation is identified or suspected at the component,
- sending audit inquiry letters to the component's legal counsel,
- procedures to identify subsequent events, and
- procedures to obtain audit evidence to support the group's use of the going concern basis of accounting when an event or condition at a component has been identified that raises substantial doubt about the group's ability to continue as a going concern.

1.4.1 Determine who will perform the procedures over the centralized services and the procedures to be performed

[ISA | 1630]

What do we do?

Determine who will perform the procedures over the centralized services and procedures to be performed.

Why do we do this?

Where it is necessary to rely on the controls of a centralized service team or shared services center (SSC), and/or perform substantive procedures over the centralized services, we determine who is best placed to perform those procedures in a way that is efficient and maintains audit quality. This will usually involve Centralized Services auditor.

Also, we think about what types of audit procedures we may use to obtain sufficient appropriate audit evidence about the transactions that are processed and controls that exist over the centralized services.

Execute the Audit

[How do we determine who will perform the procedures over the centralized services and what procedures will be performed?](#) [ISA | 1630.1300]

When we think about who will perform the procedures and what will be performed over the centralized services, we determine:

- [who will perform the procedures over the centralized services](#)
- [the type of procedures to be performed over the centralized services](#)

1.4.1.1 Determine who will perform the procedures over the centralized services

[ISA | 1631]

What do we do?

Determine who will serve as the Centralized Services (CS) auditor

Why do we do this?

Where it is necessary to rely on the controls and/or perform substantive procedures over the centralized services, we determine who is best placed to perform those procedures in a way that is efficient and maintains audit quality. This will usually involve a Centralized Services (CS) auditor.

Execute the Audit

[How do we determine who will perform procedures over the centralized services?](#) [ISA | 1631.1300]

The Centralized Services (CS) auditor is the auditor who performs audit procedures over the centralized services on behalf of the CS user auditors. We may designate a particular auditor to be the CS auditor of the centralized services, which may be the group auditor, a CS user auditor, or another auditor. When we do this, we may consider the following factors:

- geographic/ jurisdictional location of the centralized services. For example, we may assign the engagement to a KPMG office which is geographically close to or in the same jurisdiction as where the centralized services are performed.
- who has knowledge and experience auditing the centralized services, including knowledge of local laws and regulations, business practices, language, and culture.

CS user auditors (including the group auditor) may also decide to perform audit procedures directly over the centralized services without involving the CS auditor when they think that is the most efficient and effective way to perform the procedures. In those instances, one of the CS user auditors that are already planning to perform procedures may be in the best position to serve as the CS auditor.

[Group Audit | Who determines who will perform procedures over the centralized services in a group audit?](#) [ISA | 1631.1400]

In a group audit the lead group auditor determines who will perform procedures over the centralized services and coordinate their involvement with the other CS user auditors. However, this decision may also be influenced by the specific needs of the CS user auditors.

[Are the procedures to obtain an understanding of the Centralized Services auditor similar to the procedures for a component auditor?](#) [ISA | 1631.12847]

Yes, we obtain an understanding similar to a component auditor. Refer to the guidance in [Obtain an understanding of the component auditors](#) and [Obtain information about the results of the CS auditor's quality inspections, professional background and qualifications \(PCAOB audits\)](#).

We evaluate the result of our understanding of the CS auditor and determine whether we have Serious Concerns or Less than Serious Concerns and, if applicable, consult and determine the impact on our audit (refer to Activity '[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](#)' for further information).

[Can CS user auditors not participating in a group audit rely on the work of a CS auditor?](#) [ISA | 1631.1600]

Yes. Sometimes, CS user auditors rely on work performed over centralized services for purposes of local statutory audits even when they are not participating in the group audit. For example, no work may be performed over a component of a global group for the purpose of the group audit, but a local statutory audit is performed over that component, and the local statutory auditor relies on the work performed over the centralized services. In this circumstance, we think about the contractual relationships in place.

Refer to Policy 9.8 of the Global Quality and Risk Management Manual (GQ&RMM) and Policy 9.8 of the Risk Management Manual - US (RMM - US) for additional information. For this purpose the Centralized Services Scope Document is a form of audit instructions.

Examples

Fact pattern

A group has 8 entities, the parent entity and its 7 subsidiaries, which are each determined to be separate components. Although sales transactions are initiated at the components, billing services are centralized at the head office. The head office sends the customer invoices and records revenue on behalf of the subsidiaries. The centralized services related to billing and revenue recognition are relevant to the audit.

Analysis

The group auditor determines to serve as the CS auditor due to the following:

- other PRPs RMMs and RAFITs at the head office are audited by the group auditor (i.e. geographic consideration)
- the most effective way for auditing receivables and revenue for the components is if the group auditor acts as CS auditor.

1.4.1.2 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.

1.4.2 Group Audit | Design and perform procedures on the consolidation process [ISA | 1564]

What do we do?

Design and perform further audit procedures on the consolidation process to respond to the assessed group RMMs arising from the consolidation process.

Why do we do this?

As the group auditor, we audit the group financial statements, taken as a whole, which includes the consolidation process (i.e. combining the financial information of all entities or business units and making appropriate consolidation adjustments).

We perform certain procedures over the group's consolidation process, because of the additional opportunity for errors or fraud to occur in the process. Entries and adjustments made during the consolidation process are often made at the end of the reporting period under pressure or time constraints, which may result in an increase in the risk of error or inappropriate judgments made by management.

Execute the Audit

[What is the consolidation process? \[ISA | 1564.1300\]](#)

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.

[Which RMMs in the consolidation process are to be addressed in the group audit? \[ISA | 1564.13403\]](#)

The following table provides guidance on the RMMs to be addressed in the group audit:

Description of an RMM	Applicability of the RMM
All entities and business units have not been included in the group financial statements	An RMM in all group audits
The consolidation adjustments and reclassifications are not appropriate, complete and accurate	An RMM in all group audits
The financial information of an entity or business unit has not been appropriately adjusted to reflect the accounting policies in the group financial statements	An RMM when the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements.
An entity or business unit's financial information is not appropriately incorporated in the group financial statements	An RMM in all group audits
Appropriate adjustments have not been made to adjust for situations where entity or business unit's period-end differs from the group period-end	An RMM when the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group.

These RMMs may not be the only RMMs in the consolidation process. Additional RMMs related to the consolidation process are identified and assessed, as necessary.

[How do we respond to the RMMs identified in the consolidation process? \[ISA | 1564.1600\]](#)

When RMMs have been identified related to the consolidation process, we, as the group auditor, perform at least the following procedures to respond:

Description of the RMM	Minimum response
All entities and business units have not been included in the group financial statements	Evaluate whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework.

The consolidation adjustments and reclassifications are not appropriate, complete and accurate	Evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications.
The financial information of an entity or business unit has not been appropriately adjusted to reflect the accounting policies in the group financial statements	Evaluate whether the financial information of that entity or business unit has been appropriately adjusted for purposes of preparing and presenting the group financial statements.
An entity or business unit's financial information is not appropriately incorporated in the group financial statements	Evaluate whether the entity or business unit's financial information identified by the component auditors is the information incorporated in the group financial statements.
Appropriate adjustments have not been made to adjust for situations where entity or business unit's period-end differs from the group period-end	Evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

In addition, we evaluate whether management's judgments made in the consolidation process give rise to indicators of possible management bias.

We also design and perform further audit procedures for any additional RMMs related to the consolidation and sub-consolidation process, if applicable, including RMMs due to fraud arising from those processes

How do we evaluate that all entities and business units have been included in the group financial statements? [ISA | 1564.1700]

As the group auditor, we determine that the entities or business units identified when obtaining an understanding of the group and its environment[1482] are included in the consolidation schedule or are included appropriately in the general ledger and financial statements (e.g. equity method investments). To determine this, we may perform the following:

Consideration	We may perform procedures, such as:
Whether the consolidation schedule is complete	<p>Obtain a group structure chart and compare to the entities or business units included in the consolidation schedules.</p> <p>Make inquiries of management regarding whether there are any entities or business units/ significant investments held by the group that are excluded from the consolidation and the rationale for any such exclusion. We may corroborate by:</p>

	<ul style="list-style-type: none"> • inspecting board minutes, management accounts and other relevant documentation, as appropriate; • comparing the list of related parties to the group structure chart and examine whether any entities included in the list should have been included in the consolidation. <p>For any exclusions of entities or business units/ significant investments held by the group from the consolidation schedule, perform the following procedures:</p> <ul style="list-style-type: none"> • make inquiries of management regarding the reasons for exclusion; • inspect relevant documentation relating to the group's interest in the entity or business unit/ significant investment, such as investment agreements, accounting treatment memoranda, etc.; • assess whether exclusion from the consolidation is appropriate.
Changes in the group structure	<p>Make inquiries of management to identify any transactions involving additions, disposals or other changes in the group's extent of control over entities or business units during the period. Corroborate by inspection of relevant documentation such as group structure charts, management accounts, consolidation schedules, etc.</p> <p>Select transactions for testing and perform the following procedures:</p> <ul style="list-style-type: none"> • obtain the sale and purchase agreement or other relevant documentation for the transaction (e.g., share certificates). Based on the contractual terms assess whether the transaction has been accounted for in the correct accounting period and in accordance with the group's accounting policies. • inspect the consolidation schedules and assess whether the transaction has been appropriately reflected in the group consolidation.

[How do we determine which consolidation adjustments and reclassifications to evaluate?](#) [ISA | 1564.1800]

When determining which consolidation adjustments and reclassifications to evaluate, we, as the group auditor, use the results of our risk assessment procedures.

We review the consolidation schedule and consolidation adjustments to differentiate those adjustments that are standard routine consolidation adjustments from those that are non-routine consolidation adjustments.

For routine adjustments, we may evaluate whether these are consistent with prior period adjustments, as well as our knowledge about transactions in the current year, and follow up on any differences.

For non-routine adjustments, we may further investigate specific entries and determine the evidence necessary to support the whether the consolidation adjustment is appropriate.

[What are the routine consolidation adjustments that we expect to see?](#) [ISA | 1564.13405]

Routine consolidation adjustments may include:

- entries to consolidate the various entities;
- entries to eliminate intercompany transactions;
- entries to adjust for reporting currencies;

- entries to adjust financial information from an entity or business unit that is prepared in accordance with accounting policies that are different from those of the consolidated entity; and
- entries to adjust financial information from an entity or business unit that has a financial reporting period-end that is different from that of the group.

Does evaluation of the consolidation process include considerations related to fraud and possible management bias? [ISA | 1564.13406]

Yes. As the group auditor, we consider misstatements that could arise from either fraud or error. We take the same approach to management override of controls through journal entries in the consolidation process as we do in a stand-alone audit.

Management may feel pressure to meet expectations of third parties, which may create pressure to commit fraud. Modifying consolidation adjustments is one opportunity where management can manipulate the financial results in the group financial statements.

The susceptibility of consolidation adjustment to management bias increases with the subjectivity involved in making it.

What procedures do we perform over consolidation adjustments and reclassifications? [ISA | 1564.13407]

When examining the consolidation adjustments and reclassifications, as the group auditor, our procedures involve more than simply inquiring of management as to why the adjustments were made.

While inquiry may be a helpful starting point to understand the nature of the adjustment or reclassifications, we also perform procedures to corroborate what management tells us, and maintain professional skepticism when we evaluate whether the adjustments are appropriate.

Our evaluation of the appropriateness, completeness and accuracy of the adjustments may include:

- evaluating whether significant adjustments appropriately reflect the events and transactions underlying them, including understanding the business rationale;
- determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by management of the entity or business unit;
- determining whether significant adjustments are properly supported and sufficiently documented;
- evaluating the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances, including entries to adjust for reporting currencies;
- identify whether there are any allowances for impairment losses against intra-group receivables or investments; and make inquiries of management to understand the reasons for the impairments and assess whether they are an indicator of potential impairment of assets at the consolidated group level
- evaluating whether any fraud risk factors or indicators of possible management bias exist.

We also assess whether all relevant consolidation adjustments have been made, including:

- adjustments to entities or business units' financial reporting packages to align with group accounting policies, group balance sheet date, group functional currency, and/ or reporting formats;

- adjustments in relation to additions, disposals or other changes in the group's participatory interests in components of the group;
- adjustments to reflect the consolidated tax position (including deferred taxation);
- any other adjustments.

This helps provide us with audit evidence that there are no material misstatements in the consolidation schedule as a result of the consolidation procedures.

[How do we evaluate that uniform accounting policies are used for the group financial statements?](#) [ISA | 1564.1900]

As the group auditor, our procedures may include:

- consider our understanding of the group and the information provided by the component auditors to identify the entities and business units that do not use uniform accounting policies and determine whether adjustments for the group financial statements are necessary
- inquire of management to understand the nature of the adjustments in addition to other procedures, such as:
 - obtain details of any adjustments made to align financial information of entities or business units with group accounting policies;
 - examine supporting documentation;
 - evaluate whether the adjustments are appropriate and achieve the objective of aligning with the relevant group accounting policies.

[Group Audit | What does 'uniform accounting policies' mean?](#) [ISA | 1564.12188]

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.

[Group Audit | What is the "applicable financial reporting framework" in a group audit?](#) [ISA | 1564.12187]

Reference to "the applicable financial reporting framework" means the financial reporting framework that applies to the group financial statements.

[How do we determine that the financial information provided by the component auditor is included in the group financial statements?](#) [ISA | 1564.2000]

As the group auditor, we agree reporting packages of entities or business units, included within the component auditor's communications or audited by us, to the consolidation schedules.

We may agree key figures or may agree the whole reporting package.

When performing these procedures, we also think about the disclosures in the group financial statements and how that information is gathered from the entities or business units.

[What do we do when there are differences between the financial information provided by the component auditor and the group consolidation schedule?](#) [ISA | 1564.13410]

As the group auditor, we may perform procedures such as:

- discussing with the component auditor to understand why there could be differences in the financial information;

- inquiring of management to understand why there could be differences and obtain audit evidence to corroborate our inquiries;
- consider whether the differences arise from consolidation adjustments;
- consider the appropriateness of group financial statements we form an opinion on.

Where no further audit procedures have been performed over an entity or business unit, do we determine that the component's financial information is appropriately included in the consolidation schedule? [ISA | 1564.13411]

Only when we, as the group auditor, think that there is a reasonable possibility of a material misstatement due to the entity or business unit's financial information being incorrectly included in the consolidation schedule. We take into account our risk assessment procedures, including analytical procedures at the group level in determining whether additional testing is necessary.

If we still consider there is a reasonable possibility of a material misstatement that the entity or business unit's financial information is incorrectly included in the consolidation, then we may also agree the financial information in the consolidation schedule to the information the group received from the entity or business unit (e.g. individual trial balances or supporting ledgers for those entities or business units).

How do we identify if there are any entities or business units with different period-ends from that of the group? [ISA | 1564.2100]

As the group auditor, we may make inquiries of management and inspect relevant documentation, such as group structure charts, entity or business unit reporting and component auditor communications to determine whether any entities or business units have a different period-end or different lengths period to the parent.

For any such entities or business units, obtain details of the consolidation adjustments made to consolidate the entities or business units and assess whether the adjustments are appropriate.

What procedures could be performed to evaluate that appropriate adjustments have been made for entities or business units with different period-ends? [ISA | 1564.13412]

If an entity or business unit has a different period-end than that of a group, we, as the group auditor, evaluate whether the financial information of that entity or business unit has been appropriately adjusted for purposes of preparing and presenting in the group financial statements.

We may consider performing procedures, such as:

- obtaining the entity or business unit's relevant financial information as of the group period-end and compare it to the information used by management in consolidation;
- evaluating the reasonableness of adjustments group management made to the entity or business unit's financial information to compensate for the different period-end dates;
- requesting the component auditor to perform additional procedures as of the group period-end date;
- obtaining confirmation of intra-group balances as of the group period-end from the entity or business unit and from the relevant counterparty within the group;
- inspecting the confirmation and make inquiries of management to understand the nature and extent of reconciling items and how they are addressed;

- assessing whether further testing of the intra-group balance is appropriate, such as roll-forward/roll-backward of the balance to the group period-end;
- evaluating whether the adjustments made are appropriate and achieve the objective of aligning for the group financial statements.

What other procedures may we perform to test the appropriateness of the consolidation schedule? [ISA | 1564.2200]

For entities and business units included in the consolidation schedule, we, as the group auditor, may select entities or business units for testing and perform procedures as to the appropriateness of how those entities or business units are treated in the consolidation (e.g., should they be consolidated, accounted for under the equity method). These procedures may include:

- making inquiries of management to understand the nature of, and accounting treatment for, the group's interest in the entity or business unit and obtain relevant documentation, such as investment agreements, joint arrangement agreements, equity holding or other participation agreements;
- re-performing relevant calculations (applied in the consolidation schedules) such as percentage ownership, revenue sharing calculations, minority interests, etc.;
- assessing whether the accounting treatment is consistent with the underlying facts and circumstances of the group's interest in the entity or business unit. For example, whether the group has control, significant influence or neither over the entity; and whether the group's interest in the revenues, profits and net assets of the component are appropriately accounted for in accordance with the group's participatory interests in the entity or business unit.

Can the component auditor assist us in performing procedures on the consolidation process? [ISA | 1564.2300]

Yes. For example, the component auditor could assist us, as the group auditor, by:

- obtaining audit evidence at the component that corroborates our understanding of the consolidation process, including sub-consolidations, and the control activities that are related to the consolidation process;
- testing the operating effectiveness of the control activities, including GITCs, related to the consolidation process, when relevant; and
- performing substantive audit procedures on the consolidating financial information, including consolidating and eliminating entries.

Who designs the audit procedures on the consolidation process, including on sub-consolidations? [ISA | 1564.159684]

The group auditor or the component auditor designs the audit procedures on the consolidation process, including on sub-consolidations. While the group auditor will often design the audit procedures to perform on the consolidation, sub-group auditors may design the audit procedures to perform on sub-consolidations. In addition, Centralized Services auditors may be involved in testing GITCs and process control activities related to the consolidation process.

When the assessed group RMMs arising from the consolidation process are Elevated or Significant and the component auditor designs the further audit procedures on the consolidation process, the group auditor evaluates the appropriateness of the component auditor's planned further audit

procedures and determines whether any changes to are necessary in accordance with activity

[Evaluate the appropriateness of the component auditor's planned further audit procedures](#).

[What do we do when component auditors perform audit procedures on the consolidation process, including on sub-consolidations?](#) [ISA | 1564.159686]

We, as the group auditor, determine the nature and extent of direction and supervision of component auditors and the review of their work (see activity '[Direct and supervise the component auditor and review their work](#)' for further information).

The appropriate level of our involvement may depend on the circumstances and the structure of the group and other factors, such as:

- our previous experience with the component auditors that perform procedures on the consolidation process, including sub-consolidations, and
- the circumstances of the group audit (e.g. if the financial information of the component has not been prepared in accordance with the same accounting policies applied to the group financial statements).

Our involvement may be undertaken in a number of ways, for example, through communications with component auditors or review of selected component auditor audit documentation. When determining the extent and nature of involvement, we consider whether the procedures performed by the component auditor are adequate for group audit purposes. See activity '[Evaluate the component auditor's communication and adequacy of their work](#)' for further information.

1.4.3 Group Audit | Test the operating effectiveness of controls over the consolidation process

[ISA | 1562]

What do we do?

IF the work to be performed on the consolidation process is based on an expectation that controls are operating effectively OR substantive procedures alone cannot provide sufficient audit evidence, THEN test the operating effectiveness of those controls.

Why do we do this?

We test the operating effectiveness of process control activities over RMMs related to the consolidation process when we can't design substantive procedures capable of obtaining persuasive audit evidence on their own or when we plan to rely on process control activities and modify our substantive procedures.

Execute the Audit

What is the consolidation process?

[ISA | 1562.1300]

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.

[What types of process control activities operate over the consolidation process?](#) [ISA | 1562.1400]

The following are examples of process control activities over the consolidation process:

- monitoring and reconciling intra-group transactions and unrealized profits, and intra-group account balances at group level
- group management review of the group reporting instructions and reporting package template prior to their issuance to entities or business units
- controls for ensuring the accuracy and completeness of financial information received from entities or business units and entered into the consolidation system
- the group financial controller reviews the exchange rates used in the consolidation schedule
- the consolidation system is configured in such a way as to prevent unauthorized users making changes to the basis for consolidation and the consolidated results of the group.

[How do we determine when to test the operating effectiveness of controls over the consolidation process?](#)

[ISA | 1562.1500]

As the group auditor, we, or request a component auditor to, test the operating effectiveness of process control activities over the consolidation process when:

- (1) we plan to assess control risk at Controls Reliance for the RMMs in the consolidation process; and/or
- (2) substantive procedures alone do not provide sufficient appropriate audit evidence.

[How may we modify the procedures when the controls over the consolidation process are effective?](#) [ISA |

1562.1600]

As the group auditor, we may:

- vary the extent of testing performed over the consolidation process, including calculations and the adjustments to eliminate/consolidate we select for testing
- modify the nature and extent of testing of component financial information included in the consolidation.

For example, the group has 30 subsidiaries in foreign countries that use different functional currencies from that of the group. As the group auditor, we have assessed an RMM related to the translation adjustments and have identified related PRPs. Group management has controls in place that address these PRPs.

When we have determined that these controls are designed, implemented and operating effectively (including identifying the RAFIT and testing the GITC related to the consolidation system configuration), we may choose to reduce the number of components to be selected for testing the appropriateness of foreign exchange translation adjustments.

Examples

When do we test process control activities over the consolidation process? [ISA | 1562.1800]

Fact pattern:

Group A has 150 components and uses an automated process to transfer the financial data between the separate general ledger IT system of the components and the group's IT system. The group uses the data to consolidate its entities or business units' general ledgers.

Group management has automated process control activities in place over the data transfer to validate that the data:

- transfers appropriately and completely from the entities or business units' general ledger IT system; and
- is accurately mapped in the consolidation IT system.

Analysis:

When the relevant automated process control activities are determined to be operating effectively, we may modify the nature and extent of substantive procedures to be performed to address the RMM of "the entity or business unit's financial information is not appropriately incorporated in the group financial statements". For example:

- we would modify the extent of specific substantive procedures to recalculate the consolidation schedule for mathematical accuracy
- we would modify the extent of specific substantive procedures to agree the entity or business unit's general ledger to the consolidation schedule.

1.4.4 Group Audit or Component Audit | Perform procedures over intercompany account balances [ISA | 4324]

What do we do?

IF the entity has intercompany account balances, THEN perform procedures as of concurrent dates to address the risks of material misstatement associated with the entity's intercompany accounts.

Why do we do this?

Given that intercompany balances provide an opportunity for misstatements to occur if they do not properly eliminate, we perform procedures on intercompany account balances as part of our group audit.

Execute the Audit

What are examples of procedures that can be performed on intercompany balances? [ISA | 4324.1400]

Examples of procedures include:

- gain an understanding of the nature of the inter-company transactions
- determine that intercompany transactions or balances (including accruals or similar) have been properly classified in the entity or business unit's financial information and supporting schedules included in the reporting package prepared for group reporting purposes
- determine that the intercompany balances of the entity or business unit have been reconciled to the intercompany balances of other entities or business units in accordance with the group's accounting instructions
- Send confirmations to auditors of entities or business units
- Read the underlying contracts and agreements that drive the balance and transactions terms

What does concurrent date mean? [ISA | 4324.1500]

Concurrent date means the same date. Even though some entities or business units may have different fiscal year ends for which financial information is prepared and consolidated, our testing of intercompany balances is based on the same date across the group.

If intercompany balances do not agree to that of other entities or business units, what might be the implication? [ISA | 4324.1700]

When the balances do not eliminate when we expect them to, it may be indicative that:

- there is material misstatement;
- the transaction is being accounted for differently by the entities or business units; and/or
- different accounting principles/policies are being applied.

2 Group Audit or Component Audit | Communicate with component auditors about matters relevant to the design of responses to group RMMS [ISA | 8147]

What do we do?

IF we involve component auditors in the design or performance of further audit procedures, THEN communicate with the component auditor about matters that we or the component auditor determine to be relevant to the design of responses to the RMMS of the group financial statements associated with the component.

Why do we do this?

As the group auditor, we take responsibility for the nature, timing and extent of further audit procedures to be performed for the group audit. Therefore, we and the component auditors have an effective two-way communication about matters relevant to the design of those further audit procedures in order to

appropriately address the RMMs of the group financial statements associated with the component and obtain sufficient appropriate audit evidence.

Execute the Audit

[Group Audit | What matters may be relevant to communicate to component auditors about the design of responses to group RMMs associated with the component? \[ISA | 8147.160003\]](#)

The following is a list of matters that we, as the group auditor, may determine to be relevant to communicate to component auditors for them to appropriately design their further audit procedures to address the group RMMs associated with the component, if not previously communicated. This list is not all-inclusive:

Area	Examples of relevant matters communicated
Scope of work to be performed	<p>The scope of further audit procedures to be performed and any subsequent changes. For example:</p> <ul style="list-style-type: none"> identification of new significant accounts and/or relevant assertions changes to the assessment of inherent risk of one or more group RMMs associated with the component previously communicated
Applicable accounting and financial reporting standards	Changes to the applicable accounting and financial reporting standards during the period. For example, a change in the accounting instructions from group management
Applicable auditing standards	Changes to the applicable auditing standards during the period
Central coordination	Communication of procedures to be performed at the group level and any subsequent changes. For example, we may have communicated that we were going to perform procedures at the group level to test the impairment of goodwill and subsequently ask the component auditor to perform certain procedures to help us with our evaluation.
Hard close	<p>Requesting the component auditor to perform:</p> <ul style="list-style-type: none"> a significant part of the work in connection with the group audit in advance of year-end, i.e. as of a hard close date, in order to provide sufficient appropriate audit evidence about the reasonableness of the financial information at the hard close date, and

	<ul style="list-style-type: none"> additional procedures at year-end to roll forward the conclusions reached at the hard close date
Controls approach	Requesting the component auditor to take a controls approach to respond to one or more group RMMs associated with the component
CERAMIC deficiencies	Any deficiencies identified by us in CERAMIC, especially in the Monitoring Activities component, that may have an impact on the assessment of RAWTC for control activities to be tested at the component
Timing of procedures	Requesting the component auditor to perform tests of controls and/or substantive procedures over certain RMMs at an interim date and roll-forward the conclusion on those procedures to period-end
Use of specific work papers	Requesting the component auditor to use certain specific work papers when performing their further audit procedures
Involvement of Specific Team Members (STMs) or Specialists	Requesting the component auditor to involve STMs or Specialists to perform certain audit procedures.
Consolidation process	How we will coordinate with the component auditor to perform audit procedures affecting consolidation. For example, whether we intend to perform audit procedures over the elimination of intercompany balances and transactions centrally or we request component auditors to do it.

Component Audit | What matters may be relevant to communicate to the group auditor about the design of responses to group RMMs associated with the component? [ISA | 8147.160004]

The following is a list of matters that we, as the component auditor, may determine to be relevant to communicate to the group auditor related to the design their further audit procedures to address the group RMMs associated with the component. This list is not all-inclusive:

Area	Examples of relevant matters communicated
Significant matters	Any circumstances that are expected to cause significant difficulty in performing the further audit procedures
Controls approach	Whether we plan to use a benchmarking strategy to test the operating effectiveness of certain automated controls.

	<p>For ISA engagements, whether we plan to</p> <ul style="list-style-type: none"> • test automated process control activities throughout the period, if appropriate, or • use prior period evidence to test the operating effectiveness of manual controls
CERAMIC deficiencies	Any deficiencies identified by us in CERAMIC at the component, especially in the Monitoring Activities component, that may have an impact on the assessment of RAWTC for control activities to be tested at the component
Minimum expected substantive procedures (MESPs)	Whether we plan not to perform any of the MESPs applicable to our work
Sampling approach	Whether we plan to use MUS or KSP when using sampling to perform audit procedures
Revenue recognition	Whether we plan to rebut the presumption that there is a fraud risk involving improper revenue recognition
Timing of procedures	Whether we plan to perform tests of controls and/or substantive procedures over certain RMMs at an interim date and roll-forward the conclusion on those procedures to period-end
Involvement of Specific Team Members (STMs) or Specialists	Whether we plan to involve STMs or Specialists to perform certain audit procedures.

How and when does the group auditor and component auditor communicate matters relevant to the design of responses to group RMMs associated with the component? [ISA | 8147.160005]

The group auditor and component auditor communicate in writing matters relevant to the design of responses to group RMMs associated with the component.

When those matters are known at the time of issuing the group audit instructions during the planning phase, the group auditor uses the relevant Group Audit Instructions template for KPMG component auditors. For non-KPMG component auditors, the group auditor 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, the group auditor communicates the matters in a separate communication, i.e. an addendum to the group audit instructions, before the component auditor has designed the further audit procedures.

The group auditor also uses the group audit instructions to request the component auditor to communicate any matters relevant to the design of responses to group RMMs associated with the component through the Planning Highlights Memorandum. The component auditor communicates any of these matters as requested or, if considered relevant, as soon as the matters are identified.

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 of matters relevant to the design of responses to group RMMs associated with the component is not always necessary since the group auditor has full access to the component auditor's documentation in their audit file.

Additionally, the group and component auditor, as necessary, hold discussions with and obtain information from each other to facilitate the design of responses to group RMMs associated with the component.

3 Group Audit | Evaluate the appropriateness of the component auditor's planned further audit procedures

[ISA | 1555]

What do we do?

IF a component auditor designs the further audit procedures to be performed over the Elevated or Significant RMMs of the group financial statements, THEN evaluate the appropriateness of the design and performance of those planned further audit procedures

Why do we do this?

As the group auditor, we evaluate the appropriateness of the further audit procedures designed and to be performed by the component auditor to respond to Elevated and Significant RMMs of the group financial statements identified in the component, in order to determine whether the component auditor's work will be sufficient for providing audit evidence to address the Elevated and Significant RMMs of the group financial statements.

Execute the Audit

What component auditor further audit procedures do we evaluate for appropriateness? [ISA | 1555.159953]

As the group auditor, we evaluate the appropriateness of the design and performance of further audit procedures for Elevated and Significant RMMs of the group financial statements when the component auditor is determining the further audit procedures to be performed. This includes further audit procedures over the consolidation process when the component auditor is designing these procedures (see activity '[Design and perform procedures on the consolidation process](#)' for further information).

How do we obtain and review information about the component auditor's planned further audit procedures? [ISA | 1555.1500]

As the group auditor, we obtain and review the written description of the component auditor's planned further audit procedures in relation to the scope of their work in the [Planning Highlights Memorandum \(PHM\)](#) requested from the component auditor. The Risk Assessment and Response (RAAR) Report in the KPMG Clara workflow may be used to facilitate the communication of planned further audit procedures in the PHM (e.g. as an attachment to the PHM instead of manually populating the further audit procedures in the PHM).

The PHM template includes the minimum expected level of detail of the description of the component auditor's planned further audit procedures. If, based on the extent of supervision of the component auditor's work by us, we determine that additional details are necessary, we request the component auditor to provide the additional information in writing.

How may we evaluate the appropriateness of the design of the component auditor's planned further audit procedures? [ISA | 1555.159951]

As the group auditor, our evaluation of the appropriateness of the design of the component auditor's planned further audit procedures may include evaluating:

- impact, if any, of the results of evaluation of the design and implementation of the component's process control activities over the applicable process risk points, if performed
- for procedures planned to be performed to address a significant risk of the group financial statements, whether procedures to evaluate the design and implementation of process control activities are appropriate and consistent with how we expect the significant risk to be addressed
- whether procedures to test the operating effectiveness of process control activities, if planned to be performed, are appropriate and consistent with how we expect the RMM to be addressed
- whether the substantive procedures planned are appropriate and specifically responsive to the assessed risk, i.e. whether the component auditor has designed the nature, timing and extent of the procedures to be responsive to that RMM at the component
- for KPMG component auditors, whether the planned further audit procedures are designed in accordance with KAEG
- whether the component auditor plans to perform the minimum expected substantive procedures (MESPs) for the relevant RMMs of the group financial statements at the component and any modifications made or exceptions to these MESPs
- whether the component auditor plans to use specific team members (STMs) or specialists in the performance of the further audit procedures
- whether the component auditor's sampling approach, if applicable, is appropriate
- whether the planned audit response is consistent across different components that share the same RMM of the group financial statements (i.e. is the component auditor addressing the risk differently? If so, is there a valid reason for addressing it differently?).

What if the component auditor's design of the planned further audit procedures is not appropriate? [ISA | 1555.159950]

We, as the group auditor, determine whether any changes to the component auditors planned further audit procedures over the Elevated or Significant RMMs of the group financial statements are

necessary, and if so, discuss these changes and agree on the planned further audit procedures with the component auditor.

We also 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) and may, for example, be involved in the further audit procedures through reviewing the component auditor's audit documentation of the procedures performed and results obtained. We may also consider other forms of involvement, such as discussing the audit procedures and results in more detail.

[How do we evaluate the appropriateness of the performance of the component auditor's planned further audit procedures?](#) [ISA | 1555.1600]

To evaluate the appropriateness of the performance of the component auditor's planned further audit procedures, we, as the group auditor:

- request the component auditors that, if during the audit they do not perform the planned further audit procedures agreed, they provide us a written communication of any modifications to those planned further audit procedures on a timely basis (e.g. in the Early Warning Memorandum), including:
 - a description of the nature of the instances where the planned further audit procedures were not performed as agreed,
 - explanation of the reasons for not performing the planned further audit procedures as agreed,
 - if applicable, a description of the alternative further audit procedures performed.

We then review the component auditor's communication to evaluate the appropriateness of these modifications to the planned further audit procedures.

- request, obtain and review at the end of the audit the component auditor's written confirmation in the Clearance Memorandum that they have performed the procedures we agreed.

Also, our review of the relevant documentation in the component auditor's audit file, if applicable, provides evidence over the appropriateness of the performance of the component auditor's planned further audit procedures.

[When do we evaluate the appropriateness of the component auditor's planned further audit procedures and the performance of those procedures?](#) [ISA | 1555.1900]

As the group auditor, we evaluate the design of the planned further audit procedures after we have obtained an understanding of the component auditor, and once the risk assessment procedures have been substantially completed and the component auditor has planned the further audit procedures.

We evaluate the performance of the further audit procedures when appropriate (e.g. when modifications to the agreed further audit procedures are communicated via Early Warning Memorandum, or when we decide to review the component auditor's audit documentation in their audit file).

4 Group Audit | Review the Planning Highlights

Memorandum received from the component auditor

[ISA | 1556]

What do we do?

Request component auditor to provide us with a Planning Highlights Memorandum (PHM) and review such PHM.

Why do we do this?

As the group auditor, we obtain and read the component auditor's Planning Highlights Memorandum (PHM) as part of our risk assessment for the group as well as part of the direction and supervision of the component auditor and review of their work.

Execute the Audit

[Who do we request the PHM from?](#) [ISA | 1556.1400]

We, as the group auditor, request all component auditors performing work for group audit purposes to provide us with the PHM.

[How is the information in the PHM communicated to us?](#) [ISA | 1556.1600]

As the group auditor, in our group audit instructions we request the component auditors to provide us with the PHM in writing.

[Are there circumstances when written communication between the group auditor and component auditor is not necessary?](#) [ISA | 1556.160056]

Yes, 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 is not always necessary since the group auditor has full access to the component auditor's documentation in their audit file.

In instances where 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. significant matters, uncorrected audit misstatements).

[What does the PHM include?](#) [ISA | 1556.1500]

The PHM includes, but is not limited to, the following content:

Section	When is it relevant	Communication includes, but not limited to, the following
Matters related to the	When the group auditor	<ul style="list-style-type: none">• Significant matters

component's financial information relevant to the identification and assessment of group RMMs	requests component auditors to perform risk assessment procedures for purposes of the group audit	<ul style="list-style-type: none"> 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 <p>Refer to the question "What relevant matters related to the component's financial information do we request component auditors to communicate?" for further information.</p>
Elevated and Significant RMMs identified at the component that were NOT previously communicated by the group auditor	All engagements	<ul style="list-style-type: none"> Detailed description of the RMM Inherent risk Related significant accounts and/or disclosures and their relevant assertions If the component auditor believes it's a significant risk, whether it is a fraud risk.
Significant accounts, disclosures and relevant assertions	All engagements	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.
CERAMIC, for AICPA integrated audits	When the group auditor identified component-level CERAMIC controls that are relevant to the group audit	The results of the evaluation of the design and implementation of the component-level CERAMIC controls.
Related parties and	All engagements	<ul style="list-style-type: none"> Name of the related party Nature of the entity's relationship with the related party

related party relationships or transactions with related parties not previously communicated by the group auditor		<ul style="list-style-type: none"> • Nature and the amount of the related party transactions • How the related party was identified (i.e. communicated by local management or identified as part of the component auditor's audit procedures) • Other relevant information related to the identified related party, relationship or transaction with the related party • If the related party transaction is a significant unusual transaction, information for the significant unusual transactions (SUTs), including the planned audit response.
Any 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	All engagements	<ul style="list-style-type: none"> • The conditions or events that may raise substantial doubt about the group's ability to continue as a going concern • The elements of management's plans considered significant to overcoming the adverse effects of the conditions or events • If the component auditor is performing a statutory audit, whether the component auditor plans to request component management to obtain a support letter from group management or other third party • Description of any planned audit procedures to evaluate management's plans in relation to its going concern evaluation.
Matters relevant to the design of responses to RMMs of the group financial statements	When the component auditor is involved in the design or performance of further audit procedures	<p>Description of matters that the component auditor determines to be relevant to the design of response to the RMMs of the group financial statements associated with the component.</p> <p>For examples of these relevant matters, refer to the question "What matters may be relevant to communicate to the group auditor about the design of responses to group RMMs associated with the component?".</p>
Planned audit procedures designed by the component	When the component auditor designs the further audit	<ul style="list-style-type: none"> • Detailed description of the RMM • CAR • Related significant accounts and/or disclosures and their relevant assertions • For significant risks:

<p>auditor for Significant and Elevated RMMs of the group financial statements that were communicated by the group auditor</p>	<p>procedures to be performed</p>	<ul style="list-style-type: none"> - Whether it is a risk of fraud - When the significant risk is related to an estimate, the relevant method, assumption, or data or application that the component auditor identified as containing the significant risk. - Special audit consideration for the significant risk • The planned audit procedures to respond to the RMM, including: <ul style="list-style-type: none"> - Planned procedures over relevant process control activities at the component related to the RMM: <ul style="list-style-type: none"> - Process Risk Points, - Controls to be tested (Design and Implementation (D&I) and, if applicable, Test of Operating Effectiveness (TOE)), - Risk Associated with the Control (RAWTC), when TOE is performed, and - Planned procedures to test these controls, - A description of the planned substantive procedures in response to the RMM, including nature, timing and extent, and - Description of any individuals with specialized skills or knowledge planned to be used in the audit procedures. <p>The Risk Assessment and Response (RAAR) Report in the KPMG Clara workflow may be used to facilitate the communication of planned further audit procedures in the PHM (e.g. as an attachment to the PHM instead of manually populating the further audit procedures in the PHM).</p>
<p>Significant unusual transactions (SUTs), including the planned audit response</p>	<p>All engagements</p>	<ul style="list-style-type: none"> • Detailed description of the SUT • Description of the component auditor's understanding of the business purpose (or lack thereof) of the SUT • Related RMMs, CAR, significant accounts and/or disclosures and their relevant assertions, and whether it is a fraud risk • If the SUT involves a related party (i.e. related party significant unusual transaction), identification of the related party(ies) and the nature of the entity's relationship with the related party • The planned audit procedures to respond to the RMM(s) related to the SUT, including:

		<ul style="list-style-type: none"> - Planned procedures over relevant process control activities at the component to respond to the RMM(s) related to the SUT: <ul style="list-style-type: none"> - Process Risk Points, - Controls to be tested (Design and Implementation (D&I) and, if applicable, Test of Operating Effectiveness (TOE)), - Risk Associated with the Control (RAWTC), when TOE is performed, and - Planned procedures to test these controls, - Planned substantive procedures to address each RMM related to the SUT: <ul style="list-style-type: none"> - A description of the planned substantive procedures in response to each RMM related to the SUT, including nature, timing and extent - Planned audit procedures to evaluate whether the SUT has been properly accounted for and, if applicable, disclosed in the component's financial information, and - Description of individuals with specialized skills or knowledge planned to be used in the audit procedures.
Planned audit procedures to Base RMMs in audit areas where Less than Serious Concerns about the component auditor were identified	When the group auditor has Less than Serious Concern about the component auditor	<p>At a minimum, a description of the RMMs in the areas where Less than Serious Concerns were identified, and the planned audit procedures, including:</p> <ul style="list-style-type: none"> • Detailed description of the RMM relevant to that audit area • CAR • Related significant accounts and/or disclosures and their relevant assertions • The planned audit procedures to respond to the RMM, including: <ul style="list-style-type: none"> - Planned procedures over relevant process control activities at the component related to the RMM: <ul style="list-style-type: none"> - Process Risk Points, - Controls to be tested (Design and Implementation (D&I) and, if applicable, Test of Operating Effectiveness (TOE)),

		<ul style="list-style-type: none"> - Risk Associated with the Control (RAWTC), when TOE is performed, and - Planned procedures to test these controls, - A description of the planned substantive procedures in response to the RMM, including nature, timing and extent, and - Description of any individuals with specialized skills or knowledge planned to be used in the audit procedures.
Planned audit procedures to other matters that lead us to conclude that we had Less than Serious Concerns about the component auditor	When the group auditor has Less than Serious Concern about the component auditor	<p>At a minimum, a description of other matters that led us to conclude that we had Less than Serious Concerns (e.g. a limited understanding of the financial accounting framework), along with the component auditors planned audit procedures, including:</p> <ul style="list-style-type: none"> • Short description of the topic, and • Relevant information related to the topic.

What does "areas where Less than Serious Concerns about the component auditor were identified" mean? [\[ISA | 1556.12320\]](#)

As the group auditor, when we have Less than Serious Concerns, we think about if that relates to specific account balances or disclosures that are affected by the concern. If it does, we refer to these account balances or disclosures as "areas leading to Less than Serious Concerns". For example, we may have Less than Serious Concerns over accounts and disclosures associated with derivatives when a component auditor has limited experience with accounting for derivative instruments.

How do we review the PHM? [\[ISA | 1556.1700\]](#)

As for any other communication from component auditors, as the group auditor, we [evaluate the component auditor's communication and discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate.](#)

In evaluating the component auditor's PHM, we may ask ourselves questions such as:

- Regarding RMMs of the group financial statements:
 - Are all of the relevant RMMs of the group financial statements communicated by us included in the PHM?
 - Are there additional RMMs communicated by the component auditor?
 - Is the information requested for the RMMs appropriately completed in the PHM?

- Are the component auditor's planned audit procedures to be performed in response to the RMMs appropriate? (see activity '[Evaluate the appropriateness of the component auditor's planned further audit procedures](#)')
- Regarding SUTs:
 - Is the information requested about the SUT appropriately completed?
 - Are the component auditor's planned audit procedures to be performed in response to the SUT appropriate?
- Regarding related parties and related party relationships or transactions with related parties:
 - Is the information requested about the related parties appropriately completed?
 - Is the related party transaction a significant unusual transaction. If yes, does the PHM include information for the significant unusual transactions (SUTs), including the planned audit response?
 - Why was the related party, related party relationship or transactions with the related party not identified by the group management?
- Regarding planned audit procedures in areas where Less than Serious Concerns about the component auditor were identified:
 - Are the RMMs identified consistent with our understanding of the component?
 - Is the planned audit procedures appropriate based on the description of the risks identified?
 - Should we change our evaluation of the level of concern?
- Regarding 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:
 - Are the events or conditions identified consistent with our understanding of the component and information received from group management?
 - Is the information included in the PHM sufficient to evaluate whether the events or conditions may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time?
 - Is the planned audit procedures to evaluate management's plans appropriate based on the description of the risks identified?

When we have questions about the content of the PHM, we try to resolve these questions through discussions with the component auditor. We may choose to review the component auditor's documentation when we are unable to resolve these questions as part of our planning procedures. This might include reviewing certain documentation in the component auditor's audit file related to their risk assessment procedures, such as process understanding and planning analytical procedures.

[What if we conclude that the component auditor's risk assessment and/or planned audit procedures are not appropriate?](#) [ISA | 1556.12321]

As the group auditor, if we conclude that the component auditor's risk assessment and/or planned audit procedures outlined in the PHM are not appropriate, we may:

- work with the component auditor to identify appropriate RMMs and/or determine a different and appropriate audit response (see activity '[Evaluate the appropriateness of the component auditor's planned further audit procedures](#)' for further information)

- design and perform appropriate further audit procedures, either ourselves or together with the component auditor.

We also 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, plan to be involved in the further audit procedures through reviewing the component auditor's audit documentation of the procedures performed and results obtained. We may also consider other forms of involvement, such as visiting the component auditor and discussing the audit procedures and results in more detail.

[When do we review the PHM?](#) [ISA | 1556.1800]

As the group auditor, we review the PHM on a timely basis, once the component auditor has substantially completed their risk assessment procedures and submitted the PHM.

We perform this review as part of the planning and risk assessment for the group audit.

5 Group Audit | Obtain and review an Early Warning Memorandum from component auditors in certain circumstances [ISA | 1559]

What do we do?

Request component auditors to submit an Early Warning Memorandum (EWM) when significant matters have been identified in the component AND, if obtained, review such EWM.

Why do we do this?

We request component auditors to inform us, as the group auditor, on a timely basis through the EWM of any significant matters identified in a component. We obtain and review the EWM to:

- evaluate whether it is necessary to revise our risk assessments or group audit plan,
- determine if there are any specific actions necessary in response to these matters, such as specific procedures, discussions with group or component management or further involvement in the component auditor's procedures, and
- identify any matters that are necessary to communicate to those charged with governance of the group.

Execute the Audit

[Who do we request the EWM from?](#) [ISA | 1559.1400]

As the group auditor, in the group audit instructions we request all component auditors to provide us with an EWM when significant matters have been identified during their audit work related to the component.

[What does the EWM include?](#) [ISA | 1559.1500]

The EWM includes, but is not limited to, the following content:

Section	Content includes, but is not limited to, the following
Significant matters	<ul style="list-style-type: none"> Detailed description of the significant matter If applicable, related RMMs, related combined assessed risk (CAR), significant accounts and/or disclosures and their relevant assertions, and whether it is a fraud risk If applicable, a description of the planned audit approach to respond to the significant matter
Significant unusual transactions (SUTs), including the planned audit response	<ul style="list-style-type: none"> Detailed description of the SUT Description of the component auditor's understanding of the business purpose (or lack thereof) of the SUT Related RMMs, related combined assessed risk (CAR), significant accounts and/or disclosures and their relevant assertions, and whether it is a fraud risk If the SUT involves a related party (i.e. related party significant unusual transaction), identification of the related party(ies) and the nature of the entity's relationship with the related party The planned audit procedures to respond to the RMM(s) related to the SUT, including: <ul style="list-style-type: none"> - Planned procedures over relevant process control activities at the component to respond to the RMM(s) related to the SUT: <ul style="list-style-type: none"> - Process Risk Points, - Controls to be tested (Design and Implementation (D&I) and, if applicable, Test of Operating Effectiveness (TOE)), - Risk Associated with the Control (RAWTC), when TOE is performed, and - Planned procedures to test these controls - Planned substantive procedures to address each RMM related to the SUT: <ul style="list-style-type: none"> - A description of the planned substantive procedures in response to each RMM related to the SUT, including nature, timing and extent - Planned audit procedures to evaluate whether the SUT has been properly accounted for and, if applicable, disclosed in the component's financial information, and - Description of individuals with specialized skills or knowledge planned to be used in the audit procedures

<p>Related parties and related party relationships or transactions with related parties not previously communicated by the group auditor</p>	<ul style="list-style-type: none"> • Name of the related party • Nature of the entity's relationship with the related party • Nature and the amount of the related party transactions • How the related party was identified (i.e. communicated by local management or identified as part of the component auditor's audit procedures) • Other relevant information related to the identified related party, relationship or transaction with the related party • If the related party transaction is a significant unusual transaction, information for the significant unusual transactions (SUTs), including the planned audit response
<p>For ISA and AICPA engagements:</p> <ul style="list-style-type: none"> - Elevated and Significant RMMs identified at the component that were NOT previously communicated by the group auditor <p>For PCAOB engagements:</p> <ul style="list-style-type: none"> - Elevated and Significant RMMs identified at the component, and - Base RMMs related to the significant accounts and relevant assertions included in the scope of work to be performed for purposes of the group audit, that were NOT previously communicated by the group auditor 	<ul style="list-style-type: none"> • Detailed description of the RMM • Inherent risk • Related significant accounts and/or disclosures and their relevant assertions • If the component auditor believes it's a significant risk, whether it is a fraud risk

as RMMs of the group financial statements associated with the component	
Significant accounts, disclosures and relevant 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
Modifications to the nature, timing or extent of planned further audit procedures previously communicated to and agreed by the group auditor	<ul style="list-style-type: none"> • Detailed description of the nature of the instances where the planned further audit procedures were not performed as agreed in planning • Explanation of the reasons for not performing the further audit procedures as agreed in planning, • If applicable, a description of the alternative further audit procedures performed
Any 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	<ul style="list-style-type: none"> • The conditions or events that may raise substantial doubt about the group's ability to continue as a going concern • The elements of management's plans considered significant to overcoming the adverse effects of the conditions or events • If the component auditor is performing a statutory audit, whether the component auditor plans to request component management to obtain a support letter from group management or other third party • Description of any planned audit procedures to evaluate management's plans in relation to its going concern evaluation
Revision to relevant statutory materiality measures used for the group audit	<ul style="list-style-type: none"> • The amount of the revised statutory performance materiality and/or, if applicable, lower statutory performance materiality for particular accounts or disclosures • The rationale for revising any of the relevant statutory materiality measures
Any changes in the representations made in the	<ul style="list-style-type: none"> • Detailed description of any independence related matters identified since the initial ethics and independence confirmation. Examples include:

Initial Ethics and Independence Confirmation	<ul style="list-style-type: none">- Independence matters requiring significant judgment- Breaches of independence- Affiliates/related entities not previously identified by the group auditor- For audits subject to SEC independence rules, beneficial owners with significant influence over the group entity under audit not previously identified by the group auditor
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What significant matters do we request the component auditor to communicate in the EWM? [ISA | 1559.12272]

Significant matters are substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached and represent the same types of matters that we include in our engagement completion screens and activities within the KPMG Clara workflow.

In addition to the items included in question '[What does the EWM include?](#)', significant matters that we, as the group auditor, request the component auditor to communicate in the EWM 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;
- significant deficiencies (and/or material weaknesses in PCAOB and AICPA engagements) in internal control over financial reporting if the severity of the deficiency has been evaluated by the component auditor;
- any other matters that in the component auditor's view may be relevant to the group audit;
- circumstances that cause significant difficulty in applying auditing procedures.

For further information regarding the identification and documentation of significant matters refer to activity '[Document significant findings or issues](#)'.

When do we request the EWM from the component auditor? [ISA | 1559.1600]

We request the component auditor to submit the EWM as soon as possible after a significant matter has been identified at the component that was not previously communicated to us. The EWM may be submitted at any point in time or multiple points in time sometime between the component auditor's risk assessment and prior to the requested deadline for the Clearance Memorandum.

How is the information in the EWM communicated to us? [ISA | 1559.1700]

As the group auditor, in our group audit instructions we request the applicable component auditors to provide us with the EWM in writing.

Are there circumstances when written communication between the group auditor and component auditor is not necessary? [ISA | 1559.160056]

Yes, 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 is not always necessary since the group auditor has full access to the component auditor's documentation in their audit file.

In instances where 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. significant matters, uncorrected audit misstatements).

How do we review the EWM? [ISA | 1559.1900]

As for any other communication from component auditors, as the group auditor, we [evaluate the adequacy of the component auditor's communication and discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate](#).

In evaluating the component auditor's EWM, we may ask ourselves questions such as:

- Is the description of the significant matter detailed enough to understand the matter and its potential implications on the audit?
- If applicable, have the related RMMs, and significant accounts and/or disclosures and their relevant assertions, been included in sufficient detail?
- If applicable, are the component auditor's planned audit procedures to be performed in response to the significant matter appropriate?
- If applicable, are the modified further audit procedures appropriate for group audit purposes?

When do we review the EWM? [ISA | 1559.2000]

As the group auditor, we review the EWM on a timely basis after we have received it from the component auditor.

6 Communicate the nature, timing and extent of the procedures to be performed over the centralized services [ISA | 1637]

What do we do?

Communicate the nature, timing and extent of the procedures to be performed over the centralized services.

Why do we do this?

Communication between the parties (i.e. the group auditor, the Centralized Services (CS) user auditors and the CS auditor) promotes a common understanding of each parties' responsibilities.

Execute the Audit

How do we provide instructions for audit procedures to be performed by the Centralized Services auditor? [ISA | 1637.12816]

Providing instructions for audit procedures to be performed by the CS auditor is often an iterative process involving all parties. The group auditor communicates the following related to the CS auditor's scope of work:

- The identified and assessed RMMs of the group financial statements;
- When substantive audit procedures are performed, the component performance materiality (refer to '[What are other scenarios where we think about whether to determine component materiality?](#)' for additional information) or sub-population performance materiality to be used for those substantive audit procedures; and
- AMRT.

The CS auditor may initially provide a list of procedures they can perform over the relevant services based on their knowledge of the relevant areas. The group auditor and/or the CS user auditors may then select relevant procedures they believe are necessary or relevant and/or add additional procedures. Further, discussions between the CS auditor and CS user auditors can then help refine the instructions to the right level of detail. The audit procedures are written with enough detail for the CS auditor to understand the procedures to be performed.

At the end of the process, the parties (i.e. the CS auditor and each CS user auditor) collectively prepare and sign a single Centralized Services - Scope Document, which contains the detailed instructions/planned procedures the CS auditor will perform.

[What is the Centralized Services - Scope Document?](#) [ISA | 1637.12817]

The Centralized Services - Scope Document is a template we use to communicate the nature, timing and extent of procedures performed by the CS auditor on behalf of the group auditor and/or CS user auditors. It forms the audit instructions issued by both the group auditor and the CS user auditors.

[Who prepares the Centralized Services - Scope Document?](#) [ISA | 1637.12818]

The CS auditor prepares the Centralized Services - Scope Document and obtains written agreement from the group auditor and/or CS user auditors through the Confirmation and Acceptance of the Scope of Work to be Performed by the Centralized Services Auditor template (Appendix CS B.2 of the Centralized Services - Scope Document).

[What do we request that the Centralized Services auditor communicate to us?](#) [ISA | 1637.1300]

We request that the CS auditor use the Centralized Services - Scope Document and related appendices and the Clearance Memorandum (we use the same template as that in the Group Audit Instructions communication templates). Refer to "[What does the Clearance Memorandum include?](#)".

[When are the Centralized Services - Scope Document and related appendices completed?](#) [ISA |

1637.160243]

The Centralized Services - Scope Document and related appendices are completed when centralized services are performed for the parent entity and/or subsidiaries, business units, or locations within an organization or group and those centralized services are relevant to the audit of one or more of those entities. The table below summarizes the applicability of the appendices to the Centralized Services - Scope Document depending upon the centralized services:

Workpaper	Applicability
Appendix CS A.1- Overview of the Centralized Services	Applicable for all centralized services.

Appendix CS A.2 - Centralized Services scope of work	Applicable for all centralized services.
Appendix CS A.3 - CERAMIC	Applicable when CS users rely on CERAMIC performed by the centralized service team or Shared service center (SSC) to address elements/principles at the CS user.
Appendix CS A.4 - Overview of the Centralized Services IT systems	Applicable for all centralized services. Sections within the appendix may not be applicable based upon the type of work performed and may be noted as such.
Appendix CS B.1 - Request for additional procedures to be performed by the Centralized Services Auditor	Applicable when a CS user auditor requests additional procedures to be performed due to local regulations or other matters.
Appendix CS B.2 - Confirmation and Acceptance of the Scope of Work to be Performed by the Centralized Services Auditor	Applicable for all centralized services.
Appendix CS B.3 - Centralized Services User Auditor Does Not Plan to Use the Work of the Centralized Services Auditor	Applicable when a CS user auditor is participating in the group audit but does not plan to use the work of the CS Auditor
Appendix CS C.1- Memorandum on results of audit procedures performed over the Centralized Services	Applicable for all centralized services. Sections within the appendix may not be applicable based upon the type of work performed and may be noted as such.
Appendix CS C.2-General IT Controls (GITCs)	Only applicable when the scope of work includes testing of GITCs.

What Centralized Services templates are used by user auditors not participating in a group audit? [ISA | 1637.160244]

In these situations, the Centralized Services - Scope Document is intended to function in the same way as the group audit instructions to create a multi-firm engagement between the CS auditor and the CS user auditors. Engagement teams use the same Centralized Services -Scope Document and related appendices, and the appendices to the group audit instructions, customized for their purposes,

in communicating the results of the procedures performed over the centralized services relied upon by the local statutory auditor.

[When using the work of a non-KPMG CS auditor or performing work on behalf of non-KPMG CS user auditors, do we use the Centralized Services - Scope Document and related appendices? \[ISA | 1637.160245\]](#)

We may use and adapt the Centralized Services - Scope Document and related appendices, as necessary, when we use the work of a non-KPMG CS auditor or perform work on behalf of non-KPMG CS user auditors. However, the procedures performed have to be detailed enough to provide factual findings.

[What happens when a Centralized Services user auditor determines they cannot use the work performed by the Centralized Services auditor? \[ISA | 1637.1400\]](#)

The CS user auditor communicates to the group auditor (when applicable) and the CS auditor that the CS user auditor is not able to, or is not planning to, use the scope of work described in the Centralized Services - Scope Document by completing Appendix SSC B.3, Centralized Services User Auditor Does Not Plan to Use the Work of the Centralized Services Auditor. The CS user auditor does this as soon as possible.

[How do we communicate additional procedures to be performed by the Centralized Services auditor? \[ISA | 1637.1500\]](#)

CS user auditors (for example component auditors) may identify procedures for the CS auditor to perform that are not relevant to the group financial statements but are relevant for statutory or other reporting purposes.

When this occurs, the CS user auditor completes Appendix SSC B.1 of the Centralized Services - Scope Document, Request for Additional Procedures to be Performed Centralized Services Auditor, which includes:

- why additional procedures are being requested
- the nature of additional control testing procedures requested
- the nature of additional substantive testing procedures requested.

[Do we request the Centralized Services auditor to prepare a Clearance Memorandum for each Centralized Services user auditor? \[ISA | 1637.1600\]](#)

The CS auditor prepares a Clearance Memorandum, which they provide to all CS users. They do not prepare a separate Clearance Memorandum for each user unless the CS user auditor has communicated that a separate Clearance Memorandum is necessary for the purposes of their standalone audit.

However, the CS user auditor communicates that request to the CS auditor in advance by using the template in Appendix CS B.1 - Request for Additional Procedures to be Performed by the Centralized Services Auditor of the Centralized Services - Scope Document.

A separate summary of substantive procedures (Attachment 2 of Appendix CS C.1 - Memorandum on Results of Audit Procedures Performed over the Centralized Services) may be provided to each CS user auditor with a copy of the single Clearance Memorandum prepared by the CS auditor.

When is formal written communication with the Centralized Services auditor not necessary? [ISA |

1637.1700]

When the CS auditor engagement partner is also a partner of the group auditor and the CS user auditor is part of the same KPMG member firm as the group auditor, written communication is not always necessary since the group auditor and the CS user auditor has full access to the CS auditor's documentation in their audit file.

In instances where the CS auditor's work is not documented in the same file as the CS user auditor's engagement file, it is important that sufficient documentation is included in each engagement file to meet the audit documentation requirements and to clearly set out the work that is being used that may not be included in that CS user auditor's engagement file (e.g. copies of applicable workpapers, a cross-reference to the Centralized Services engagement file or a mapping document) such that a complete set of workpapers can be provided on request.

For example, if the work performed over automated control activities is in a different engagement file than the work performed over GITCs, it may be sufficient to prepare a mapping document representing the actual linkage of IT layers and RAFITs and the GITCs that address each RAFIT for each relevant automated control/information and attach the mapping document to the IT Understanding activity screen in the audit file where the automated control activities are tested.

Examples

What are examples of how we provide instructions of audit procedures to be performed by the Centralized Services auditor? [ISA | 1637.160246]

Below are examples of how we provide instructions of audit procedures to be performed by the Centralized Services auditor based upon what we are requesting the CS auditor to communicate in Appendix CS C.1- Memorandum on results of audit procedures performed over the Centralized Services. The audit procedures are communicated with enough detail for the CS auditor to understand the procedures to be performed.

If requesting the CS auditor to communicate	Considerations when instructing the procedures	Examples
Results on substantive procedures	The audit procedures are sufficiently detailed so that it is clear what the procedure is that will be performed by the CS auditor, and the results to be communicated back to the group auditor and CS user auditors.	<p>For example, as one of the procedures to address the RMMs "Trade receivables are not accurately recorded." and "Recorded trade receivables do not exist.", we may request the CS auditor to perform the following:</p> <p><i>Obtain a population of trade receivables by customer invoice as of year-end and agree the population to the general ledger.</i></p>

		<p><i>Using MUS, the component performance materiality communicated in the group audit instructions, and a combined assessed risk of BN, select a sample of customer invoices. For each invoice, send a positive confirmation to the respective customers to confirm the outstanding balance as of year-end.</i></p> <p><i>Report any differences between the confirmation response and the outstanding balance recorded by entity and the results of MUS evaluation.</i></p>
Results on individual controls	The audit procedures include the controls to be tested and the result to be communicated back to the group auditor and CS user auditors.	<p>The group auditor and/or CS user auditor obtains and reads management's documentation of the process activities, obtains an understanding of the process or requests that the CS auditor obtain an understanding, and selects those controls for the CS auditor to test.</p> <p>One of the audit procedures may be:</p> <p><i>Test the design and implementation and operating effectiveness of a control that "Cycle counts are performed" and report whether or not the control is appropriately designed and implemented and is operating effectively.</i></p>
Conclusions on control objectives (i.e. conclusions regarding whether the controls tested were operating with sufficient effectiveness to conclude that the specified control objectives	<p>The audit procedures specify the control objectives that are to be concluded on.</p> <p>For each control objective, we request the following:</p> <ul style="list-style-type: none"> • a summary of controls that address the control objective; • a description of the audit procedures and results; and • a conclusion on whether the control objective has been achieved 	<p>When the CS auditor is providing conclusions on control objectives, the CS auditor documents the process activities, obtains an understanding of the process, and selects the controls to be tested and reports back to the group auditor.</p> <p>This requires less upfront involvement from the group auditor.</p> <p>One of the control objectives may be:</p> <p><i>Controls provide reasonable assurance that processing of payroll information is completed according to schedule, monitored, and deviations are resolved</i></p>

were achieved during the period tested)		<i>and that payroll data is processed completely and accurately.</i>
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7 Determine who will perform procedures at locations [ISA | 3754]

What do we do?

Determine who will perform audit procedures at locations

Why do we do this?

If the lead auditor is unable to perform audit procedures at locations, we may request that participating auditors perform these procedures for us. We direct, supervise, review and communicate with these auditors the procedures that they perform.

Execute the Audit

Who may perform audit procedures at locations? [ISA | 3754.1300]

The lead auditor or participating auditors may perform procedures over locations.

Who is a participating auditor? [ISA | 3754.160274]

A participating auditor is:

- a member of the engagement team that performs procedures over a location who is not:
 - a partner, principal, shareholder, or employee of the lead auditor or
 - an individual who works under the direction and control of the lead auditor firm and functions as the lead auditor firm's employee (e.g. a secondee)
- a firm, if any, of which such engagement team member is a partner, principal, shareholder, or employee.

In a group audit, a participating auditor is a component auditor.

Who is the lead auditor? [ISA | 3754.160275]

The lead auditor is the firm issuing the auditor's report on the entity's financial statements and members of the engagement team from that firm.

In a group audit, a component auditor is a participating auditor.

How do we determine whether to involve participating auditors in audit procedures at locations? [ISA | 3754.1400]

The determination of whether participating auditors perform audit procedures at locations may be affected by several factors including:

- geographical location of the participating auditors

- competence and capabilities of the participating auditors
- whether the participating auditors have sufficient time to perform the work

How do we treat participating auditors who perform audit procedures at locations? [ISA | 3754.8919]

The following table summarizes the procedures we perform related to participating auditors, which are similar to those when we involve component auditors:

Procedures	Considerations
Determine the scope of work and type of procedures to be performed by the participating auditor	<p>We determine the type of procedures to be performed as risk assessment procedures and/or further audit procedures. The scope of work includes the significant accounts and/or disclosures and their relevant assertions for which further audit procedures are to be performed at the location.</p> <p>The audit procedures may be designed by either the lead auditor or participating auditor. Where a lead auditor designs the procedures and requests the participating auditor to perform the procedures, the audit procedures are communicated with enough detail for the participating auditor to understand the procedures to be performed. However, a working knowledge of the KPMG Audit Execution Guide can be taken into account when communicating the audit procedures to be performed.</p>
Obtain an understanding of the participating auditor	<p>When we obtain an understanding of the participating auditor. However, it is not necessary to obtain information in writing about their applicable experience and training</p> <p>We evaluate the result of our understanding of the participating auditor and determine whether we have Serious Concerns or Less than Serious Concerns and, if applicable, consult and determine the impact on our audit (refer to Activity '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' for further information).</p>
Determine relevant materiality measures	<p>We determine performance materiality or sub-population performance materiality (SPM) rather than component performance materiality (Refer to activity 'Determine SPM if applicable' for further information on determining SPM) and determine AMPT rather than AMRT.</p>

Direct and supervise the participating auditor and review their work	<p>We direct and supervise the participating auditor and review their work. To direct and supervise their work we:</p> <ul style="list-style-type: none">• inform the other auditor in writing the scope of work to be performed by the participating auditor; and with respect to the scope of work:<ul style="list-style-type: none">- the Elevated and Significant RMMs of the financial statements that are associated with the location- performance materiality or SPM and- AMPT• when further audit procedures are designed by the participating auditor:<ul style="list-style-type: none">- obtain and review the participating auditor's written description of the planned audit procedures over Elevated and Significant RMMs- determine whether any changes to the participating auditor's planned further audit procedures over Elevated and Significant RMMs are necessary, and if so, discuss the changes with, and communicate them in writing to, the participating auditor• obtain and review a written confirmation as to whether the participating auditor has performed the work in accordance with our instructions and• direct the participating auditor to provide specified documentation concerning the work requested to be performed, such as the Clearance Memorandum. <p>The Group Audit Instructions templates may be adapted to direct the participating auditor and to communicate their responsibilities and our expectations.</p> <p>When determining whether to review the participating auditor's audit documentation in their audit file, we think about certain qualitative factors to determine which locations to select for review of their audit documentation. Refer to 'What qualitative factors do we think about when determining which other components to select for review of their audit documentation in their audit file?' for the qualitative factors.</p>
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Evaluate the participating auditor's communication and adequacy of their work	We evaluate the participating auditor's communications and adequacy of their work to determine whether we have obtained sufficient appropriate audit evidence. See activity ' Evaluate the component auditor's communication and adequacy of their work '.
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How do we evaluate the adequacy of the participating auditor's communications? [ISA | 3754.160321]

As the lead auditor, we determine, based on reviewing the communications, discussions with the participating auditors, and other information obtained by us during the audit whether the participating auditor performed the procedures in accordance with our instructions.

See activity '[Evaluate the component auditor's communication and adequacy of their work](#)'.

What do we do if the work performed by the participating auditor is determined to be inadequate? [ISA | 3754.160322]

If the work performed by the participating auditor is determined to be inadequate, we, as the lead auditor, determine what additional procedures are necessary to obtain sufficient appropriate audit evidence to support the audit opinion.

When is formal written communication with the participating auditor not necessary? [ISA | 3754.160323]

In instances where the participating auditor's work is documented in the same file as the lead auditor's engagement file, written communication is not always necessary since the lead auditor has full access to the participating auditor's documentation in their audit file.

Evaluating the Component Auditor's Communications and the Adequacy of Their Work International Standards on Auditing: ISA 600.45-48

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

45. The group auditor shall request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A144)

- a. Identification of the financial information on which the component auditor has been requested to perform audit procedures;
- b. Whether the component auditor has performed the work requested by the group auditor;
- c. Whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;
- d. Information about instances of non-compliance with laws or regulations;

- e. Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 36; (Ref: Para. A145)
 - f. Indicators of possible management bias;
 - g. Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
 - h. Fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component or others where the fraud resulted in a material misstatement of the component financial information;
 - i. Other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component;
 - j. Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in the written representations that the component auditor requested from component management; and
 - k. The component auditor's overall findings or conclusions. (Ref: Para. A146)
46. The group auditor shall:
- a. Discuss significant matters arising from communications with the component auditor, including those in accordance with paragraph 45, with the component auditor, component management or group management, as appropriate; and
 - b. Evaluate whether communications with the component auditor are adequate for the group auditor's purposes. If such communications are not adequate for the group auditor's purposes, the group auditor shall consider the implications for the group audit. (Ref: Para. A147)
47. The group auditor shall determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation. In making this determination, the group auditor shall consider: (Ref: Para. A148-A149)
- a. The nature, timing and extent of the work performed by the component auditor;
 - b. The competence and capabilities of the component auditor as determined in accordance with paragraph 26(a); and
 - c. The direction and supervision of the component auditor and review of their work.
48. If the group auditor concludes that the work of the component auditor is not adequate for the group auditor's purposes, the group auditor shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.

ISA Application and Other Explanatory Material: ISA 600.A144-A149

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

Communication about Matters Relevant to the Group Auditor's Conclusion with Regard to the Group Audit (Ref: Para. 45)

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

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

Communication of Misstatements of Component Financial Information (Ref: Para. 45(e))

A145. Knowledge about corrected and uncorrected misstatements across components may alert the group auditor to potential pervasive internal control deficiencies, when considered along with the communication of deficiencies in accordance with paragraph 45(g). In addition, a higher than expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit procedures need to be performed at certain components.

Component Auditor's Overall Findings or Conclusions (Ref: Para. 45(k))

A146. The form and content of the deliverables from the component auditor are influenced by the nature and extent of the audit work the component auditor has been requested to perform. The group auditor's firm policies or procedures may address the form or specific wording of an overall conclusion from the component auditor on the audit work performed for purposes of the group audit. In some cases, local law or regulation may specify the form of conclusion (e.g., an opinion) to be provided by the component auditor.

Evaluating Whether Communications with the Component Auditor Are Adequate for the Group Auditor's Purposes (Ref: Para. 46(b))

A147. If the group auditor determines that the component auditor's communications are not adequate for the group auditor's purposes, the group auditor may consider whether, for example:

- Further information can be obtained from the component auditor (e.g., through further discussions or meetings);
- It is necessary to review additional component auditor audit documentation in accordance with paragraph 47;
- Additional audit procedures may need to be performed in accordance with paragraph 48; or
- There are any concerns about the component auditor's competence or capabilities.

Reviewing Additional Component Auditor Audit Documentation (Ref: Para. 47)

A148. Paragraph A75 provides guidance for the group auditor in tailoring the nature, timing and extent of the direction and supervision of the component auditor, and the review of their work, based on the facts and circumstances of the group audit and other matters (e.g., the assessed risks of material misstatement of the group financial statements). The group auditor's consideration in accordance with paragraph 47(c) also may be affected by the following matters relevant to the group auditor's ongoing involvement in the work of the component auditor:

- Communications from the component auditor, including those in accordance with paragraph 45 of this ISA; and
- The review of component auditor audit documentation by the group auditor during the course of the group audit (e.g., to fulfill the requirements of paragraphs 34, 42 and 43) or by the group engagement partner in accordance with paragraph 31 of ISA 220 (Revised).

A149. Other factors that may affect the group auditor's determination about whether, and the extent to which, it is necessary to review additional component auditor audit documentation in the circumstances include:

- The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements;
- The significant judgments made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements;
- The competence and capabilities of more experienced engagement team members from the component auditor responsible for reviewing the work of less experienced individuals; and
- Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation.

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

1 Evaluate the component auditor's communication and adequacy of their work [ISA | 1590]

What do we do?

Evaluate the component auditor's communication and adequacy of their work.

Why do we do this?

We evaluate the component auditor's communication and adequacy of their work in order to determine whether we have obtained sufficient appropriate audit evidence.

Execute the Audit

How do we evaluate the component auditor's communication and adequacy of their work? [ISA | 1590.1300]

As the group auditor, we:

- [Obtain, review and retain documentation of work performed by component auditors](#)
- [Evaluate the adequacy of the component auditor's communication and discuss significant matters as appropriate](#)
- [Evaluate the communications from the Centralized Services auditor, if applicable](#)
- [Determine whether to review additional component auditor documentation after evaluating their communications](#)
- [Determine additional procedures to be performed and who will perform them](#), if the work of the component auditor is not adequate for the group auditor's purposes.

1.1 Obtain, review and retain documentation of work performed by component auditors [ISA | 1591]

What do we do?

Obtain, review and retain certain documentation related to the work performed by component auditors relevant to our conclusion with regard to the group audit.

Why do we do this?

Since all of the component auditors' work performed is not included in the group auditor's audit files, we obtain, review and retain communications from component auditors that provide evidence of the work performed, relevant to our conclusion with regard to the group audit and to support the group audit opinion.

Execute the Audit

[What documentation do we obtain, review and retain from component auditors relevant to our conclusion with regard to the group audit?](#) [ISA | 1591.1300]

As the group engagement team, we obtain, review and retain the following documentation requested from component auditors relevant to our conclusion with regard to the group audit:

Area	Matters requested / Documentation obtained
Overall findings or conclusions	<p>When performing audit work related to the component</p> <ul style="list-style-type: none">• as part of the Clearance Memorandum, certain confirmations related to the work requested to be performed, including a confirmation that the component auditor has complied with our Group Audit Instructions and performed the work requested by us.• additionally, if local laws or regulations require the group auditor to receive a component auditor's report, we request and obtain such report.

	<p>When performing audit procedures designed by the group auditor.</p> <p>A description in the Clearance Memorandum of the procedures performed and the results of those procedures.</p>
	<p>When using the component's statutory audit for the group audit</p> <p>A copy of the statutory financial statements together with the auditor's report.</p> <p>We may request the component auditor to perform audit procedures on the reconciliation between the statutory financial statements and the group reporting package submitted to group management for consolidation purposes</p>
Significant matters, and other matters relevant to our conclusion with regard to the group audit	<p>A Clearance Memorandum, which includes matters from the component's engagement completion screens and activities and other matters relevant to our conclusion with regard to the group audit.</p> <p>See question "What does the Clearance Memorandum include?" for information about the content of the Clearance Memorandum.</p>
Identification and reconciliation of the financial information of the component	<p>Sufficient information to enable us to agree or reconcile the financial statement amounts audited by the component auditor to the information underlying the consolidated financial statements.</p> <p>This is achieved by obtaining a copy of the component's financial information (e.g. reports and supporting schedules included in the Group Reporting Package) that was subject to the work performed by the component auditor for purposes of the group audit.</p> <p>We may request the component auditor to perform audit procedures designed by us on the group reporting package. See question "What group auditor designed procedures may we request the component auditor to perform on the component's group reporting package?" for further guidance.</p>
Audit misstatements	<p>A schedule of accumulated misstatements above the Audit Misstatement Reporting Threshold (AMRT), including both corrected and uncorrected misstatements. The schedule also includes a description of the nature and cause of each accumulated misstatement, and an evaluation of uncorrected misstatements, including the quantitative and qualitative factors the auditor considered to be relevant to the evaluation.</p>

Deficiencies in internal control	A listing of all deficiencies in internal control. We, as the group auditor, conclude as to the severity of each deficiency in internal control. However, if the component auditor evaluated the severity of deficiencies in connection with its audit work related to the component, the component auditor communicates the severity of the deficiencies to us.
Final ethics and independence confirmation	A written confirmation that the component engagement team has complied, for the period covered by the group audit and through the date of the confirmation, with the ethical and independence requirements relevant to the group audit, as described in the group audit instructions. Refer to the activity ' Request the component auditors to communicate matters relevant to ethics and independence ' for further information.
Completion and document retention	Confirmation that all necessary procedures have been completed, support for all conclusions has been obtained, the audit documentation has been prepared and reviewed, and all review notes have been cleared by the date of the group auditor's report. Refer to activities ' Complete all necessary procedures prior to the date of the auditor's report ' and ' Assembly of the Final Audit File ' for additional information regarding review notes.
	Representation that the component auditor(s) will maintain separate audit documentation for the work performed to support the audit instructions issued by us
	A confirmation that the KPMG component auditor will close the audit file for the documentation related to the work performed for purposes of the group audit within: <ul style="list-style-type: none">• 7 calendar days of the date of the group auditor's report for all listed entities, all banks and all insurance companies (i.e. including non-listed banks and insurance companies); or 14 calendar days of the date of the group auditor's report for all other entities.
	<ul style="list-style-type: none">• Confirmation that the audit documentation of the component auditor related to the work we performed as part of the group

	audit will be assembled by the audit file assembly date communicated by us
	Confirmation that the KPMG component auditor will complete and provide the Documentation Assembly and Modification Working Paper-International or a memorandum that includes the relevant information from the working paper, if the component auditor is required to complete the Documentation Assembly and Modification Working Paper.
	Confirmation from KPMG component auditors (when part of another KPMG member firm) and non-KPMG component auditors, that they have and will comply with the documentation retention requirements set forth by us in the group audit instructions
	Confirmation from KPMG component auditors of other KPMG member firms and non-KPMG component auditors, that the audit documentation supporting the work performed for purposes of the group audit is accessible to us throughout the documentation retention period set forth in the group audit instructions
Fees	If relevant to the group audit, a summary of the KPMG component auditor's fees billed for the most recent fiscal year
Letters of representations	As part of the Clearance Memorandum, any exceptions noted in the written representations that the component auditor requested from component management (see question "What does the Clearance Memorandum include?")

What is the purpose of the Clearance Memorandum? [ISA | 1591.160064]

The Clearance Memorandum facilitates effective and efficient communication to the group auditor of the significant matters related to the audit work performed at the component.

What does the Clearance Memorandum include? [ISA | 1591.160065]

The Clearance Memorandum includes the following information:

- certain confirmations related to the work requested to be performed , including a confirmation that the component auditor has complied with our Group Audit Instructions and performed the work requested by us
- any significant outstanding or unresolved matters, including those that are to be followed up by us
- significant matters, which include, but are not limited to, the following:

- a list of significant risks of the group financial statements associated with the component, the component auditor's responses , and the results of the component auditor's related procedures,
 - significant unusual transactions, excluding related party significant unusual transactions,
 - related parties, relationships or transactions with related parties, including related party significant unusual transactions,
 - significant matters identified during the review of interim financial information, if applicable ,
 - significant matters involving the selection, application and consistency of accounting principles, including related disclosures,
 - results of auditing procedures that indicate a need for significant modification of planned auditing procedures,
 - accumulated misstatements and the existence of material misstatements (including omissions in the component's financial information) based on component performance materiality ,
 - deficiencies in internal control over financial reporting,
 - disagreements among members of the engagement team of the component auditor or with others consulted on the engagement about final conclusions reached on significant accounting or auditing matters, including the basis for the final resolution of those disagreements. If an engagement team member disagrees with the final conclusions reached, they document that disagreement,
 - circumstances that cause significant difficulty in applying auditing procedures,
 - significant changes in the component auditor's risk assessments, including risks that were not identified previously, and the modifications to audit procedures or additional audit procedures performed in response to those changes,
 - any matters that could result in modification of the component auditor's report, if one is issued,
 - sufficient information relating to significant matters that are inconsistent with or contradict the final conclusions,
- any revisions to relevant statutory materiality measures used for purposes of the group audit, (i.e. the amount of the revised statutory performance materiality and/or, if applicable, lower statutory performance materiality for particular accounts or disclosures) and the rationale for the revision,
 - any findings affecting the consolidating or combining of accounts in the group's consolidated financial statements,
 - information on instances of identified or suspected:
 - non-compliance with laws or regulations, including illegal acts, other than clearly inconsequential matters, or
 - fraud involving component management, employees who have significant roles in the group's system of internal control at the component, or others where the fraud resulted in a material misstatement of the component financial information, or
 - for US engagement teams, governmental agency enforcement investigations,
- at the component or group level,
- indicators of possible management bias,
 - all matters communicated or to be communicated to those charged with governance of the component. This also includes:

- other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component
- any violations of applicable independence standards or regulations
- matters for consideration to be communicated by the group auditor to those charged with governance of the group,
- any exceptions noted in the written representations that the component auditor requested from component management
- disagreements with component management about matters that, individually or in aggregate, could be significant to the component's financial information or our reporting,
- when performing audit procedures designed by us, a description of the procedures performed and the results of those procedures.
- any unusual or unexpected items identified as a result of performing final analytical procedures
- any financial statement level risks of the group financial statements where the component auditor was requested to perform procedures over these risks, the component auditor's responses, and the results of the component auditor's related procedures,
- the testing approach and results and findings related to journal entries and other adjustments, if the component auditor has been instructed to test journal entries and other adjustments
- any 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 and, if agreed with the group auditor, the component auditor's responses, and the results of the component auditor's related procedures
- any litigation, claims and assessments affecting the component that could have an impact exceeding the AMRT or that the component auditor wishes to draw to our attention,
- any consultations made by the component auditor, or matters that would have caused the component auditor to consult in a financial statement audit,
- information relevant to describe key audit matter(s)/critical audit matter(s) in the group auditor's report, if requested by us
- any other matters that may be relevant to the group audit or that the component auditor determines are appropriate to draw to our attention.

The Clearance Memorandum might include cross-references to other relevant supporting audit documentation within the component auditor's files. If so, that relevant supporting documentation is provided to us with the Clearance Memorandum.

[In what instances do we obtain the Clearance Memorandum? \[ISA | 1591.13502\]](#)

As the group auditor, we obtain the Clearance Memorandum from all component auditors performing audit work related to a component.

[When do component auditors provide us with the Clearance Memorandum? \[ISA | 1591.160067\]](#)

We request component auditors to provide us with the Clearance Memorandum on a timely basis, during completion of the audit, with sufficient time to review the Clearance Memorandum and address any issues that arise.

Additionally, when component auditors perform hard close procedures prior to year-end, we request them to provide us with a Clearance Memorandum as of the hard close date and an update as of year-end.

What group auditor designed procedures may we request the component auditor to perform on the component's group reporting package? [ISA | 1591.160068]

As the group auditor, we may request the component auditor to perform certain audit procedures designed by us that the component auditor would not already be performing as part of the scope of their work, such as:

- determine that the amounts in the general ledger and sub-ledgers of the component agree to the group reporting package to evaluate the classification of those amounts
- test the mathematical accuracy of the group reporting package
- test the movement of net equity and the reconciliation between reporting in the group reporting package and local GAAP
- test the completeness and accuracy of supporting schedules included in the group reporting package (e.g. roll forward schedule of property, plant and equipment)
- test the appropriateness of management's reconciliation from the group reporting package to the statutory financial statements to confirm their consistency with amounts submitted for the group audit and to confirm they are internally consistent
- when the component's local currency and the group's currency are different, evaluate whether the foreign currency translation of the component's financial information from the local currency to the group's currency is appropriate

Who determines whether the audit documentation is sufficient to support the auditor's report? [ISA | 1591.13513]

The engagement team issuing the report determines that audit documentation is sufficient to support the auditor's report. For a group auditor, this includes the work performed by component auditors.

What are component auditors responsible for with regard to audit documentation? [ISA | 1591.160059]

The component auditors involved in the group audit comply with the relevant audit documentation guidance included in the chapter on audit documentation ([ISA 230](#), [AU-C 230](#), [AS 1215](#)), including with respect to the audit documentation that the component auditor provides or makes accessible to the group auditor.

What do we retain in our audit documentation in relation to the component auditors' work? [ISA | 1591.1600]

As the group auditor, we retain the communications from the component auditor, such as the Clearance Memorandum and other reporting, which supports the audit procedures performed by the component auditors.

We also retain evidence of our review and evaluation of the communications received from component auditors.

When do we obtain and review communications from component auditors relevant to our conclusion with regard to the group audit? [ISA | 1591.1700]

As the group auditor, we do this before the date of the auditor's report. It is best to obtain and review the communications as soon as possible to allow sufficient time to review, perform any additional procedures necessary and properly resolve any issues that arise.

How do we determine the appropriate timing for component auditor reporting? [ISA | 1591.160069]

We think about the following, when determining the appropriate timing of component auditor reporting:

- the timing of the component auditor's work; for example, does the component auditor have sufficient time to complete the audit work related to a component, subsequent to period-end?
- the timing of our work after the component auditor's reporting; for example, do we have sufficient time to read, evaluate, respond to, where necessary, and document the conclusions on the component auditor's reporting?
- the timing of communications within the group; for example, where matters may need to be communicated at components, then up to group management;
- the timing and level of procedures to be performed by us at the group level, including procedures over the consolidation of components, evaluation of control deficiencies, audit misstatements, etc.

[How do we obtain the component auditors' documentation related to their work relevant to our conclusion with regard to the group audit? \[ISA | 1591.1800\]](#)

As the group auditor, we request component auditors to provide us with documentation related to their work relevant to our conclusion with regard to the group audit in writing. For KPMG component auditors, we use of 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 their work relevant to our conclusion with regard to the group audit is not always necessary, except when specifically required (e.g. confirmation of compliance with ethical and independence requirements), 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., significant matters, uncorrected misstatements).

[When work is performed by the group auditor or a component auditor on behalf of a component auditor, how is the work performed communicated? \[ISA | 1591.160061\]](#)

Sometimes, component auditors rely on work performed by another auditor (i.e. the group auditor or another component auditor) for purposes of their audit work related to the component or local statutory audit. For example, the group auditor may centralize the work performed over an assumption used in an estimate.

When the work performed is over the group's centralized services, the Centralized Services Scope Document and related appendices are used to communicate the work performed.

When the work performed is not over the group's centralized services and is only a centralized testing approach, there is no standard form of communication. The Centralized Services Scope Document and related appendices may be adapted for this purpose or a memorandum summarizing the work performed and the results obtained may be provided. However, the communication is not intended to contain all information necessary to enable the component auditor to complete all the fields within the relevant activities in the Workflow.

When the centralized services auditor is used for the purpose of a component's statutory audit, the communication is detailed enough to enable the component auditor to determine that work performed by the other auditor is relevant to their engagement and sufficient for their purposes.

[How do we review the component auditors' documentation related to their work?](#) [ISA | 1591.13514]

As the group auditor, we follow the guidance in the activity ["Evaluate the adequacy of component auditor's communications and discuss significant matters"](#).

[Can the information in the Clearance Memorandum be shared with management or others?](#) [ISA | 1591.1900]

Communicating certain information and matters to component or group management may impact the quality of our future audits because group and component management may be able to predict our audit procedures. Therefore, we, as the group auditor, or the component auditor do not provide component or group management with the following:

- the Clearance Memorandum in its entirety
- specific information regarding the nature, timing and extent of our audit procedures, other than matters that we are required to communicate (e.g. critical or key audit matters)
- conclusions on audit areas, significant matters or fraud risks, other than specific matters that are required to be communicated to those charged with governance (who may also be involved in managing the entity), such as our views on significant qualitative aspects of the entity's accounting practices
- disagreements among engagement team members, and
- EQC review or LSQC review procedures, findings and conclusions.

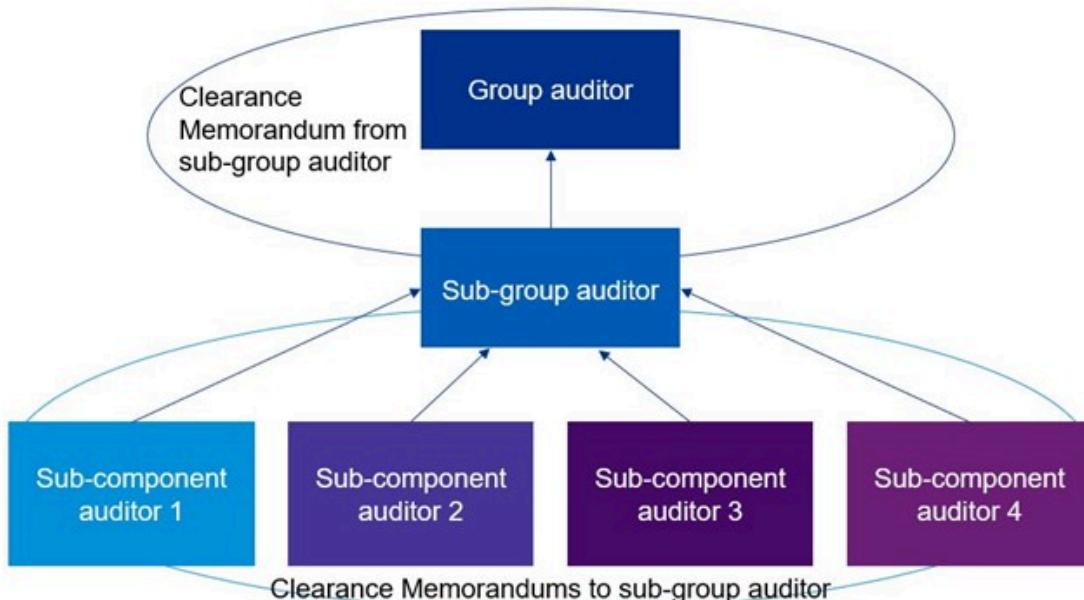
However, we may provide component or group management with a summary of certain information from the Clearance Memorandum to facilitate the discussion of reporting matters with component or group management and/or those charged with governance. Examples of these matters include:

- significant matters involving the selection, application and consistency of accounting policies or principles, including related disclosures
- unusual and/or significant transactions and/or balances
- control deficiencies
- uncorrected and corrected audit misstatements
- outstanding or unresolved matters, and
- communications made or expected to be made to those charged with governance.
 - Such summaries may be common practice where component auditors hold closing meetings at the component level and certain conclusions are discussed with component management. Many times the group auditor will attend these discussions (in person or via other means), as will group management.
 - For all other parties, we follow the guidance about providing documentation in the relevant Risk Management Manual.

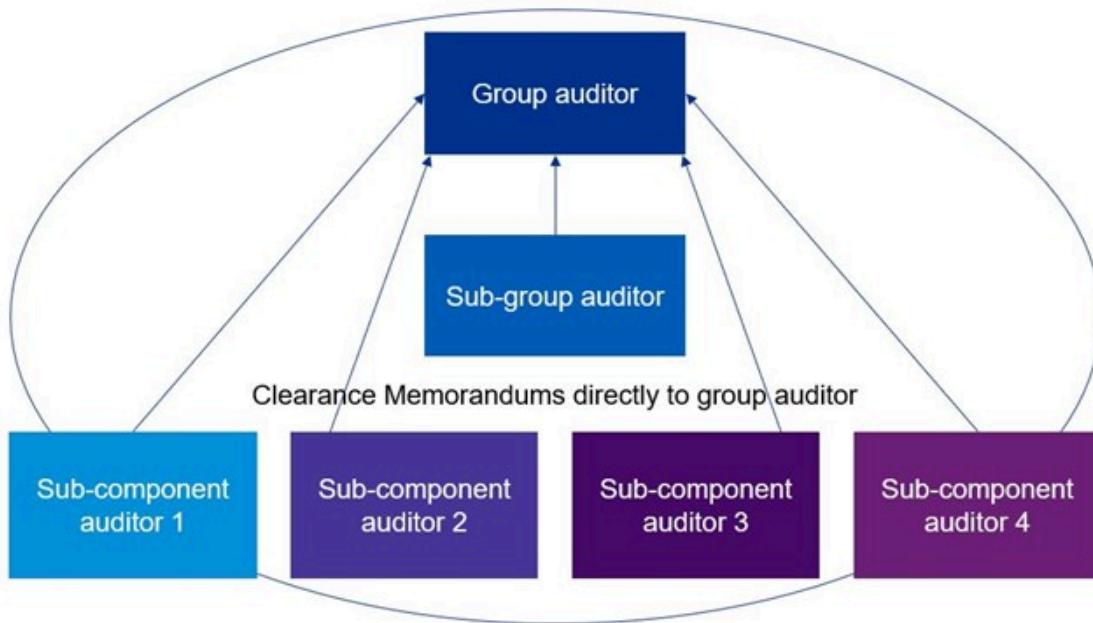
[How do we obtain and review the component auditors' documentation related to their work in a multi-tiered audit?](#) [ISA | 1591.2100]

It depends on the circumstances of the engagement. As the group auditor, we may follow one of the following approaches:

- **Sub-groups summarize underlying components:** If the sub-group auditor assists us in directing and supervising the component auditors of components within the sub-group (i.e. the sub-component auditors) and reviewing their work, the sub-group auditor communicates any findings relevant to our conclusion with regard to the group audit from the sub-component auditors to us within the sub-group auditor's Clearance Memorandum. In this case, we may also request that the sub-group auditor provides us with a copy of the Clearance Memorandum received from sub-component auditors.



- **No summarization at sub-group level** - If we directly direct and supervise sub-component auditors and review their work, we directly obtain, review and retain the sub-component auditors' Clearance Memorandum (even if the Clearance Memorandum is also delivered to the sub-group auditor), as well as the sub-group auditor's Clearance Memorandum for the work performed by the sub-group auditor.



1.2 Evaluate the adequacy of component auditor's communications and discuss significant matters [ISA | 1592]

1592]

What do we do?

Evaluate the adequacy of component auditor's communications and discuss significant matters as appropriate.

Why do we do this?

Evaluating the adequacy of component auditor's communications helps us, as the group auditor, to determine whether the component auditor has performed the procedures we requested them to perform and have obtained sufficient appropriate audit evidence for us to form an opinion on the group financial statements.

Execute the Audit

What constitutes component auditor's communications? [ISA | 1592.1300]

These include the communications from the component auditor to the group auditor with matters relevant to the group audit. These primarily include the communications the group auditor requests the component auditor to provide.

They may also include other written communications the component auditor believes are relevant for the group auditor to consider, even if not specifically requested by the group auditor.

Discussions between the component auditor and group auditor, throughout the audit, also form part of the component auditor communications.

How do we evaluate the adequacy of the component auditor's communications? [ISA | 1592.1400]

As the group auditor, we determine, based on reviewing the communications, discussions with the component auditors, and other information obtained by us during the group audit:

- whether the component auditor performed the procedures agreed to during the planning phase of the audit, including the use of the applicable auditing standards and KAEG for KPMG component auditors.
- whether any significant matters identified are relevant for the group audit.

We also think about whether there are any issues that we expect the component auditor to have reported and matters we may be aware of at the group level, or at other components, which are relevant to certain components. This may include:

- issues at several components that could aggregate to a bigger issue at the group level (e.g. misstatements less than AMPT in one component may need to be included on the summary of audit misstatements if the same misstatement arises in multiple components)
- trends/patterns that may be visible when looking at all components in the aggregate,
- evidence that contradicts a conclusion the group auditor reached at the group level or a component auditor reached at a different component.

For example, no significant matters were communicated by the component auditor for Component 1. When we evaluate communications from other component auditors for Components 2, 3 and 4, the component auditors for those components communicated indicators of management bias with regards to the pension liability estimate.

Based upon our knowledge that Component 1 has a material pension plan, we think about whether there may be indications of management bias at Component 1.

Some of these issues may be difficult to identify unless we step back and evaluate the results of the work that has been performed on all the components.

What is considered a significant matter? [ISA | 1592.1500]

"Significant matters" are substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached. "Significant matters" are also referred to as "significant findings or issues".

They are the matters that we include in the Clearance Memorandum.

What are the group auditor's responsibilities when we identify significant matters for the group financial statements in component auditor communications? [ISA | 1592.1700]

As the group auditor, we discuss these with the component auditor, component management, or group management, as appropriate, and evaluate whether the related communications with the component auditor are adequate for the group auditor's purposes, to determine the impact on the group audit, including whether additional procedures need to be performed, whether there is an impact to the group financial statements or the group auditor's report.

What does the group auditor do when there are significant unresolved matters identified by component auditors? [ISA | 1592.1800]

As the group auditor, we follow up on any significant unresolved matters identified by component auditors that impact the group audit.

We may not have sufficient appropriate audit evidence to form an audit opinion when there are unresolved matters from either the group or component auditors that are significant to the group audit.

We document the resolution of such matters.

What do we do when the component auditor's communication does not include all the requested communications? [ISA | 1592.1900]

As the group auditor, we discuss with the component auditor why all requested information has not been provided.

After evaluating component auditor communications we also consider whether [reviewing the component auditor's additional documentation in their audit file](#) is necessary.

What do we do when we determine that the component auditor's communication is not adequate for the group auditor's purposes? [ISA | 1592.159681]

As the group auditor, we consider the impact on the group audit if the component auditor's communication is not adequate. In this case, we may consider:

- Obtaining further information from the component auditor (e.g. through further discussions or meetings)
- [Determining whether to review additional component auditor documentation after evaluating component auditor communications](#)
- [Determining whether additional procedures are to be performed and who will perform them](#)
- Determining whether there are any concerns about the component auditor's competence or capabilities.

1.3 Determine whether to review additional component auditor documentation after evaluating their communications [ISA | 1593]

What do we do?

Determine, based on the evaluation of the adequacy of the component auditor's communication, whether, and the extent to which, it is necessary to review additional component auditor audit documentation in their audit file.

Why do we do this?

If we, as the group auditor, feel that we don't have a good understanding of the matters covered in the component auditor's communication, we consider how to obtain a clear understanding of matters relevant to the group audit.

Execute the Audit

How do we determine whether to review additional audit documentation of the component auditor in their audit file based on the evaluation of component auditor's communications? [ISA | 1593.1300]

As the group auditor, we may have reviewed component auditor's relevant documentation in their audit file in accordance with activity '[Review the component auditor's audit documentation in their audit file](#)' earlier in the audit already. Reviewing component auditor communications, such as the Clearance Memorandum, can help us identify additional significant matters or significant judgments made by component auditors.

When there are significant matters or significant judgments made by the component auditor, we determine whether it is necessary to review additional relevant parts of the component auditor's audit documentation in their audit file. In deciding this, we consider:

- the nature, timing and extent of the work performed by the component auditor,
- the competence and capabilities of the component auditor, and
- the direction and supervision of the component auditor and review of their work.

In some cases, we may have already been involved or reviewed work related to these significant matters before we received the communications. In these instances, we think about whether the documentation reviewed is consistent with the component auditor's communications in determining whether to further review the component auditor's documentation in their audit file.

[What other factors would we think about when determining whether, and the extent of which, to review additional documentation of the component auditor?](#) [ISA | 1593.13392]

This decision whether, and the extent of which, to review additional component auditor's documentation in their audit file is based on many factors, such as:

- The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the RMMs of the group financial statements (e.g. participation in the RAPD)
- There are changes in Elevated or Significant RMMs of the group financial statements or the components planned response to those previously communicated
- The magnitude of significant matters (for example, significant unusual transactions, related party transactions, actual or suspected instances of non-compliance with laws and regulations, including illegal acts, actual or suspected instances of fraud, etc.)
- The subjectivity or complexity of the significant matter
- Concerns we have regarding the approach taken, sufficiency of work performed or conclusions drawn by the component auditor related to the significant matter
- 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 competence and capabilities of more experienced individuals from the component auditor responsible for reviewing the work of less experienced individuals
- The adequacy of component auditor communications to the group auditor. For example, if the component auditor's required communications had insufficient details, we think about reviewing the underlying audit documentation related to the relevant areas with insufficient details in the reporting deliverable(s).

- 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's firm's quality control reviews, such as pre-issuance reviews.

[How is this review of documentation different from other forms of involvement?](#) [ISA | 1593.13393]

The focus here is on significant matters reported by the component auditor and significant judgments made by the component auditor. While we made our initial decisions about the nature, timing and extent of our direction and supervision of the component auditor and the review of their work considering the identified Elevated and Significant RMMs of the group financial statements in the component and information about the component auditor, significant matters can arise later in the audit.

As such, they cannot always be planned for prior to receiving the component auditor's communications.

[How do we evidence our review of the component auditor's additional documentation?](#) [ISA | 1593.1400]

As the group auditor, we document our review of the additional component auditor's audit documentation and our conclusions from reviewing the documentation in the group audit file.

We document it the same as any other review of component auditor's audit documentation in their audit file. See question '[How do we evidence our review of the component auditor's documentation?](#)' for further information.

[Do we replicate the component auditor's audit documentation in our audit file?](#) [ISA | 1593.159942]

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 | 1593.159943]

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.

1.4 IF the component auditor's work is not adequate, THEN determine additional procedures to be performed

[ISA | 1594]

What do we do?

IF we conclude that the work of the component auditors is not adequate, THEN determine what additional procedures are to be performed and who will perform them.

Why do we do this?

If we, as the group auditor, determine that there is not sufficient appropriate audit evidence based on the evaluation of the work performed by the component auditor, then we perform additional procedures in order to form an opinion on the group financial statements.

Execute the Audit

[What do we do if the work performed by the component auditor is determined to be inadequate?](#) [ISA | 1594.1300]

If the work performed by a component auditor is determined to be inadequate, we, as the group auditor, determine what additional procedures are necessary to obtain sufficient appropriate audit evidence to support the group audit opinion.

For example, if there is an additional risk of material misstatement that was not previously identified or a risk that was not appropriately addressed at the component level, then we, as group auditor, determine what additional procedures are to be performed.

Because we are responsible for the group audit opinion, the group auditor determines the extent of the procedures to be performed.

If we identify additional procedures to be performed, is that an indication of the inadequacy of the component auditor's work? [ISA | 1594.1400]

This may not necessarily be a reflection on the inadequacy of the component auditor's work if the additional procedures to be performed were due to circumstances or changes of which the component auditor was not aware (e.g. deficiencies in CERAMIC, new related parties/related party transactions or financial statement level risks).

Who performs additional procedures when the component auditor's work is determined to be inadequate?

[ISA | 1594.1500]

These additional procedures can be performed by:

- us, the group auditor, or
- the component auditor under our direction and supervision.

We may consider matters such as availability of information and timing in deciding who would be the most appropriate to perform the additional work to be performed.

Effective two-way communication between us and the component auditor helps us make this determination.

2 Component Audit | Appropriately respond to requests from non-KPMG group auditors [ISA | 1586]

What do we do?

IF a non-KPMG group auditor requests us to provide information and/or complete a detailed audit questionnaire, THEN respond without including inappropriate representations, don't respond to vague questions and clearly restrict the use of the questionnaire to the non-KPMG group auditor.

Why do we do this?

Inadvertent opinions or conclusions, and distribution of our communications beyond the intended users, exposes KPMG to additional unnecessary risk.

Execute the Audit

What do we do when requested to provide information to a non-KPMG group auditor and/or complete a detailed questionnaire? [ISA | 1586.1300]

When a non-KPMG group auditor requests us, as the component auditor, to provide information and/or complete a detailed questionnaire:

- our responses do not include inappropriate representations, such as those that appear to:
 - take responsibility for statements of fact, or

- that express specific opinions or conclusions about individual accounts (unless we have been requested to perform an audit of an account balance or disclosure for purposes of the group audit).
- we do not respond to questions of a vague and general nature or questions that are capable of being answered by the non-KPMG group auditor's review of the component's financial information or our reporting.

In all cases, we include a statement (or cover letter) with the questionnaire that clearly restricts the use of the questionnaire to the non-KPMG group auditor.

3 Group Audit | Consider the effect on our group audit opinion and client relationship when group management refuses to consent to allowing us to communicate to a non-KPMG component auditor

[ISA | 1588]

What do we do?

IF group management refuses to consent to allowing us to communicate information to a non-KPMG component auditor, THEN consider the effect of the refusal on our group audit opinion and on KPMG's relationship with the parent company.

Why do we do this?

When receiving an inquiry from a non-KPMG component auditor, as the group auditor, we request group management's consent to allowing us to communicate information to the non-KPMG component auditor. Since this communication is going to another audit firm outside our network, we involve group management so that they are aware of the communication and to make sure we do not violate client confidentiality.

Execute the Audit

[What procedures do we perform if group management refuses to consent to allowing us to communicate information to a non-KPMG component auditor? \[ISA | 1588.1300\]](#)

As the group auditor, we first inquire as to group management's reasons for the refusal.

If we conclude that group management's refusal is unreasonable, we:

- communicate with those charged with governance of the group the significant difficulty encountered,
- consider if such difficulty constitutes a scope limitation that leads to a modification of our opinion or withdrawal from the engagement, and
- consult.

[Who do we consult with in relation to group management's refusal?](#) [ISA | 1588.12555]

As the group auditor, we consult as follows.

International (non-US) teams	US teams
DPP and the risk management partner	BUPPP

4 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

	<p>the component auditor will comply with the relevant ethical and independence requirements.</p>
When changes in circumstances occur or new information is discovered	<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>
During audit completion	<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 matters requiring significant judgment and breaches 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 - 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 will comply with the relevant communication and documentation requirements regarding breaches or suspected breaches of independence requirements included in Policy 12.18.1 (or 20.1.3 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)). 	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	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	KPMG component auditors

partner to component auditor individuals	<p>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 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 	All component auditors

	<ul style="list-style-type: none"> 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 at least until completion of the group audit professional engagement period (i.e., until we cease to be appointed as the auditor) 	
	<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	If there are any independence matters that require significant judgment, provide us with the following: <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	If a breach or suspected breach of independence requirements has occurred, provide us with the following: <ul style="list-style-type: none"> name of the entity within the group to which the breach or suspected breach of independence relates 	KPMG component auditors

	<ul style="list-style-type: none"> • 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 nature and duration, how the breach occurred and how it was identified • 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](#)

5 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) <https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=253-policy-1180> and [12.15.3](https://www.gqrmm-prod.kworld.kpmg.com/G/0/Content/231?jm=253-policy-1181) <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) <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.

6 Evaluate communications from the Centralized Services auditor [ISA | 1638]

What do we do?

Evaluate the Centralized Services (CS) auditor's communication.

Why do we do this?

We evaluate the Centralized Services (CS) auditor's communication and adequacy of their work in order to determine whether we have obtained sufficient appropriate audit evidence. Evaluating the CS auditor's communication and work also gives insight into our understanding of the CS auditor's competence and capabilities.

Execute the Audit

What communications do we receive from the Centralized Services auditor? [ISA | 1638.1300]

CS user auditors receive the following communications from the Centralized Services auditor:

- the Centralized Services - Scope Document and related appendices and
- the Clearance Memorandum.

In addition to the communications above, the group auditor also receives the following communications:

- Group Audit Instructions Confirmation
- Initial Ethics and Independence Confirmation
- Early Warning Memorandum (as necessary)
- Summary of Audit Misstatements (when applicable)
- Summary of Control Deficiencies (when applicable)
- Final Ethics and Independence Confirmation
- Subsequent Events Memorandum (when applicable)

Audit Documentation Confirmation

[How do we evaluate the Centralized Services Auditor's communications?](#) [ISA | 1638.1400]

We evaluate the Centralized Services Auditor's communications in a similar manner to a component auditor ('[Evaluate the component auditor's communication and adequacy of their work](#)' for additional information).

Our evaluation focuses on determining that the Centralized Services (CS) auditor performed the appropriate procedures and identifying issues or findings that could impact our conclusions in the audit. This often includes:

- determining whether the CS auditor performed the procedures that were agreed to in the Centralized Services - Scope Document, including the adequacy of the time period covered by the procedures,
- evaluating the impact of any findings and issues (i.e. control deficiencies or audit misstatements) to our audit,
- addressing the complementary centralized services user controls if they were identified by the CS auditor in the Centralized Services - Scope Document (Attachment 3 of the Appendix CS C.1) as relevant to the CS user, and
- addressing controls at other service providers that are relevant to the centralized services provided if they were identified by the CS auditor in the Centralized Services - Scope Document (Attachment 4 of the Appendix CS C.1) as relevant to the CS user.

Based upon our evaluation, we may determine that it is necessary to review additional audit documentation of the CS auditor in their audit file.

[Who evaluates the Centralized Services Auditor's communications?](#) [ISA | 1638.1500]

The group auditor evaluates the CS auditor's communications for the purposes of the group audit and the Centralized Service (CS) user auditors evaluate the CS auditor's communications for the purposes of their statutory audit.

[How do we determine whether to review additional audit documentation of the CS auditor in their audit file based on the evaluation of the CS auditor's communications?](#) [ISA | 1638.160294]

When there are significant matters or significant judgments made by the CS auditor, we determine whether it is necessary to review additional relevant parts of the CS auditor's audit documentation in their audit file. In deciding this, we consider:

- the nature, timing and extent of the work performed by the CS auditor,

- the competence and capabilities of the CS auditor, and
- the direction and supervision of the CS auditor and review of their work.

In some cases, we may have already been involved or reviewed work related to these significant matters before we received the communications based upon the qualitative factors provided in '[What qualitative factors do we think about when determining which other components to select for review of their audit documentation in their audit file?](#)'. In these instances, we think about whether the documentation reviewed is consistent with the CS auditor's communications in determining whether to further review the CS auditor's documentation in their audit file.

[What other factors would we think about when determining whether, and the extent of which, to review additional documentation of the CS auditor?](#) [ISA | 1638.160297]

This decision whether, and the extent of which, to review additional CS auditor's documentation in their audit file is based on many factors, such as:

- The degree to which the CS auditor was involved in risk assessment procedures and in the identification and assessment of the RMMs of the group financial statements (e.g. participation in the RAPD)
- There are changes in Elevated or Significant RMMs of the group financial statements or the CS auditor's planned response to those previously communicated in the Centralized Services - Scope Document
- The magnitude of significant matters (for example, significant unusual transactions, related party transactions, actual or suspected instances of non-compliance with laws and regulations, including illegal acts, actual or suspected instances of fraud, etc.)
- The subjectivity or complexity of the significant matter
- Concerns we have regarding the approach taken, sufficiency of work performed or conclusions drawn by the CS auditor related to the significant matter
- The significant judgments made by, and the findings or conclusions of, the CS auditor about matters that are or could be material to the group financial statements
- The competence and capabilities of more experienced individuals from the CS auditor responsible for reviewing the work of less experienced individuals
- The adequacy of CS auditor communications to the group auditor. For example, if the CS auditor's required communications had insufficient details, we think about reviewing the underlying audit documentation related to the relevant areas with insufficient details in the reporting deliverable(s).
- Whether the CS auditor and group auditor are subject to common policies or procedures for review of audit documentation. For example, non-KPMG auditors are not subject to KPMG policies and procedures. Also, for KPMG auditors we think about the extent to which the documentation has been subject to the CS auditor's firm's quality control reviews, such as pre-issuance reviews.

[How is this review of documentation different from other forms of involvement?](#) [ISA | 1638.160295]

The focus here is on significant matters reported by the CS auditor and significant judgments made by the CS auditor. While we made our initial decisions about the nature, timing and extent of our direction and supervision of the CS auditor and the review of their work considering the identified Elevated and Significant RMMs of the group financial statements in the CS users and information about the CS auditor, significant matters can arise later in the audit.

As such, they cannot always be planned for prior to receiving the CS auditor's communications.

[How do we evidence our review of the CS auditor's additional documentation?](#) [ISA | 1638.160296]

As the group auditor, we document our review of the additional CS auditor's audit documentation and our conclusions from reviewing the documentation in the group audit file.

We document it the same as the review of a component auditor's audit documentation in their audit file. See question '[How do we evidence our review of the component auditor's documentation?](#)' for further information.

[Can the information in the Clearance Memorandum prepared by the Centralized Services auditor be shared with management or others?](#) [ISA | 1638.1600]

Communicating certain information, such as a detailed description of the nature, timing and extent of our audit procedures to the management of the centralized services CS user management, or group management, or others, may impact the quality of the current or future audits, because management may be able to predict our audit procedures.

As a result, we do not share the Clearance Memorandum in its entirety with management or others. However, we may provide management with a summary of certain information from the Clearance Memorandum, such as control deficiencies and/or audit misstatements.

[How do we evaluate whether the work performed by a non-KPMG CS auditor is sufficient for purpose of our audit when their sample size is less than that in KAEG?](#) [ISA | 1638.160248]

Engagement teams may analogize the work performed by a non-KPMG CS auditor to that of a service organization auditor and determine whether the nature of the tests of controls at the service organization is appropriate, when determining whether the extent of relevant tests for controls provides sufficient appropriate evidence. See question '[How do we determine whether the nature of tests of controls at the service organization is appropriate?](#)'.

Subsequent events

International Standards on Auditing: ISA 600.49-50

Considerations When Component Auditors Are Involved

Subsequent Events

49. In applying ISA 560,²⁸ the group auditor shall take responsibility for performing procedures, including, as appropriate, requesting component auditors to perform procedures, designed to identify events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A150)

²⁸ ISA 560, Subsequent Events, paragraphs 6-7

50. The group auditor shall request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A150)

ISA Application and Other Explanatory Material: ISA 600.A150

Subsequent Events (Ref: Para. 49-50)

A150. The group auditor may:

- Request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.

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

1 Group Audit or Component Audit | Take responsibility for performing subsequent events procedures at components [ISA | 1606]

What do we do?

Take responsibility for performing subsequent events procedures at components including, as appropriate, requesting component auditors to perform those procedures and communicate their results.

Why do we do this?

The group auditor seeks to learn about subsequent events that have occurred in the group before it finalizes the auditor's report on the group financial statements to determine if these items were appropriately reflected or disclosed in the group financial statements.

Execute the Audit

What is different about performing subsequent events procedures in a group audit? [ISA | 1606.1500]

We still perform subsequent event procedures up to the date of the group auditor's report. However, for a group audit, the group auditor takes responsibility for determining at which components subsequent events procedures will be performed and who designs and performs those procedures.

How do we determine at which components to perform subsequent events procedures ? [ISA | 1606.1300]

In addition to performing subsequent events procedures at the group level in accordance with the Subsequent Events chapter, the group auditor takes responsibility for performing subsequent events procedures at components when there's a reasonable possibility of a material misstatement to the group financial statements arising from subsequent events at those components, which include, at a minimum, quantitatively significant components where further audit procedures are performed.

[Who performs the subsequent events procedures at a component?](#) [ISA | 1606.1600]

When there's a reasonable possibility of a material misstatement to the group financial statements arising from subsequent events at a component, the group auditor may:

- design and perform the subsequent events procedures themselves,
- design subsequent events procedures and request a component auditor to perform those procedures, or
- request a component auditor to design and perform subsequent events 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 to KPMG component auditors.

In addition, if the group has centralized services, we think about what type of audit procedures will be performed over the centralized services.

[How and at what point in time do we request component auditors to communicate the results of their subsequent events procedures?](#) [ISA | 1606.159918]

As the group auditor, we communicate our request in writing at the beginning of the audit, i.e. during group audit planning. 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

We request the component auditors to provide us with the results of their subsequent events procedures in writing at, or as near as possible to, the expected date of the auditor's report on the group financial statements, even if no subsequent events have been identified.

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 the results of their subsequent events procedures 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., any subsequent events identified).

[Does the component auditor wait to communicate subsequent events until the requested date of final subsequent event reporting?](#) [ISA | 1606.13414]

No, if component auditors become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements, those subsequent events are communicated as soon as possible.

If we have requested a component auditor to submit a Clearance Memorandum, we request the component auditor that if, prior to submitting their Clearance Memorandum, they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements, they notify us of those subsequent events in the Clearance Memorandum.

When reporting the results of subsequent events procedures at a later date, the component auditor includes, if applicable, subsequent events identified additional to those previously communicated in the Clearance Memorandum.

[What procedures are performed to identify subsequent events at components?](#) [ISA | 1606.1400]

We, as the group auditor, or a component auditor, if requested, perform procedures designed to identify events at components between the dates of the financial information of the components and the date of the group auditor's report that may require adjustment of, or disclosure in, the group financial statements. We follow the guidance in the chapter on subsequent events ([ISA 560](#), [AU-C 560](#), and [AS 2801](#)).

[What do we request component auditors to communicate regarding subsequent events when we do not request them to perform subsequent events procedures?](#) [ISA | 1606.159920]

As the group auditor, if we have requested a component auditor to design and perform either further audit procedures or audit procedures designed by us to address group RMMs at the component, but we don't request the component auditor to perform subsequent events procedures, we request the component auditor to notify us if they become aware of subsequent events that may require an adjustment of, or disclosure in, the group financial statements.

[Group Audit | What do we do when the component auditor informs us of subsequent events?](#) [ISA | 1606.159922]

As the group auditor, we determine whether the subsequent event has already been identified by group management and whether it is already appropriately reflected in the group financial statements.

If group management is not aware of the subsequent event(s), we consider whether this is as a result of a control deficiency and whether additional procedures are to be performed related to subsequent events.

We also consider the guidance in Subsequent Events, as to whether such [subsequent events are appropriately reflected in the financial statements](#).

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

International Standards on Auditing: ISA 600.51-52

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

51. In applying ISA 330,²⁹ the group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A151-A155)

²⁹ ISA 330, paragraph 26

52. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances when there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A156)

ISA Application and Other Explanatory Material: ISA 600.A151-A156

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 51)

A151. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The misstatements identified at a component may need to be considered in relation to other components; or
- The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

In such circumstances, the group auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the significant classes of transactions, account balances, or disclosures and related assertions.

A152. The evaluation required by paragraph 51 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330⁸⁸ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

⁸⁸ ISA 330, paragraph 18

A153. The group auditor may consider the engagement team's exercise of professional skepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, the group auditor may consider whether matters such as those described in paragraph A17 have inappropriately led the engagement team to:

- Obtain audit evidence that is easier to access without giving appropriate consideration to its relevance and reliability;
- Obtain less persuasive evidence than is necessary in the circumstances; or
- Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory.

A154. ISA 220 (Revised)⁸⁹ requires the engagement partner to determine, on or before the date of the auditor's report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. Information that may be relevant to the group auditor's evaluation of the audit evidence obtained from the work performed by component auditors depends on the facts and circumstances of the group audit, and may include:

- The communications from the component auditors required by paragraph 45, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit;
- Other communications from the component auditors throughout the group audit, including those required by paragraph 32; and
- The group auditor's direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph 47.

⁸⁹ ISA 220 (Revised), paragraph 32

A155. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.

Evaluating the Effect on the Group Audit Opinion (Ref: Para. 52)

A156. The group engagement partner's evaluation may include a consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to common accounting policies or common controls) that may affect other components.

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

1 Evaluate whether uncorrected misstatements are material and the implications [ISA | 4443]

What do we do?

Evaluate whether uncorrected misstatements are material and the implications.

Why do we do this?

The existence of material misstatements in the financial statements is one of the reasons that can prevent us from issuing an unqualified opinion. Therefore, if we fail to evaluate whether the uncorrected misstatements are material, we may issue an inappropriate unqualified opinion.

Execute the Audit

What is an uncorrected misstatement? [ISA | 4443.1300]

An uncorrected misstatement is a misstatement that is not clearly trivial - i.e. that we accumulated - and that management has not corrected.

Does our evaluation include all uncorrected misstatements? [ISA | 4443.1400]

Yes. Our evaluation includes all uncorrected misstatements that are not clearly trivial, regardless of:

- the nature of the misstatement - e.g. misstatements in amounts or misstatements in narrative disclosures;
- who identified them - e.g. management, component auditors, or us;
- how they were identified - e.g. performing inquiries of management or performing test of details using a sample and extrapolating the error found; or
- whether they arose in the current period or prior periods.

Group Audit | Does the group auditor also evaluate uncorrected misstatements identified by component auditors? [ISA | 4443.14022]

Yes. The group engagement partner evaluates the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors).

How do we evaluate whether the uncorrected misstatements are material? [ISA | 4443.14020]

In our evaluation of whether the uncorrected misstatements are material, we think critically about everything we know about the entity and the factors that we could reasonably expect to influence the economic decisions of users of the financial statements. We perform our evaluation as follows:



Misstatements are considered material if they could reasonably be expected to influence the economic decisions of financial-statement users. Therefore, size is just one of the characteristics of the

misstatements we consider. This evaluation is not merely a simple numeric comparison, e.g. adding all misstatements and comparing the result to the materiality level for the financial statements as a whole. On the contrary, there are many facets as described in the graphic above.

[What are the methods we use to quantify and evaluate the effect of uncorrected misstatements in the financial statements?](#) [ISA | 4443.1600]

There are three methods auditors use to quantify and evaluate the effect of uncorrected misstatements on the financial statements:

- the Iron Curtain Method, also referred to as the 'balance sheet method';
- the Rollover Method, also referred to as the 'income statement method'; or
- the Dual Method. Under this method, the misstatements are analyzed under both the iron curtain and rollover methods.

In an audit conducted in accordance with the PCAOB standards, we use the dual method.

[Group Audit | How does the group auditor evaluate uncorrected misstatements of the group financial statements?](#) [ISA | 4443.1700]

We, as the group auditor, evaluate the uncorrected misstatements in the same way as we evaluate uncorrected misstatements in a stand-alone audit.

The group engagement partner's evaluation includes consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to the same accounting policies or controls) that may affect other components.

[What do we include in our audit documentation regarding our evaluation of uncorrected misstatements?](#) [ISA | 4443.1800]

We document our conclusion as to whether uncorrected misstatements are material, individually or in combination with other misstatements, and the basis for that conclusion. The basis of the conclusion may cover all the facets of our evaluation mentioned in the graphic above, including when corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to the same accounting policies or controls) that may affect other components.

[What do we do if there is a material misstatement in the financial statements?](#) [ISA | 4443.1900]

If there are uncorrected misstatements that are material to the financial statements, we express a qualified or adverse opinion, depending on the pervasiveness of the matter. The existence of a material misstatement in the financial statements is one of the reasons that can prevent us from issuing an unqualified opinion.

[What activities do we perform to evaluate uncorrected misstatements?](#) [ISA | 4443.14368]

To evaluate uncorrected misstatements, we perform the following activities:

- [Confirm and take into account final materiality level\(s\)](#)
- [Determine the method to quantify and evaluate uncorrected misstatements](#)
- [Evaluate uncorrected misstatements individually and in combination with other misstatements](#)
- [Evaluate uncorrected misstatements taking into account quantitative and qualitative factors](#)

- [Evaluate the effect of prior-period uncorrected misstatements.](#)

2 Conclude on whether sufficient appropriate audit evidence has been obtained [ISA | 4485]

What do we do?

Conclude on whether sufficient appropriate audit evidence has been obtained.

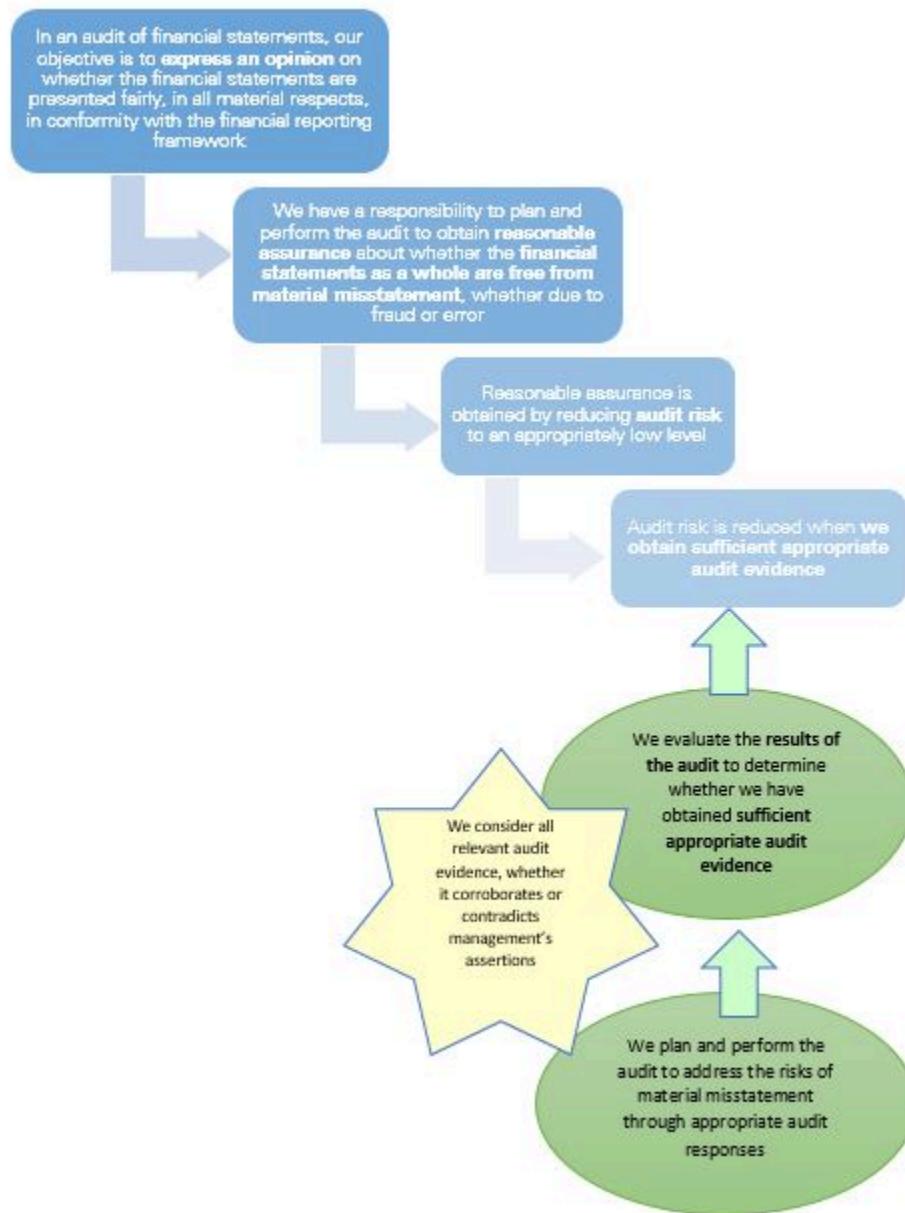
Why do we do this?

Our objective in an audit is to express an opinion on the financial statements. Obtaining sufficient appropriate audit evidence of whether the financial statements are free of material misstatement is essential for us to express our opinion. When we conclude on whether sufficient appropriate audit evidence has been obtained, we are confirming our belief that audit risk has been reduced to an appropriately low level.

Execute the Audit

[How does concluding whether we have obtained sufficient appropriate audit evidence help us express the audit opinion? \[ISA | 4485.1300\]](#)

The diagram below shows how evaluating the results of the audit to determine whether we have obtained sufficient appropriate audit evidence helps us achieve our objective - to form and express the right audit opinion on the financial statements. The blue shapes represent our professional responsibilities. The green shapes represent what we do to execute those professional responsibilities.



If we fail to obtain audit evidence, there is a possibility that our unqualified opinion will not be appropriate or properly supported.

What is the difference between considering the audit evidence throughout the audit and toward the end of the audit? [ISA | 4485.1400]

Throughout the audit, we make specific conclusions about whether sufficient appropriate audit evidence has been obtained for each risk of material misstatement (RMM) and relevant financial statement assertion. As we perform our individual audit procedures, our focus tends to be on the results of each audit procedure and on whether we obtained sufficient appropriate audit evidence for a particular RMM and/or assertion.

However, at the end of the audit, we also consider the sufficiency and appropriateness of our audit evidence collectively.

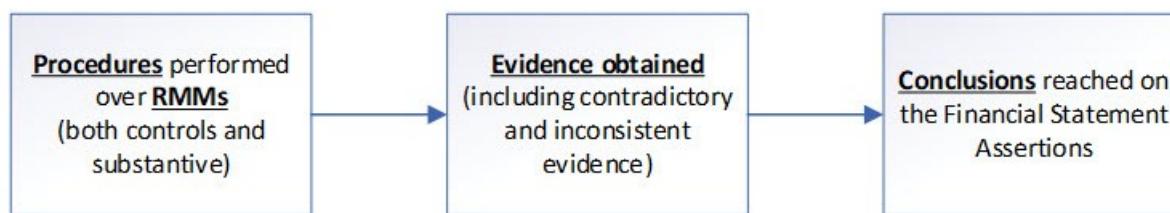
Imagine we are standing in the middle of a forest, where we can examine each tree individually or in small groups. In contrast, if we are in a helicopter, we are able to look at all trees at the same time and have a better idea of what the forest looks like overall.

This is similar to what happens in an audit. We can analyze the audit evidence obtained over each risk of material misstatement for a significant account or disclosure (a tree or group of trees). However, unless we take a step back and look at all the audit evidence we obtained overall (the forest), we may not properly consider whether we have sufficient appropriate audit evidence to support our opinion.

How do we conclude, throughout the audit, on whether sufficient appropriate audit evidence has been obtained? [ISA | 4485.1500]

Throughout the audit, we make specific conclusions about whether sufficient appropriate audit evidence has been obtained for each relevant financial statement assertion.

We obtain sufficient appropriate audit evidence performing audit procedures to address each of the RMMs related to a particular assertion. This diagram illustrates how we clearly connect the procedures performed and evidence obtained at the RMM level with the conclusions reached at the relevant assertion level:

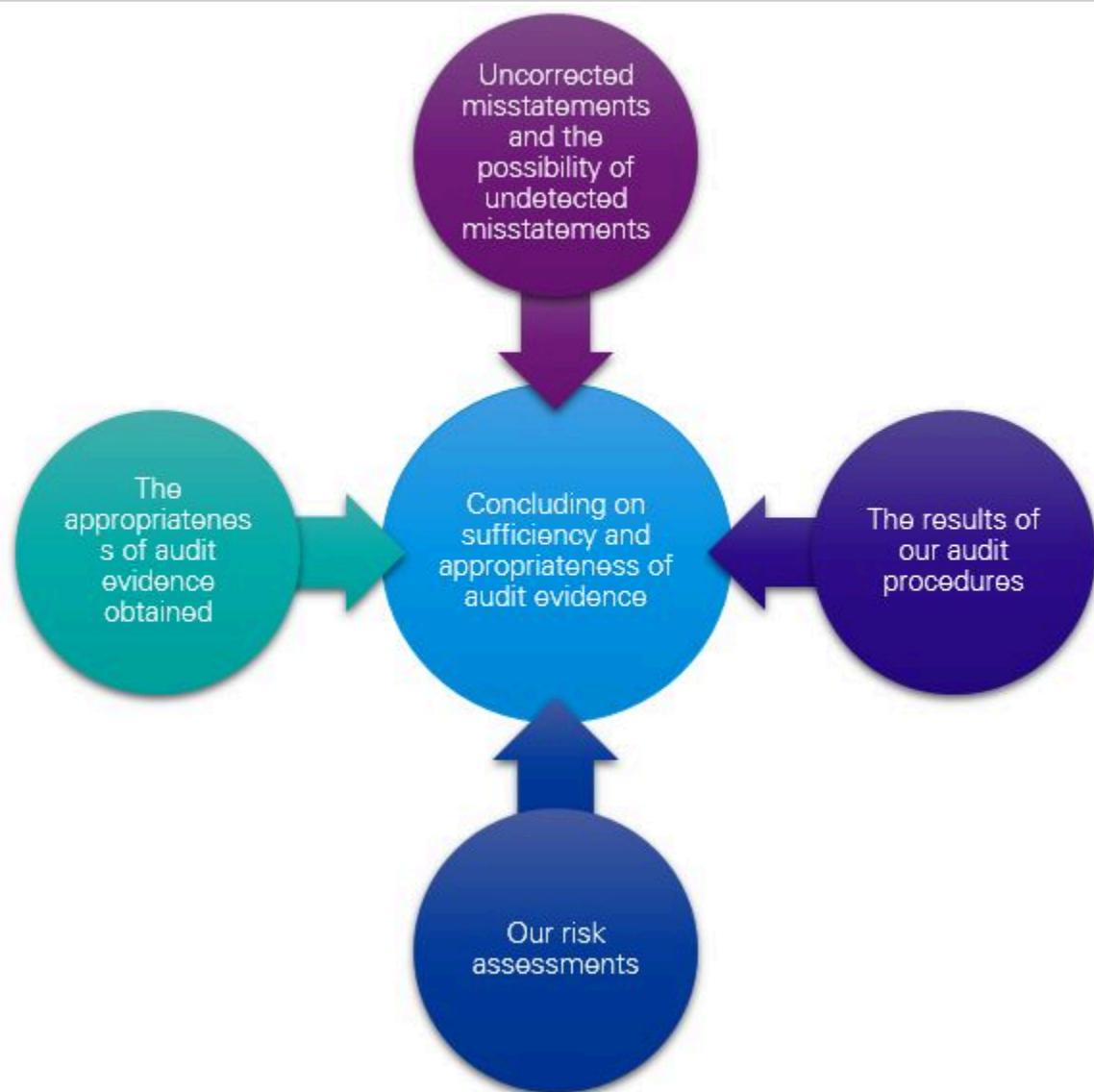


We respond to each RMM related to a particular assertion and then conclude whether the relevant assertion has been addressed overall. By documenting our procedures performed and evidence obtained for the RMMs identified, our documentation will clearly reflect our work and conclusions reached for each relevant assertion to which the RMMs relate.

How do we conclude, toward the end of the audit, on whether sufficient appropriate audit evidence has been obtained? [ISA | 4485.1600]

As part of our concluding procedures, we consider the audit evidence obtained in aggregate. In particular, we consider the following factors and weigh them together:

- The significance of uncorrected misstatements, along with the possibility of further undetected misstatements, and the likelihood of their having a material effect on the financial statements.
- The results of audit procedures performed in the audit of financial statements, including whether the evidence obtained supports or contradicts management's assertions and whether such audit procedures identified specific instances of fraud.
- Our risk assessments.
- The results of audit procedures performed in the audit of internal control over financial reporting, if the audit is an integrated audit.
- The appropriateness (i.e., the relevance and reliability) of the audit evidence obtained.



While we may have felt satisfied with the results of each procedure individually, thinking about them together may help us identify areas or elements of the audit evidence where we have concerns about the sufficiency of the audit evidence in total.

Identifying potential contradictory or inconsistent evidence plays a major part in our considerations.

For example, when we are considering the results of the audit procedures in aggregate, we notice that the entity used two different sets of income and cash flow projections to evaluate the recoverability of deferred income tax balances and goodwill.

This fact may raise concerns about whether we have reasonable assurance that the financial statements are free of material misstatement.

Group Audit | What are the additional considerations when we evaluate whether sufficient appropriate audit evidence has been obtained in a group audit? [ISA | 4485.15847]

As the group auditor, when, toward the end of the audit, we evaluate whether sufficient appropriate audit evidence has been obtained, we also consider information obtained from the work performed by component auditors and our communications with them when evaluating those factors (e.g. misstatements identified by component auditors, results of audit procedures performed, their risk assessments, etc.).

[Do accounting records alone provide sufficient appropriate audit evidence on which to base an audit opinion on the financial statements? \[ISA | 4485.8707\]](#)

While we may determine that the accounting records are internally consistent and agree to the financial statements, ordinarily accounting records alone do not provide sufficient appropriate audit evidence on which to base an audit opinion on the financial statements.

3 Obtain further audit evidence when applicable [\[ISA | 4486\]](#)

4486]

What do we do?

IF we have not obtained sufficient appropriate audit evidence, THEN perform procedures to obtain further audit evidence.

Why do we do this?

Whenever we, as the auditor in a stand-alone audit or as the group auditor, determine that we do not have sufficient appropriate audit evidence, we perform additional audit procedures. This is the last chance we have in the audit to gather all the audit evidence necessary to support our opinion.

Execute the Audit

[Group Audit | What are the considerations in a group audit when sufficient appropriate audit evidence has not been obtained? \[ISA | 4486.1300\]](#)

As the group auditor, when we have not obtained sufficient appropriate audit evidence, we may request the component auditor to perform the relevant additional procedures on a component. If it is not feasible for the component auditor to perform the additional procedures, we may perform our own procedures to obtain sufficient appropriate audit evidence.

[What do we do when we are unable to obtain sufficient appropriate audit evidence after performing additional procedures? \[ISA | 4486.1400\]](#)

When we are unable to obtain sufficient appropriate audit evidence after performing additional procedures, we express a qualified opinion or a disclaimer of opinion, depending on the pervasiveness of the matter.

Example

[How does an engagement team perform additional procedures to obtain sufficient appropriate audit evidence? \[ISA | 4486.1500\]](#)

Fact pattern

At the end of the audit, the engagement team is considering the results of the audit procedures in aggregate and notices that the entity used two different sets of income and cash flow projections to evaluate the recoverability of deferred income tax balances and goodwill.

Analysis

This fact raises concerns about whether the engagement team has sufficient appropriate audit evidence.

Because these projections are potentially contradictory, the engagement team performs a variety of additional procedures to address the matter, including:

- inquiring of management about the reason for the two sets of projections;
- corroborating the information within the projections with:
 - the budget/strategic plan from the entity's internal financial analysis team - e.g. Financial Planning and Analysis, or FP&A, department;
 - projections or guidance released to investors;
 - information presented to and approved by the Board of Directors - e.g. the annual budget or strategic plan; and/or
 - relevant industry data;
- evaluating whether the projections affect the conclusions reached or assertions made by management - e.g. do the alternative projections result in an impairment conclusion or suggest additional impairment may need to be recorded?; and
- evaluating whether using two sets of projections indicates a broader or deeper problem - e.g. management bias or fraud.

Auditor's Report

International Standards on Auditing: ISA 600.53

Auditor's Report

53. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A157-A158)

ISA Application and Other Explanatory Material: ISA 600.A157-158

Auditor's Report (Ref: Para. 53)

A157. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings or conclusions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A158. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability.⁹⁰ In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion, for example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management.

⁹⁰ ISA 705 (Revised), paragraphs 20 and 24

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

1 Group Audit | Do not refer to a component auditor in the group auditor's report [ISA | 1612]

What do we do?

Do not refer to a component auditor in the group auditor's report, unless required by law or regulation.

Why do we do this?

In accordance with Chapter 3 of the International Standards Reports Manual (ISRM), we include our responsibilities with respect to the group audit in the auditor's report on the group financial statements. However, when component auditors are involved in the group audit, no reference is made to the component auditors in the group auditor's report, unless required by law or regulation, because to do so may cause a reader to misinterpret the degree of our responsibility, as the group auditor.

Execute the Audit

Can we refer to component auditors in the group auditor's report? [ISA | 1612.1300]

As the group auditor, we do not make reference to component auditors in the group auditor's report, unless required by law or regulation to include such reference.

As a reminder, in accordance with Chapter 3 of the ISRM, the Auditor's Responsibilities for the Audit of the Financial Statements section of the group auditor's report describes our responsibilities in the group audit engagement by stating that:

- our responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements;
- we are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit; and
- we remain solely responsible for the auditor's opinion.

Component auditors, including KPMG and non-KPMG component auditors, are part of the group engagement team and perform work on the financial information of components. They are, therefore,

responsible for their findings or conclusions. However, we are responsible for the opinion on the group audit. Making reference to component auditors in the Auditor's Responsibilities for the Audit of the Financial Statements section of the group auditor's report, or anywhere else in the report, may cause a reader to misinterpret our degree of responsibility, as the group auditor.

[What do we include in the group auditor's report when law or regulation requires us to make reference to a component auditor?](#) [ISA | 1612.13492]

When law or regulation requires us to make reference to a component auditor, as the group auditor, we indicate in the group auditor's report that the reference to the component auditor does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion.

[What if the group audit opinion is modified due to not being able to obtain sufficient appropriate audit evidence related to a component?](#) [ISA | 1612.13491]

If we, as the group auditor, modify the group audit opinion because we are unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, as indicated by Chapter 4 of the ISRM, we describe the reasons for that inability in the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements.

In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion.

For example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management.

See Chapter 4 of the ISRM for information when modifying the group auditor's opinion.

[Where do we find additional information and example reports of when we make reference to a component auditor?](#) [ISA | 1612.13493]

Section 3.890 of the ISRM has additional information and example reports of when we make reference to a component auditor.

Communication with Group Management and Those Charged with Governance of the Group International Standards on Auditing: ISA 600.54-58

Communication with Group Management

Communication of Identified Deficiencies in Internal Control

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

54. The group auditor shall communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group. (Ref: Para. A159)

55. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 45(h)), or information indicates that a fraud may exist, the group auditor shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A160)

56. A component auditor may be required by statute, regulation or other reasons to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group auditor shall request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A161-A162)

Communication with Those Charged with Governance of the Group

57. The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised)³⁰ and other ISAs: (Ref: Para. A163)

- a. An overview of the work to be performed at the components of the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A164)
- b. Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.
- c. Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
- d. Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.

³⁰ ISA 260 (Revised), Communication with Those Charged with Governance

58. In applying ISA 265,³¹ the group auditor shall determine whether any identified deficiencies in the group's system of internal control are required to be communicated to those charged with governance of the group or group management. In making this determination, the group auditor shall consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 45(g). (Ref: Para. A165)

³¹ ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

ISA Application and Other Explanatory Material: ISA 600.A159-A165

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

Communication with Group Management (Ref: Para. 54-56)

A159. The group audit may be complex due to the number and nature of the entities and business units comprising the group. In addition, as explained in paragraph A7, the group auditor may determine that certain entities or business units may be considered together as a component for purposes of planning and performing the group audit. Therefore, discussing with group management an overview of the planned scope and timing may help in coordinating the work performed at components, including when component auditors are involved, and in identifying component management (see paragraph A24).

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

⁹¹ ISA 240, paragraphs 41-43

A161. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.
- Significant legal agreements.

A162. Group management may inform the group auditor about non-compliance or suspected non-compliance with laws or regulations in entities or business units within the group. Paragraph A87 provides guidance for the group engagement partner in these circumstances.

Communication with Those Charged with Governance of the Group (Ref: Para. 57)

A163. The matters the group auditor communicates to those charged with governance of the group may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 57(a) may be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 57(b) may be communicated at the end of the audit, and the matters referred to in paragraph 57(c)-(d) may be communicated when they occur.

A164. ISA 260 (Revised)⁹² requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. For a group audit, this communication helps those charged with governance understand the group auditor's determination of the components at which audit work will be performed, including whether certain of the group's entities or business units will be considered together as a component, and the planned involvement of component auditors. This communication also helps to enable a mutual understanding of and discussion about the group and its environment (see paragraph 30) and areas, if any, in which those charged with governance may request the group auditor to undertake additional procedures.

⁹² ISA 260 (Revised), paragraph 15

Communication of Identified Deficiencies in Internal Control (Ref: Para. 58)

A165. The group auditor is responsible for determining, on the basis of the audit work performed, whether one or more identified deficiencies, individually or in combination, constitute significant deficiencies.⁹³ The group auditor may request input from the component auditor about whether an identified deficiency or combination of deficiencies at the component is a significant deficiency in internal control.

⁹³ ISA 265, paragraph 8

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

1 Communicate control deficiencies [ISA | 4136]

What do we do?

Communicate control deficiencies to management and those charged with governance.

Why do we do this?

The communications with those charged with governance and management are an integral part of every audit. We perform these communications because they foster improved financial reporting, which benefits stakeholders.

Execute the Audit

What are the reasons the communications of control deficiencies matter? [ISA | 4136.1300]

There are several reasons for which our communications matter:

- Communicating control deficiencies to those charged with governance assists them in fulfilling their oversight responsibilities.
- Our communications with management recognize management's responsibility for the preparation and fair presentation of the financial statements, and for the design, implementation and operating effectiveness of internal controls.

- Our communications make management and those charged with governance aware of the entity's control deficiencies, which gives them a better chance to correct them. Improved financial reporting benefits stakeholders.
- Communications with management and those charged with governance give them the opportunity to explain why the deficiencies occurred so that we are able to obtain additional information and enhance our understanding of the deficiencies and their potential impact on the audit. The audit benefits from robust two-way communications with management and those charged with governance.

Who are those charged with governance? [ISA | 4136.1400]

Those charged with governance are the person(s) or organization(s) - e.g. a corporate trustee - with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes oversight of the entity's internal control related to the achievement of the entity's objectives, including reliability of financial reporting, effectiveness and efficacy of operations and compliance with applicable laws and regulations.

Those charged with governance may include management personnel - e.g. executive members of a governance board or an owner-manager.

What steps do we take when communicating control deficiencies to management and those charged with governance? [ISA | 4136.1500]

When communicating control deficiencies to management and those charged with governance, we take the following steps:

- [Determine what control deficiencies to communicate to whom](#)
- [Determine when to communicate control deficiencies](#)
- [Determine form of communications about control deficiencies](#)

1.1 Determine what control deficiencies to communicate to whom [ISA | 4137]

What do we do?

Communicate significant deficiencies to management and those charged with governance, and control deficiencies to management.

Why do we do this?

Different parties within the entity may be more appropriately placed to respond to the control deficiencies. The severity of the deficiency therefore determines the party to which we communicate it.

Execute the Audit

To whom do we communicate each type of control deficiency? [ISA | 4137.1300]

Our conclusion on the severity of the control deficiencies determines to whom we communicate them. The table below shows to whom we communicate control deficiencies depending on their severity.

Severity of deficiencies	Communications to	
	Those charged with governance	Management
Significant deficiencies	X	X
Other control deficiencies that merit management's attention		X

How do we determine whether a control deficiency merits management's attention? [ISA | 4137.11049]

To determine whether a control deficiency merits management's attention we think about the likelihood and potential magnitude of misstatements that may arise in the financial statements as a result of those deficiencies.

Do we communicate other control deficiencies to management if others have already communicated those deficiencies? [ISA | 4137.11050]

Not necessarily. It is good practice to communicate all deficiencies that we are aware of to management. However, it is not necessary to communicate deficiencies of a lesser magnitude than a significant deficiency if those have already been communicated to management by internal auditors or others within the entity.

Can we communicate other control deficiencies to those charged with governance? [ISA | 4137.11051]

Yes. In some circumstances, those charged with governance may wish to be made aware of the details of other deficiencies in internal control we have communicated to management, or be briefly informed of the nature of the other deficiencies.

Alternatively, we may consider it appropriate to inform those charged with governance of the communication of the other deficiencies to management.

What are examples of control deficiencies related to accounting estimates? [ISA | 4137.11052]

Examples of control deficiencies related to accounting estimates include those related to controls over:

- the selection and application of significant accounting policies or principles, and the selection and application of methods, assumptions and data;
- risk management and related systems;
- data integrity, including when data is obtained from an external information source; and
- the use, development and validation of models, including models obtained from an external provider, and any adjustments that may be required.

Do we communicate control deficiencies that we identified during the audit and that management have already remediated? [ISA | 4137.1400]

Yes. We communicate deficiencies that we identified during the audit regardless of whether they have been remediated.

Do we communicate control deficiencies that management and those charged with governance do not intend to remediate? [ISA | 4137.1500]

Yes. For control deficiencies identified in the current year audit, management and those charged with governance may have chosen not to remediate them because of cost or other considerations. Nevertheless, we communicate control deficiencies identified in the current year audit regardless of management's and those charged with governance's intent with respect to the deficiencies.

For deficiencies identified in the prior year audit that management and those charged with governance chose not to remediate, we may choose to not repeat the communication of those control deficiencies in the current period. It may, however, be appropriate for us to re-communicate these if there has been a change in management, or if new information has come to our attention that alters our prior understanding or assessment of the deficiencies.

Group Audit | What do we consider when determining what control deficiencies to communicate to group management and those charged with governance of the group in a group audit? [ISA | 4137.1600]

As the group auditor, in making the determination of what control deficiencies to communicate to group management and those charged with governance of the group, we consider:

- deficiencies identified by the group auditor at both the group level and component level; and
- deficiencies at the component level identified by component auditors and communicated to the group auditor in connection with the audit procedures performed.

Component Audit | When may it be appropriate for us, as the component auditor, to discuss identified control deficiencies with management of the entity or business unit? [ISA | 4137.159629]

When we, as the component auditor, identify a deficiency in internal control, it may be appropriate for us to discuss the deficiency with component management to obtain information on:

- the cause of the deficiency,
- the factors to evaluate its severity and
- the effect of compensating controls, if any.

Obtaining this information may be helpful in assisting the group auditor to determine the severity of the deficiency in relation to the group audit.

Component Audit | When may it be appropriate for us, as component auditors, to communicate identified control deficiencies to those charged with governance of the entity or business unit? [ISA | 4137.159665]

Component auditors performing audit procedures at a component for the purpose of a group audit are not required to communicate control deficiencies identified as a result of performing such procedures with TCWG. However, component auditors may decide to make such communications when:

- they believe the deficiency may be a significant deficiency either to the component or the group,
- when the cause of the deficiency involves component management or
- when the component auditor concludes it would otherwise be helpful to inform those charged with governance of the deficiency.

Can we communicate other internal control matters to management and those charged with governance?

[ISA | 4137.1700]

Yes. Nothing precludes us from communicating to those charged with governance or management other internal control matters that we have identified during the audit, even if they are not required to be communicated.

Examples of other internal control matters are those in which the controls and processes could be improved even if no deficiencies were identified.

Do we repeat communications about significant deficiencies made in the prior period? [ISA | 4137.10000]

It depends. If a previously communicated significant deficiency remains, we repeat the communications as part of the current-period audit.

For example, in a previous audit we communicated a significant deficiency to management and those charged with governance regarding the absence of controls over a significant risk related to revenue recognition. If in the current-period audit remedial action has not yet been taken and that significant deficiency remains, we repeat the prior period communication.

However, if the situation for which the significant deficiency relates no longer exists, we do not repeat the communication.

For example, in a previous audit we communicated a significant deficiency to management and those charged with governance regarding the absence of controls in a part of a business that was disposed of in the current period. As the entity no longer operates the business, we do not repeat the prior period communication.

Why do we repeat the communications made in the prior period if the significant deficiency remains? [ISA | 4137.159732]

We repeat the communications made in the prior period if the significant deficiency remains because the current-period communications:

- remind management and those charged with governance about the significant deficiency that was previously communicated but not remediated;
- give management the opportunity to explain why they did not remediate the significant deficiency; and
- assist those charged with governance in fulfilling their oversight responsibilities.

A failure to act, in the absence of a rational explanation, may in itself represent a significant deficiency.

How do we perform the current-period communications? [ISA | 4137.159733]

The current-period communications may repeat the description from the previous communication, or simply refer to the previous written communications and the date of those communications.

Can we issue written communications stating that no significant deficiencies were noted during the audit of the financial statements? [ISA | 4137.1900]

Yes, if not prohibited by law, regulation or member firm policy. If management or those charged with governance request written communication stating that no significant deficiencies were noted during the audit of the financial statements, we may communicate that no significant deficiencies came to our attention.

However, a written communication indicating that no significant deficiencies were identified during the audit does not provide any assurance about the effectiveness of an entity's internal control.

Consequently, we include language in the written communication which enables those charged with governance and management to understand the context of the communication.

1.2 Determine when to communicate control deficiencies

[ISA | 4138]

What do we do?

Communicate control deficiencies in a timely manner.

Why do we do this?

Timely and relevant communications may:

- permit management and those charged with governance to correct the deficiencies timely;
- permit us to obtain additional information about the deficiency from management and/or those charged with governance timely; and
- help us to meet client expectations.

Execute the Audit

When do we communicate control deficiencies? [ISA | 4138.1300]

We make our communications of control deficiencies in a timely manner and can occur at any point during the audit depending on significance.

If we communicate the deficiencies at the end of the audit:

- for listed entities, we issue our written communication before the date of approval of the financial statements.
- for other entities, we may issue the written communication at a later date but no later than 60 days from the date of the auditor's report.

What does "in a timely manner" mean? [ISA | 4138.11059]

In a timely manner means that we act promptly, at the soonest appropriate time.

For example, if an engagement team identifies a significant deficiency, some considerations related to determining when an appropriate time to communicate this deficiency to those charged with governance include:

- How soon our next planned two-way communication with those charged with governance is planned;

- Whether timely remediation of the significant deficiency is necessary to enable us to place reliance on the control for our current year audit;
- Whether the significant deficiency relates to prevention or detection of fraud or non-compliance with laws and regulations, or whether failure to remedy on a timely basis could result in loss or fraud

Why might we communicate deficiencies during the course of the audit rather than at the end of the audit? [ISA | 4138.1400]

Communicating the deficiencies to management and/or those charged with governance during the course of the audit rather than at the end of the engagement may enable them to take corrective action as soon as possible. At the end of the engagement, it may be too late.

Consider a situation in which a student is earning poor grades and may fail the class if his performance continues. The teacher may decide that communicating the student's performance to his parents sooner rather than later may be beneficial so that they are able to help their child to improve. Communicating the child's grades to the parents through the report card at the end of the school period may be too late to enable the parents to assist.

Timely communications also help to avoid surprises at period-end. Therefore, the more timely and professional our communications are, the better client relationships we will have.

How do we determine whether to issue an interim communication? [ISA | 4138.1500]

We base the decision about whether to issue an interim communication on:

- Severity: the relative significance or severity of the matters noted; and
- Urgency for correction: the urgency with which management and/or those charged with governance may need to correct the deficiency.

We may also think of the following factors when we determine whether to issue an interim communication:

- Additional information: whether it is necessary to obtain additional information about the deficiency from management and/or those charged with governance;
- Management's awareness: whether management is already aware of the deficiency and has begun corrective action; and
- Oversight responsibilities: whether the communication will be an important factor in enabling those charged with governance to discharge their oversight responsibilities.

For example, if a significant deficiency calls into question the integrity or competence of management, or there is evidence of fraud or intentional non-compliance with laws and regulations by management, we may:

- decide to communicate in writing with those charged with governance first and
- work with them to determine the timing of communication to management, based on those charged with governance's response and planned actions.

If we communicate matters at an interim date, do we repeat the communications at the end of the audit?

[ISA | 4138.1600]

Not necessarily. If we communicate control deficiencies during the course of the audit, a communication compiling or summarizing all prior communications of deficiencies at the end of the audit is not necessary. However, we may nevertheless consider it appropriate to provide management and/or those charged with governance with a complete list of control deficiencies, especially if they request us to.

1.3 Determine form of communications about control deficiencies

[ISA | 4139]

What do we do?

Determine the form of the communications and, if applicable, prepare the written communications.

Why do we do this?

Communicating in writing underscores the importance of our communications of control deficiencies.

Execute the Audit

What form do our communications of control deficiencies take? [ISA | 4139.1300]

The form of the communications depends on the severity of the deficiency.

	Form of communication
Significant deficiencies	In writing
Control deficiencies	In writing or orally

Even if the control deficiencies are communicated orally, we document the nature and extent of our conversations in our audit documentation.

We may communicate the significant deficiencies orally in the first instance to assist management and/or those charged with governance in taking timely remedial action. Doing so, however, does not relieve us of the responsibility to communicate the significant deficiencies in writing, even if the entity remediated those deficiencies during the audit.

Although we communicate significant deficiencies in writing and we may communicate control deficiencies in writing as well, having a dialogue with those charged with governance is also a key factor in effective two-way communications.

What minimum elements do we include in our written communications of significant deficiencies? [ISA | 4139.1400]

Our written communications of significant deficiencies include:

- a description of the deficiencies and an explanation of their potential effects; and
- a statement explaining that:

-
- (i) the purpose of the audit was for us to express an opinion on the financial statements;
 - (ii) the audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
 - (iii) the matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

How do we explain the potential effects of the control deficiencies? [ISA | 4139.11073]

The potential effects of control deficiencies may be evident from the description of the deficiencies. If that is not the case, we may describe the potential effects in terms of the:

- control objectives and types of errors the control was designed to prevent, or detect and correct; or
- risks of misstatement that the control was designed to address.

In any case, it is not necessary to quantify the potential effects.

What other elements might we include in our written communication of control deficiencies? [ISA | 4139.1500]

We may also include:

- a statement that if we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported, or concluded that some of the reported deficiencies need not, in fact, have been reported;
- a statement that such communication has been provided for the purposes of those charged with governance, and that it may not be suitable for other purposes;
- suggestions for remedial action on the deficiencies;
- If management's response is included in a document containing our written communications, a statement as to whether or not we have undertaken any steps to determine whether management's responses have been implemented.

Law or regulation may require us or management to furnish a copy of our written communication on significant deficiencies to appropriate regulatory authorities. When this is the case, our written communication may also identify such regulatory authorities.

Can management include a written response in a document containing our written communications?

[ISA | 4139.11074]

Yes. Management may wish to, or may be required by a regulator to, prepare a written response to our communication about control deficiencies identified during the audit.

This response may include:

- a description of corrective actions that the entity took;
- the entity's plans to implement new controls; or
- a statement indicating that management believes the cost of correcting a control deficiency would exceed the benefits.

Can employed KPMG specialists and/or specific team members be involved in preparing written communications of control deficiencies? [ISA | 4139.1600]

Yes. When we identify deficiencies in internal control that arise from the work performed by employed KPMG specialists and/or specific team members, we may involve that person in preparing or reviewing the content of the communications to management and/or those charged with governance.

For example, specific team members with expertise in IT may be actively involved in the communications about control deficiencies that relate to information technology.

2 Communicate identified or suspected fraud to the appropriate level of management [ISA | 836]

What do we do?

IF we determine there is evidence that fraud may exist, THEN communicate the matter to the appropriate level of management

Why do we do this?

We communicate identified and suspected fraud to management so they can appropriately respond - for example, by investigating the matter and taking corrective actions when necessary.

Execute the Audit

How do we communicate fraud to management? [ISA | 836.11692]

We communicate with management either orally or in writing, depending on the circumstances, unless specifically stated.

Even if we communicate in writing, having a dialogue with management is a key part of effective two-way communications.

What information do we include in our communication of identified or suspected fraud? [ISA | 836.11693]

Our communications related to fraud include (i) a description of the fraud, (ii) the circumstances surrounding the fraud, and (iii) the effect of the fraud on the financial statements. Our communications may also include a description of the possible consequences of the fraud and the recommended course of action to be followed, when appropriate.

What factors do we think about to determine the form of the communication? [ISA | 836.11694]

We think about the following factors in determining the appropriate form of our communications:

- how significant the matter is;
- whether the matter will be included in the auditor's report;
- whether the matter has been satisfactorily resolved;
- whether management has previously communicated the matter;
- whether the nature of the matter is complex;
- our experience with the past effectiveness of oral and written communications; and
- whether, in our professional judgment, oral communication is inadequate based on the circumstances.

In the case of audits of smaller entities, we may communicate with management in a less structured manner than in the case of larger entities.

[What is the appropriate level of management to communicate identified or suspected fraud?](#) [ISA | 836.1300]

Ordinarily, the appropriate level of management is at least one level above the person(s) who appear to be involved with the identified or suspected fraud.

We also take into account factors such as the likelihood of collusion and the nature and magnitude of the suspected fraud. If we believe there is a likelihood of collusion or the nature and magnitude of the fraud may be pervasive and involve other members of management, we may determine it is necessary to communicate the matter directly to those charged with governance.

Entities may designate certain members of management, such as a Chief Compliance Officer, who are responsible for the prevention and detection of fraud at an entity and the communication of actual or suspected fraud to those charged with governance of the entity. When we have no reason to believe these individuals are involved in the actual or suspected fraud, we may communicate actual or suspected fraud to these individuals.

[When do we communicate identified or suspected fraud to management?](#) [ISA | 836.1400]

When there are no laws or regulations that limit our ability to communicate, we communicate the matter to management in a timely manner (i.e., as soon as practicable) regardless of the significance of the matter.

In certain situations, there may be laws or regulations that limit our ability to communicate actual or suspected fraud. In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity. For example, when we are required to report the fraud to an appropriate authority pursuant to anti-money laundering legislation.

In these circumstances, the issues may be complex and we may consider it appropriate to obtain legal advice.

[What if identified or suspected fraud causes or could cause a material misstatement to the financial statements?](#) [ISA | 836.1600]

When identified fraud causes a material misstatement or there is a reasonable possibility it could cause a material misstatement to the entity's financial statements, we communicate the matter to management.

[How do we determine whether identified or suspected fraud causes or could cause a material misstatement to the financial statements?](#) [ISA | 836.11696]

We think about both the quantitative and the qualitative impact of materiality when evaluating the impact of the identified or suspected fraud on the financial statements.

[What are some quantitative indicators that fraud causes a material misstatement to the financial statements?](#) [ISA | 836.11698]

Quantitative indicators that identified or suspected fraud causes a material misstatement to the financial statements include:

- the quantitative impact of the fraud on the entity's financial statements is greater than materiality;
- contingent monetary effects, such as fines, penalties, and damages or loss contingencies resulting from the identified or suspected fraud are greater than materiality; and

[What are some qualitative indicators that fraud causes a material misstatement to the financial statements?](#) [ISA | 836.11699]

Qualitative indicators that identified or suspected fraud causes a material misstatement to the financial statements:

- the nature of the identified or suspected fraud could cause actual or potential significant harm might be caused to investors, creditors, employees or the general public (i.e. matters of public interest); and
- the nature of the identified or suspected fraud could have significant effects on the reputation of the entity, management, or those charged with governance.
- the nature of the identified or suspected fraud could have a significant impact to the entity's ability to be in compliance with its financial debt covenants

[When is an identified or suspected fraud matter considered to be insignificant?](#) [ISA | 836.11701]

Certain instances of actual or suspected fraud may be considered insignificant such as cash or product/merchandise defalcations of an immaterial value by non-management personnel, where the entity has properly addressed such matters in the ordinary course of business. Such items are considered to be clearly inconsequential to the audit.

[What if we have doubts about the integrity or honesty of management?](#) [ISA | 836.11702]

When we have doubts about the integrity or honesty of management, we may consult with legal counsel, such as OGC, to assist in determining the appropriate course of action.

[Group Audit | What is different in communicating fraud to management in the context of a group audit?](#)

[ISA | 836.1700]

Actual or suspected fraud may be identified directly by the group auditor, or brought to its attention by a component auditor. In this regard, component auditors communicate to the group auditor significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud. When the group auditor identifies actual or suspected fraud that impacts the component, such communication is also made to the component auditor.

The group auditor communicates these matters to the appropriate level of group management.

3 Group Audit | Communicate with group management about significant matters related to components subject to statutory audit that management of the entity or business unit is not aware of, and consult when necessary

[ISA | 1604]

What do we do?

IF a component auditor is engaged to perform a statutory audit of an entity or business unit that forms part of the group AND we determine that management of that entity or business unit is not aware of a significant matter related to its financial statements, THEN we discuss with group management the need for them to communicate the significant matter to management of the entity or business unit and consult when necessary.

Why do we do this?

In addition to reporting to the group auditor, a component auditor may also be engaged to perform a statutory audit and express an audit opinion on the financial statements of an entity or business unit. In these situations, we, as the group auditor, take appropriate measures so that matters that may be relevant to the statutory audit of the business unit or entity are communicated by group management to the management of the entity or business unit. This is to enable us to fulfill our professional responsibilities to the component auditor to make sure that they have all the relevant information to enable them to form an appropriate audit opinion.

Execute the Audit

[What are the additional considerations when the component auditor also performs a statutory audit? \[ISA | 1604.1300\]](#)

As the group auditor, we think about whether there is any information we believe group management ought to communicate to management of the entity or business unit, where management of the entity or business unit may be unaware. For those matters we believe may be significant to the business unit or entity's financials, we also request group management to inform the management of the entity or business unit.

Examples of matters that may be significant to the financial statements of the component of which management of the entity or business unit may be unaware include the following:

- Potential litigation
- Plans for abandonment of material operating assets
- Subsequent events
- Significant legal agreements

[What do we do when the group management refuses to communicate certain matters to management of the entity or business unit? \[ISA | 1604.1400\]](#)

Group management may refuse to communicate certain matters to management of the entity or business unit, for example when the matter relates to material sensitive information and there are confidentiality concerns. If this occurs, the group auditor discusses the matter with those charged with governance of the group.

If the matter remains unresolved, we as the group auditor consider whether to advise the component auditor not to issue their auditor's report on the financial statements of the component until the matter is resolved.

We consider any applicable legal and professional confidentiality obligations when discussing matters with component auditors.

[Does the group auditor consult with other parties in these circumstances?](#) [ISA | 1604.13437]

We consider whether to consult with the risk management partner if the matter remains unresolved.

4 Group Audit | Communicate specific group audit matters with TCWG

[ISA | 1605]

What do we do?

Communicate specific group audit matters with those charged with governance of the group.

Why do we do this?

We, as the group auditor, communicate certain specific matters related to the group audit to those charged with governance of the group because these communications are important for those charged with governance of the group to exercise their oversight responsibilities.

Execute the Audit

[What are the group audit specific matters that are communicated to those charged with governance of the group?](#) [ISA | 1605.1300]

As the group auditor, we communicate the following to those charged with governance of the group:

- An overview of the work to be performed at the components of the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors.
- Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.
- Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
- Fraud or suspected fraud involving group management, management of the entity or business unit, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.

We also communicate matters brought to our attention by component auditors that we consider to be significant to the responsibilities of those charged with governance of the group.

These communications above are in addition to the communications outlined in *Communication With Those Charged With Governance* ([ISA 260](#)).

[How does the group auditor communicate these matters to TCWG of the group?](#) [ISA | 1605.1500]

As the group auditor, we consider the guidance in *Communication With Those Charged With Governance* ([ISA 260 / AU-C 260](#)) for determining whether to communicate matters orally or in writing.

For communications provided in writing, we use the relevant available templates.

When does the group auditor communicate these matters to TCWG of the group? [ISA | 1605.1600]

As the group auditor, we communicate these matters on a timely basis.

Communication with those charged with governance of the group occurs at various times during the group audit.

For example, an overview of the type of work to be performed on the financial information of the components and an overview of the group auditor's planned involvement in the work of component auditors may be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, concerns about the quality of a component auditor's work may be communicated at the end of the audit. Limitations on the group audit or fraud or suspected fraud may be communicated when they occur.

What if there are changes to the planned or actual involvement in the work performed on component information, or in the nature of our response to fraud risks? [ISA | 1605.13471]

The group auditor may update communications with those charged with governance if there is a decision to make significant changes to work to be performed on the financial information of components or in the nature of the group auditor's involvement in response to fraud risks or significant matters identified during the course of the group audit.

5 Group Audit or Component Audit I Communicate Audit Plan with Group Management [ISA | 8137]

What do we do?

Communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group.

Why do we do this?

We discuss with group management an overview of the planned scope and timing, including an overview of the work to be performed at components of the group, to get a common understanding of the complexity of the group audit and the structure of the components for group audit purposes. This may help in coordinating the work performed at components, including when component auditors are involved, and in identifying component management.

Execute the audit

What else do we think about our in communication of the planned scope and timing of the audit? [ISA | 8137.159660]

When we are communicating the planned scope and timing of the audit to group management, we think about the detail necessary. In particular, we find a level of detail that is meaningful and clear, but not so detailed that it compromises the effectiveness of our audit procedures.

For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

What is the form of our communication to group management regarding our planned scope and timing of the audit? [ISA | 8137.159662]

We communicate to group management our planned scope and timing of the audit orally or in writing. Due to the nature of these communications, we usually communicate orally and in writing. Since we also communicate our planned scope and timing to those charged with governance (refer to activities '[Communicate specific group audit matters with TCWG](#)' and '[Communicate planned scope and timing of the audit](#)' for the communication to those charged with governance), we may use the same communications that we plan to make to those charged with governance to make the communications to management.

When do we communicate to group management our planned scope and timing of the audit? [ISA | 8137.159663]

We communicate matters to group management timely. In the case of our communication on our planned scope and timing of the audit, communicating early may allow us to more effectively incorporate the additional risks informed by group management, if any, into our audit strategy and audit plan.

What if there are changes to the planned scope and timing of the audit? [ISA | 8137.159664]

We may update communications with group management if there is a decision to make significant changes to our planned scope and timing of the audit during the course of the group audit.

Documentation

International Standards on Auditing: ISA 600.59

Documentation

59. In accordance with ISA 230,³² the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying ISA 230,³³ the group auditor shall include in the audit documentation: (Ref: Para. A166-A169, A179- A182)

- a. Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
- b. The basis for the group auditor's determination of components for purposes of planning and performing the group audit. (Ref: Para. A170)
- c. The basis for the determination of component performance materiality, and the threshold for communicating misstatements in the component financial information to the group auditor.

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- d. The basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components. (Ref: Para. A171)
 - e. Key elements of the understanding of the group's system of internal control in accordance with paragraph 30(c);
 - f. The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph 47. (Ref: Para. A172-A178)
 - g. Matters related to communications with component auditors, including:
 - i. Matters, if any, related to fraud, related parties or going concern communicated in accordance with paragraph 32.
 - ii. Matters relevant to the group auditor's conclusion with regard to the group audit, in accordance with paragraph 45, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.
 - h. The group auditor's evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements.

³² ISA 230, paragraph 8

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

ISA Application and Other Explanatory Material: ISA 600.A166-A182

Documentation (Ref: Para. 59)

A166. Other ISAs contain specific documentation requirements that are intended to clarify the application of ISA 230 in the particular circumstances of those other ISAs. The Appendix to ISA 230 lists other ISAs that contain specific documentation requirements and guidance.

A167. The audit documentation for the group audit supports the group auditor's evaluation in accordance with paragraph 51 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion. Also see paragraph A154.

A168. 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).

A169. The final assembly and retention of the audit documentation for a group audit is subject to the policies or procedures of the group auditor's firm in accordance with ISQM 1.⁹⁴ The group auditor

may provide specific instructions to component auditors regarding the assembly and retention of the documentation of work performed by them for purposes of the group audit.

⁹⁴ ISQM 1, paragraphs 31(f) and A83-A85

Basis for the Group Auditor's Determination of Components (Ref: Para: 59(b))

A170. The basis for the group auditor's determination of components may be documented in various ways, including, for example, documentation related to the fulfillment of the requirements in paragraphs 22, 33 and 57(a) of this ISA.

Basis for the Group Auditor's Determination of the Competence and Capabilities of Component Auditors (Ref: Para: 59(d))

A171. ISQM 1⁹⁵ provides guidance on matters that the firm's policies or procedures may address regarding the competence and capabilities of the engagement team members. Such policies or procedures may describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors. For example, the confirmation obtained from the component auditor in accordance with paragraph 24 may include information about the component auditor's relevant industry experience. The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures.

⁹⁵ ISQM 1, paragraph A96

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work (Ref: Para. 59(f))

A172. As described in paragraph A75, the approach to direction, supervision and review in a group audit will be tailored by the group auditor based on the facts and circumstances of the engagement, and will generally include a combination of addressing the group auditor's firm policies or procedures and responses specific to the group audit. Such policies or procedures may also describe or provide guidance about the documentation of the group auditor's direction and supervision of the engagement team and the review of their work.

A173. ISA 300⁹⁶ requires the auditor to develop an audit plan that includes a description of the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. When component auditors are involved, the extent of such descriptions will often vary by component, recognizing that the planned nature, timing and extent of direction and supervision of component auditors, and review of their work, may be influenced by the matters described in paragraph A51.

⁹⁶ ISA 300, paragraph 9

A174. The group auditor's documentation of the direction and supervision of component auditors and the review of their work may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA.
- 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 for review.
- Changes in the planned nature and extent of involvement in the work of component auditors, and the reasons why (e.g., assigning more experienced engagement team members in areas of the audit that are more complex or subjective than initially anticipated).

A175. Paragraph 47 requires the group auditor to determine whether, and the extent to which it is necessary to review additional component auditor audit documentation. Paragraphs A148-A149 provide guidance for the group auditor in making this determination.

A176. Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. However, the group auditor may decide to summarize, replicate or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this ISA. Examples of such component auditor documentation may include:

- A listing or summary of the significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit;
- Matters that may need to be communicated to those charged with governance of the group; or
- Matters that may be determined to be key audit matters to be communicated in the auditor's report on the group financial statements.

A177. 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 request of a regulatory authority to review documentation related to work performed by a component auditor.

A178. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors. The electronic audit tool also may be used for audit documentation, including providing information about the reviewer(s) and the date(s) and extent of their review.

Additional Considerations When Access to Component Auditor Audit Documentation is Restricted (Ref: Para. 59)

A179. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation restrict the component auditor from providing documentation outside of its jurisdiction, or when war, civil unrest or outbreaks of disease restrict access to relevant component auditor audit documentation.

A180. The group auditor may be able to overcome such restrictions by, 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 technology, 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.

It is a matter of professional judgment whether one or more of the actions described above may be sufficient to overcome the restrictions depending on the facts and circumstances of the group audit.

A181. When access to component auditor audit documentation is restricted, the group auditor's documentation nonetheless needs to comply with the requirements of the ISAs, including those relating to the documentation of the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work. The guidance in paragraphs A148- A149 may be helpful in determining the extent of the group auditor's review of the component auditor audit documentation in these circumstances. Paragraphs A176 and A177 provide examples of circumstances in which certain component auditor audit documentation may be included in the group auditor's audit file.

A182. If the group auditor is unable to overcome restrictions on access to the component auditor audit documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A45.

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

1 Prepare audit documentation in compliance with auditing standards, legal and regulatory requirements and firm policy [ISA | 1639]

What do we do?

Prepare audit documentation in a timely manner to demonstrate that the engagement complied with auditing standards, relevant legal and regulations requirements and firm policy

Why do we do this?

In order for engagement reviewers and others to understand the work performed, we prepare audit documentation in a specific manner to evidence that our work is compliant with relevant auditing standards, firm policies and regulations.

We prepare audit documentation in a timely manner to enable those that review audit documentation to obtain timely access to the workpapers and allow for follow-up actions to be taken as appropriate.

Execute the Audit

What is audit documentation? [ISA | 1639.1300]

Audit documentation is the record of audit procedures performed, audit evidence obtained, conclusions reached, and review performed. Audit documentation can take various forms, which may include:

- Audit plans and programs;
- Analyses and schedules;
- Memos;
- Summaries of significant findings or issues;
- Letters of confirmation and representation; and/or
- Correspondences (including e-mail) concerning significant findings or issues.

What is the purpose of audit documentation? [ISA | 1639.1400]

The primary purpose of audit documentation is to support the auditor's opinion on the financial statements, and may be used by different parties - e.g. the engagement team, internal or external reviewers.

The following table illustrates examples of how the audit documentation may be used by different parties.

Engagement Team	Internal/External Reviewer
Audit documentation enables us to demonstrate that we are accountable for our work by documenting the procedures performed, the audit evidence obtained, the conclusions reached and reviews performed.	Audit documentation enables an experienced auditor, having no previous connection with the audit to understand the nature, timing and extent of the audit procedures performed to comply with the relevant auditing standards and applicable laws and regulations.
Audit documentation serves to retain a record of matters of continuing significance to future audits of the same entity.	Audit documentation assists internal and external inspection teams that review documentation to assess audit quality and compliance with auditing and related professional practice standards; applicable laws, rules, and regulations; and our own quality control policies.
Audit documentation assists our reviews of a predecessor auditor's audit documentation.	Audit documentation assists others, including advisors engaged by the audit committee or representatives of a party to an acquisition.

Audit documentation assists us to understand the work performed in the prior year as an aid in planning and performing the current engagement.	
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What is an "experienced auditor"? [ISA | 1639.12645]

An experienced auditor is an individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

- audit processes;
- relevant auditing standards and applicable laws and regulations;
- the business environment in which the entity operates; and
- auditing and financial reporting issues relevant to the entity's industry.

What is "practical audit experience"? [ISA | 1639.12646]

Practical audit experience means possessing the competencies and skills that enable the auditor to perform the audit but does not mean that the auditor has necessarily performed comparable audits.

How do we prepare audit documentation to demonstrate that the engagement complied with the auditing standards, the relevant legal and regulations, and firm policy? [ISA | 1639.10700]

We prepare audit documentation to demonstrate that the engagement complied with the auditing standards, the relevant legal and regulatory requirements, and firm policy by completing the relevant work screens in the KPMG Clara workflow attaching supporting documents, memos, etc. and performing the following activities:

- [Demonstrate work performed and maintain client confidentiality;](#)
- [Document planning, performance, and conclusion;](#)
- [Document significant findings or issues;](#)
- [Read documents in the permanent file and review prior documents annually;](#)
- [Obtain, review and retain documentation of work performed by other auditors;](#) and
- [Complete all necessary procedures prior to the report date.](#)

What do we do if we depart from the auditing standards? [ISA | 1639.10705]

If, in rare circumstances, we determine that it is appropriate to depart from the auditing standards, we document how the alternative procedures we performed achieved the aim of the standards and the reasons for the departure.

How do we prepare audit documentation in a timely manner? [ISA | 1639.10706]

We prepare audit documentation throughout the audit and assemble the final complete set of documentation upon completion of the audit

What required and other work papers do we complete? [ISA | 1639.10707]

We complete relevant work papers included in the "[KAEG Work Papers and Guidance](#) <https://alex.kpmg.com/AROWeb/bridge/25081/27887?d=INTL,US>" page that are applicable to the KPMG Clara workflow we have selected and relevant to the nature of the engagement and the entity. We attach the completed work papers to the KPMG Clara workflow.

2 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.gqrmm-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.

3 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 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.
The geographic locations of the group's operations	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.
The similarity of operations or activities across the group	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.
The structure and complexity of the group's IT environment	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.
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 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	<p>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.</p>
Acquired business	<p>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.</p>
Disposal group	<p>The pre-divestiture activity of a disposal group is a component.</p>

4 Group Audit | Determine the amount of Component Performance Materiality [ISA | 1536]

What do we do?

Determine component performance materiality as an amount lower than group performance materiality

Why do we do this?

Component performance materiality is used to plan and perform audit procedures at a component for purposes of the group audit. Therefore, component performance materiality is set at an amount lower than group performance materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds group materiality (the aggregation risk).

Execute the Audit

[What is component performance materiality?](#) [ISA | 1536.1400]

Component performance materiality is a measure we use to identify, assess and respond to risk at the account or disclosure level at the component. If we audited each account or disclosure using the group performance materiality, aggregation risk would be too high. Component performance materiality, therefore, is an amount less than group performance materiality.

[For which components is component performance materiality determined?](#) [ISA | 1536.1500]

Component performance materiality is determined for those components where audit work related to a component is performed.

[Who determines component performance materiality?](#) [ISA | 1536.1600]

The group auditor determines component performance materiality. The component auditor may have more knowledge to evaluate the factors related to aggregation risk at the component so, in practice, the component auditor may assist the group auditor in determining the component performance materiality.

[How is component performance materiality determined?](#) [ISA | 1536.1700]

We, as the group auditor, perform the following four steps to determine the amount of component performance materiality:

- (1) [Determine component materiality](#)
- (2) [Consider the factors that affect aggregation risk;](#)
- (3) [Assess the level of aggregation risk; and](#)
- (4) [Determine the amount of component performance materiality and, if applicable, lower component performance materiality for particular accounts or disclosures.](#)

We then communicate the amount of component performance materiality and, if applicable, lower component performance materiality to the component auditor (refer to activity '[Communicate to component auditors relevant materiality measures](#) ').

In circumstances where the component auditor assists in determining component performance materiality, we may discuss with the component auditors the factors for determining the level of aggregation risk at the component.

When we use the work of a component auditor performing an audit of the component financial statements for statutory, regulatory or other reasons, we [request the component auditor to provide us with their performance materiality and evaluate the appropriateness if they plan to use that performance materiality for the purpose of the group audit](#).

We document the basis for determining component performance materiality, which includes the relative size of the component and the assessed level of aggregation risk at the component, and may include any other factors considered..

How do we evaluate the appropriateness of the component performance materiality determined by the component auditor for an investment accounted for under the equity method? [ISA | 1536.12345]

When a stand-alone audit of the equity method investment is performed and we identify the equity method investment as a component, we evaluate whether the performance materiality used in the audit is appropriate for purposes of the group audit.

We consider the stand-alone performance materiality used by the investee auditor and the % used by group management to record their investment in the component as follows:

Performance materiality used by the component auditor in the investee's stand-alone audit	X	% used by group management to record its investment in the component	=	Component performance materiality
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We evaluate whether the component performance materiality above is appropriate by comparing it to our determined component performance materiality for the equity method investment. We do this by determining component materiality for the equity method investment (refer to "[How do we determine component materiality for equity method investments?](#)") and multiplying that amount by the percentage limit in activity '[Determine an amount for performance materiality](#)'.

When do we determine a lower component performance materiality for particular accounts or disclosures? [ISA | 1536.12346]

As the group auditor, when [we have determined a lower component materiality for particular accounts or disclosures](#), we also determine a lower component performance materiality to be applied to those particular accounts or disclosures.

How do we determine a lower component performance materiality for particular accounts or disclosures? [ISA | 1536.12347]

As the group auditor, we determine lower component performance materiality in the same way as component performance materiality, although using the lower component materiality level for those particular accounts or disclosures instead of component materiality.

Examples

Why do we determine component performance materiality at an amount lower than group performance materiality? [ISA | 1536.159571]

Fact pattern

Consider an audit of a group that:

- has only a significant account with a consolidated balance of \$100 million;

- has an established group materiality of \$5 million and group performance materiality of \$3.7 million;
- consists of 50 components; and
- the balance of the significant account is distributed evenly across all of those components (\$2 million in each location).

Analysis

In designing and executing an audit approach for each individual component, if we used group performance materiality of \$3.7 million as the component performance materiality, we may determine that little or no audit evidence is required at any component, which would not be appropriate. Because smaller misstatements could arise throughout the components and aggregate to an amount that is material at the group financial statements, we determine component performance materiality for each individual component at levels that are sufficiently less than group performance materiality to address aggregation risk.

Component Audit | If, as a component auditor, we are requested to perform work related to a component using component performance materiality, do we have to do so? [ISA | 1536.159572]

No, we may use a lower performance materiality. Particularly if we are performing an audit for local reporting purposes and set a lower performance materiality for that purpose, it may be appropriate to perform requested audit procedures that are the same for group and statutory purposes once based on that lower performance materiality. In such cases, if we are required by law or regulation to provide auditor's report to the group auditor it may not be appropriate to include a scope limitation for component materiality in the auditor's report to the group auditor.

However, due to timing of component audits, we may perform the procedures necessary to report to the group auditor using component performance materiality and then perform additional testing using the lower performance materiality for local reporting purposes at a later date.

5 Group Audit or Component Audit | Determine AMRT, lower AMRT and their revisions, if applicable

[ISA | 4436]

What do we do?

Determine the Audit Misstatement Reporting Threshold (AMRT) and the lower AMRT for particular accounts and disclosures. Revise those thresholds if applicable.

Why do we do this?

In an audit of the financial statements of a group, we may discover misstatements below group AMPT in more than one component. However, when aggregated, they may amount to a misstatement in an account or disclosure that is material. There is a greater possibility of this happening when the audit involves component auditors, because the group auditor may not have visibility into these smaller misstatements at every component.

As the group auditor, we determine the Audit Misstatement Reporting Threshold (AMRT) and a lower AMRT for particular accounts and disclosures to identify misstatements for which it may be appropriate to accumulate at the group level.

Execute the Audit

How do we set AMRT? [ISA | 4436.1300]

As the group auditor, we set AMRT at an amount up to 75% of group AMPT.

It is appropriate to set up an AMRT amount smaller than group AMPT to minimize the likelihood of not accumulating misstatements in the same account or disclosure that, in the aggregate, may exceed group materiality.

Consider these facts in an audit of the financial statements of an entity:

- the entity has only one significant account with a consolidated balance of \$100,000;
- the established materiality is \$5,000 and AMPT is \$250 (5% of materiality);
- the entity has 25 components;
- the balance of the significant account is distributed evenly across the 25 components (\$4,000 in each component); and
- we perform the audit procedures for one component and involve other independent auditors for the other 24 components.

During our audit procedures, we and the other auditors find a \$240 misstatement within the one significant account in each component. As those misstatements are individually below AMPT, we may not accumulate them in the SAM initially.

However, when we add them all together, the total misstatement in the account is \$6,000 (\$240 x 25 components), which is above materiality for the financial statements as a whole.

When and how do we set a lower AMRT for a particular account or disclosure? [ISA | 4436.1500]

As the group auditor, when we establish a lower group AMPT for certain accounts or disclosures, we set a lower AMRT amount for each of those particular accounts or disclosures at an amount up to 75% of lower group AMPT.

When do we revise AMRT during the audit? [ISA | 4436.1600]

As the group auditor, if, during the audit, we reduce group AMPT or reduce lower group AMPT, we revise AMRT, or lower AMRT.

6 Determine that component auditors have the appropriate competence and capabilities, including sufficient time [ISA | 1543]

What do we do?

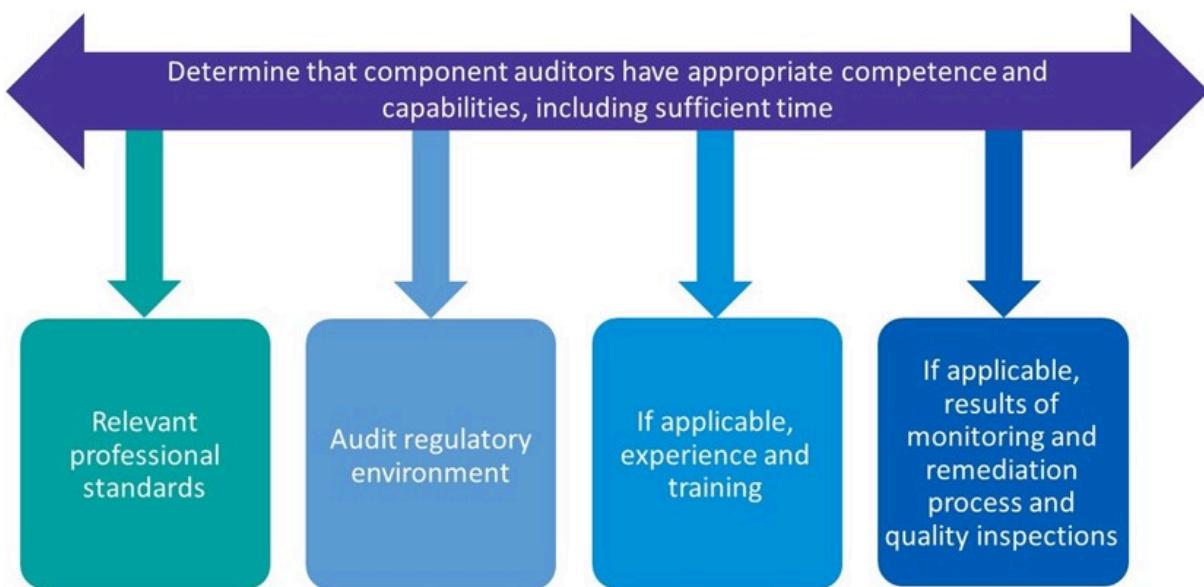
Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned procedures at the component.

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.

7 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.

8 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 - 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

	<ul style="list-style-type: none"> - 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

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

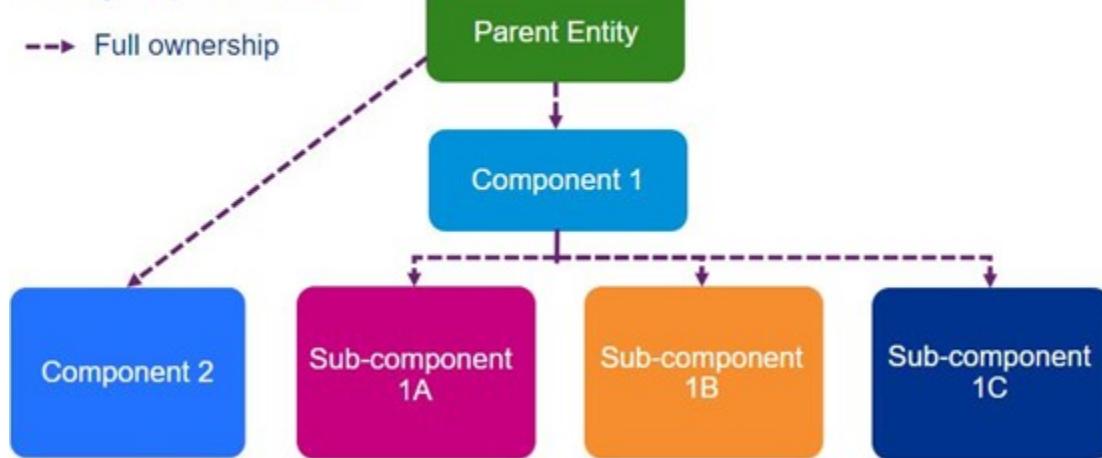
- evidence that the component auditors were adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and necessary instructions and relevant information were provided
- evidence of the group engagement partner's direction and supervision of component 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?".

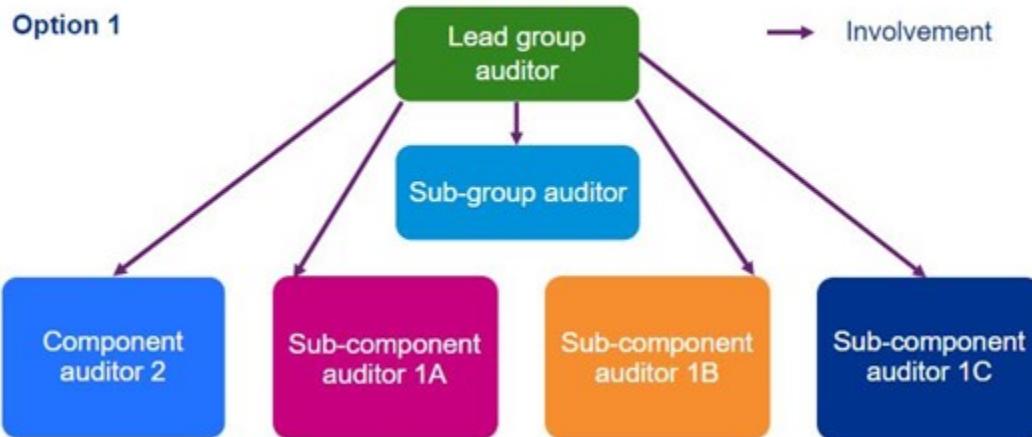
How do we determine our involvement in the component auditor's work in a group with sub-groups or multiple tiers? [ISA | 1552.1600]

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

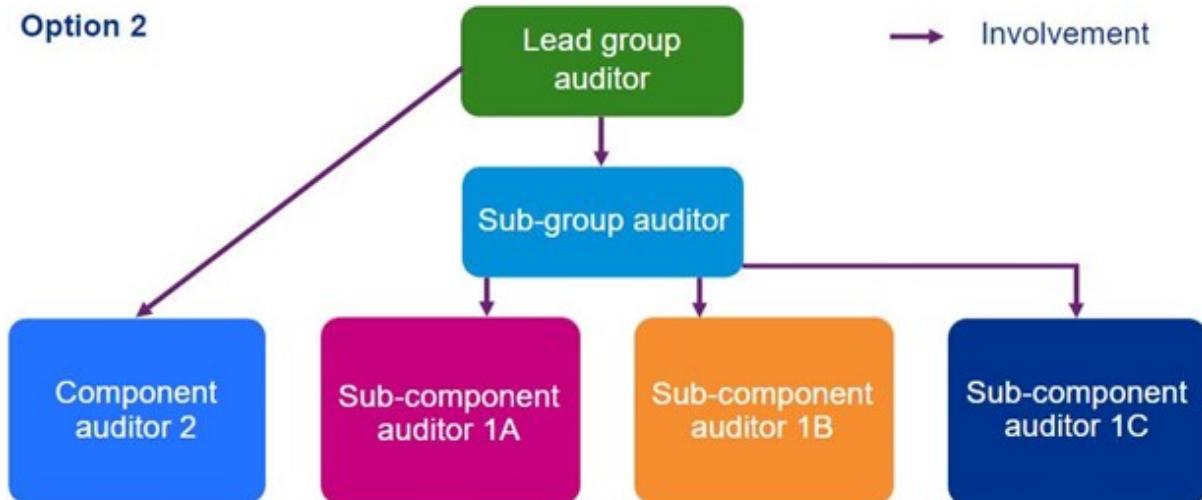


In a group with the above structure, the lead group auditor may directly direct and supervise sub-component auditors and review their work as depicted below.



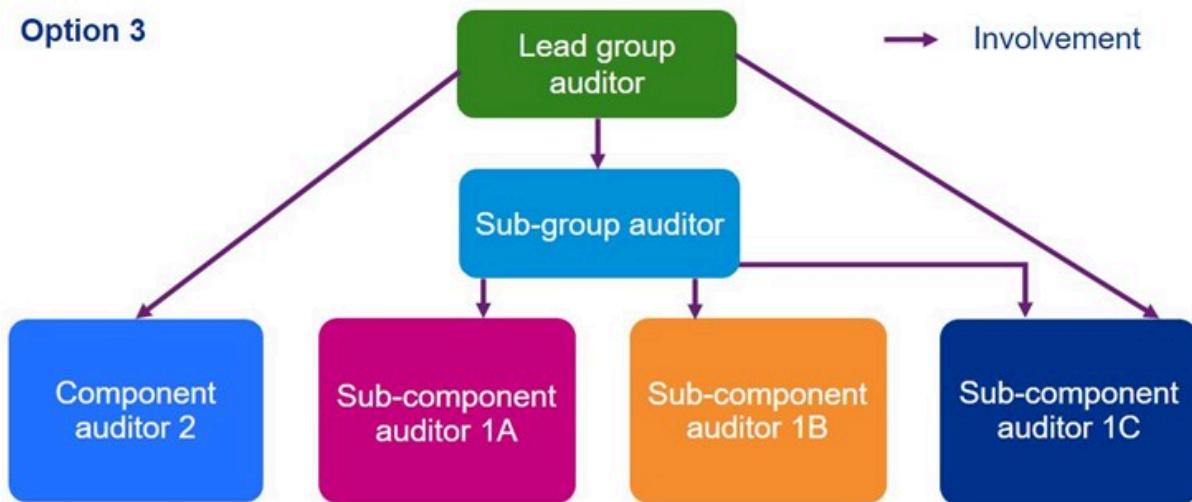
However, the lead group auditor may seek assistance from a sub-group auditor in directing and supervising the sub-component auditors and reviewing their work.

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.



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 the component auditor's scope of work (e.g. in areas where Less than Serious Concern was noted related to audit quality) - Establish expectations with the component auditor regarding the timing and extent of our planned involvement 	<ul style="list-style-type: none"> - Communicate timely any modifications to the planned audit approach, for example, as a result of misstatements or control deficiencies 	<ul style="list-style-type: none"> - Request draft written communications and review them timely
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 <small>https://www.kpmg.com/gms</small> 	<ul style="list-style-type: none"> - Hold periodic meetings throughout the audit to discuss the status of component auditor procedures, results of procedures 	<ul style="list-style-type: none"> - After reviewing their Clearance Memorandum, talk through its contents with the component auditor to enable

	<p>alex.kpmg.com/ARWeb/document/lfc/ INTL_ISADESK_GeographicalSummaries/ toc/ INTL_ISADESK_GeographicalSummaries? tocref= to guide the RAPD discussion</p> <ul style="list-style-type: none"> - 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 - 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 	<p>performed to date, and any issues and/or questions identified</p> <ul style="list-style-type: none"> - 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 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 	<p>a thorough understanding of the procedures performed and results obtained that support their communications</p> <ul style="list-style-type: none"> - Include component auditors in the Risk and Audit Quality Assessment (RAQA) meeting, if applicable, or hold separate meetings with the component auditor
Participation	<ul style="list-style-type: none"> - Participate in the process understanding procedures and/or the understanding of IT 	<ul style="list-style-type: none"> - Coordinate and perform work over certain significant accounts/disclosures 	<ul style="list-style-type: none"> - Visit the component auditor to facilitate assessment of

	<ul style="list-style-type: none"> - Perform incremental risk assessment procedures (e.g. tailored inquiries, 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 	<p>or transactions of the component centrally</p>	<p>findings and conclusions, determination of whether changes in the component auditors' approach or plan are warranted, and identifying further work that may be necessary</p>
Review of component auditor's documentation in their audit file	<ul style="list-style-type: none"> - Review the component auditor's overall audit strategy and audit plan - Review the process understanding for select areas, including the understanding of IT 	<ul style="list-style-type: none"> - Review audit documentation related to areas: <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 	<ul style="list-style-type: none"> - Review component auditor documentation 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 	
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9 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	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

total revenues of the group financial statements	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
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>

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	An identification of the audit documentation reviewed. Depending on the areas reviewed, our identification of documentation may include, for example, a description of: <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](#).

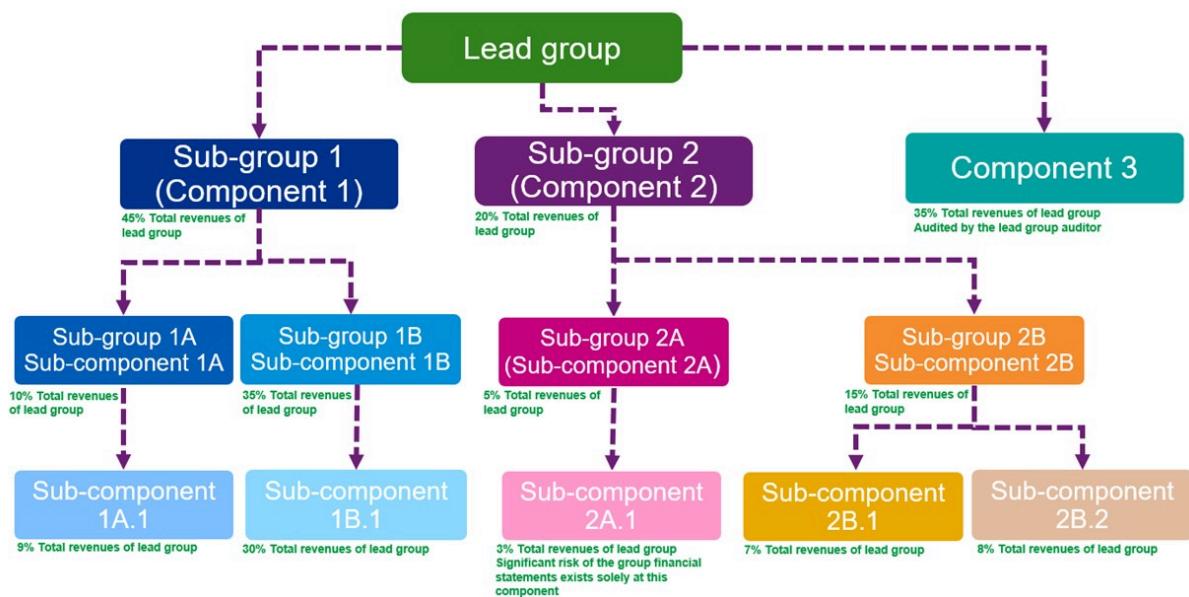
Examples

[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

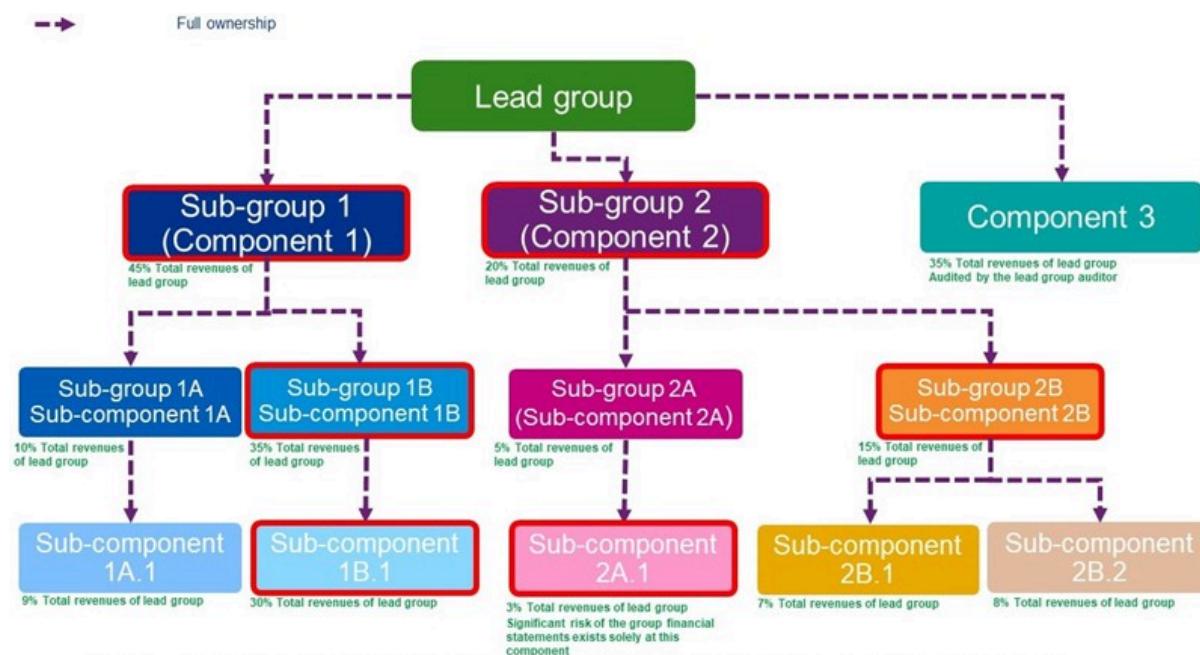
The lead group auditor applies the review criteria to the group based on the group financial statements.

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:	

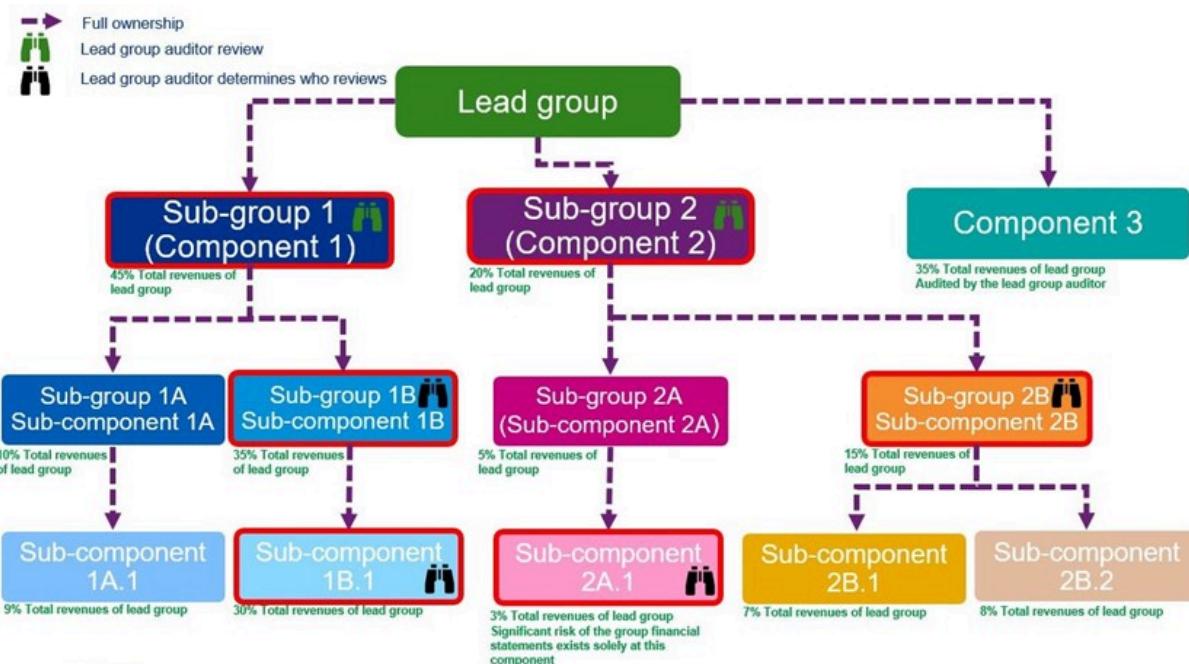
	<ul style="list-style-type: none"> the sub-component doesn't meet other risk or qualitative criteria for selecting the component to review the component auditor's audit documentation in their audit file, and the extent of our other supervisory activities over the Sub-group auditor 1 and review of their 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.

10 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:

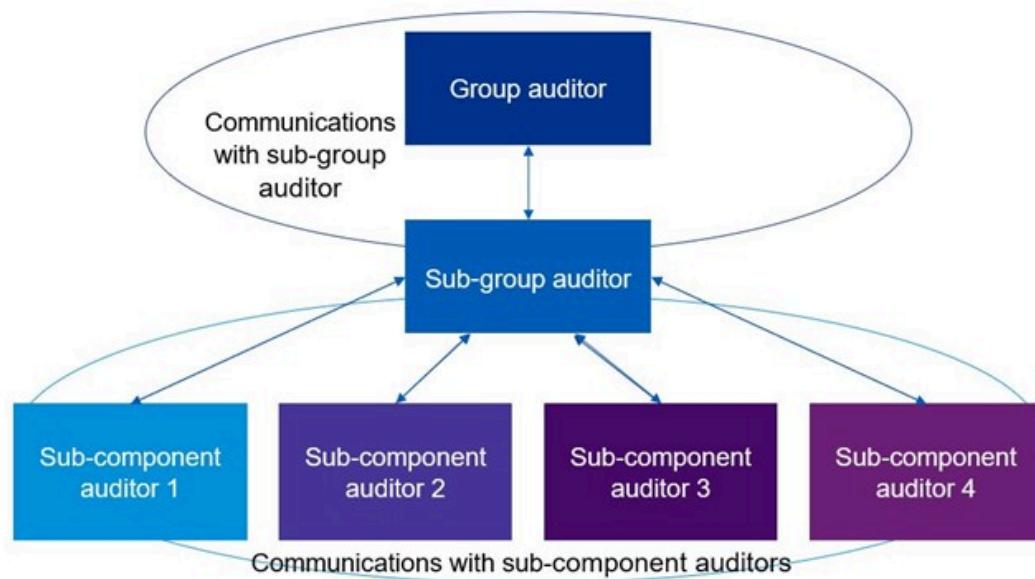
- at the beginning of the audit, i.e. during group audit planning, and
- throughout the audit, when changes to the initial communication arise.

Component auditors also communicate if they have fulfilled their responsibilities and met our expectations when they report to us.

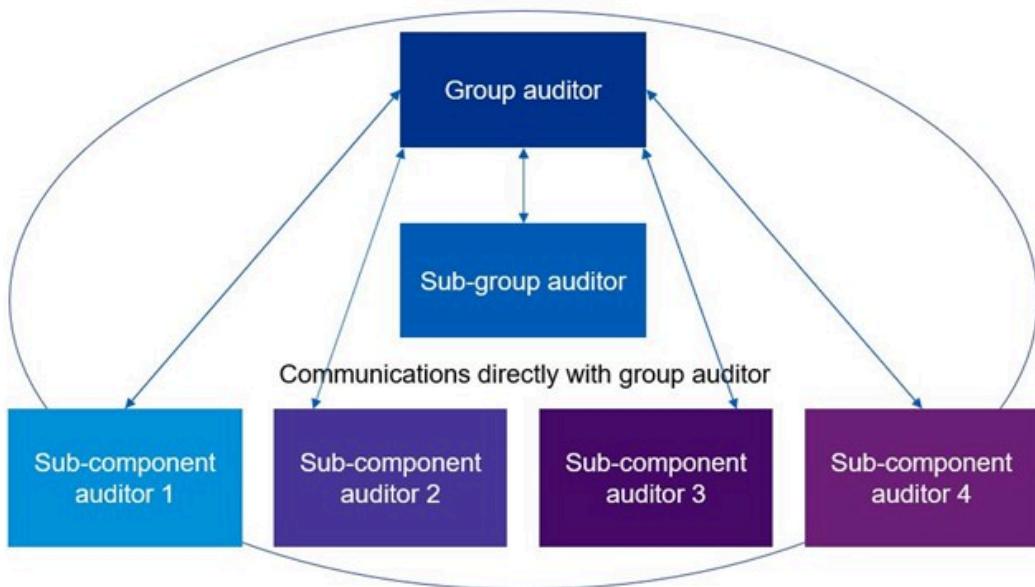
What is different regarding communications with component auditors in a group with sub-groups or multiple tiers? [ISA | 1565.159894]

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.

11 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.

12 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.

13 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).

14 Obtain, review and retain documentation of work performed by component auditors

[ISA | 1591]

What do we do?

Obtain, review and retain certain documentation related to the work performed by component auditors relevant to our conclusion with regard to the group audit.

Why do we do this?

Since all of the component auditors' work performed is not included in the group auditor's audit files, we obtain, review and retain communications from component auditors that provide evidence of the work performed, relevant to our conclusion with regard to the group audit and to support the group audit opinion.

Execute the Audit

What documentation do we obtain, review and retain from component auditors relevant to our conclusion with regard to the group audit? [ISA | 1591.1300]

As the group engagement team, we obtain, review and retain the following documentation requested from component auditors relevant to our conclusion with regard to the group audit:

Area	Matters requested / Documentation obtained
Overall findings or conclusions	<p>When performing audit work related to the component</p> <ul style="list-style-type: none"> as part of the Clearance Memorandum, certain confirmations related to the work requested to be performed, including a confirmation that the component auditor has complied with our Group Audit Instructions and performed the work requested by us. additionally, if local laws or regulations require the group auditor to receive a component auditor's report, we request and obtain such report.
	<p>When performing audit procedures designed by the group auditor.</p> <p>A description in the Clearance Memorandum of the procedures performed and the results of those procedures.</p>
	<p>When using the component's statutory audit for the group audit</p> <p>A copy of the statutory financial statements together with the auditor's report.</p> <p>We may request the component auditor to perform audit procedures on the reconciliation between the statutory financial statements and the group reporting package submitted to group management for consolidation purposes</p>
Significant matters, and other matters relevant to our conclusion with regard to the group audit	<p>A Clearance Memorandum, which includes matters from the component's engagement completion screens and activities and other matters relevant to our conclusion with regard to the group audit.</p> <p>See question "What does the Clearance Memorandum include?" for information about the content of the Clearance Memorandum.</p>
Identification and reconciliation of the financial information of the component	<p>Sufficient information to enable us to agree or reconcile the financial statement amounts audited by the component auditor to the information underlying the consolidated financial statements.</p> <p>This is achieved by obtaining a copy of the component's financial information (e.g. reports and supporting schedules included in the Group Reporting Package) that was subject to the work performed by the component auditor for purposes of the group audit.</p>

	We may request the component auditor to perform audit procedures designed by us on the group reporting package. See question " What group auditor designed procedures may we request the component auditor to perform on the component's group reporting package? " for further guidance.
Audit misstatements	A schedule of accumulated misstatements above the Audit Misstatement Reporting Threshold (AMRT), including both corrected and uncorrected misstatements. The schedule also includes a description of the nature and cause of each accumulated misstatement, and an evaluation of uncorrected misstatements, including the quantitative and qualitative factors the auditor considered to be relevant to the evaluation.
Deficiencies in internal control	A listing of all deficiencies in internal control. We, as the group auditor, conclude as to the severity of each deficiency in internal control. However, if the component auditor evaluated the severity of deficiencies in connection with its audit work related to the component, the component auditor communicates the severity of the deficiencies to us.
Final ethics and independence confirmation	A written confirmation that the component engagement team has complied, for the period covered by the group audit and through the date of the confirmation, with the ethical and independence requirements relevant to the group audit, as described in the group audit instructions. Refer to the activity ' Request the component auditors to communicate matters relevant to ethics and independence ' for further information.
Completion and document retention	Confirmation that all necessary procedures have been completed, support for all conclusions has been obtained, the audit documentation has been prepared and reviewed, and all review notes have been cleared by the date of the group auditor's report. Refer to activities ' Complete all necessary procedures prior to the date of the auditor's report ' and ' Assembly of the Final Audit File ' for additional information regarding review notes.
	Representation that the component auditor(s) will maintain separate audit documentation for the work performed to support the audit instructions issued by us

	<p>A confirmation that the KPMG component auditor will close the audit file for the documentation related to the work performed for purposes of the group audit within:</p> <ul style="list-style-type: none"> • 7 calendar days of the date of the group auditor's report for all listed entities, all banks and all insurance companies (i.e. including non-listed banks and insurance companies); or <p>14 calendar days of the date of the group auditor's report for all other entities.</p>
	<ul style="list-style-type: none"> • Confirmation that the audit documentation of the component auditor related to the work we performed as part of the group audit will be assembled by the audit file assembly date communicated by us
	<p>Confirmation that the KPMG component auditor will complete and provide the Documentation Assembly and Modification Working Paper-International or a memorandum that includes the relevant information from the working paper, if the component auditor is required to complete the Documentation Assembly and Modification Working Paper.</p>
	<p>Confirmation from KPMG component auditors (when part of another KPMG member firm) and non-KPMG component auditors, that they have and will comply with the documentation retention requirements set forth by us in the group audit instructions</p>
	<p>Confirmation from KPMG component auditors of other KPMG member firms and non-KPMG component auditors, that the audit documentation supporting the work performed for purposes of the group audit is accessible to us throughout the documentation retention period set forth in the group audit instructions</p>
Fees	If relevant to the group audit, a summary of the KPMG component auditor's fees billed for the most recent fiscal year
Letters of representations	As part of the Clearance Memorandum, any exceptions noted in the written representations that the component auditor requested from component management (see question "What does the Clearance Memorandum include?")

[What is the purpose of the Clearance Memorandum?](#) [ISA | 1591.160064]

The Clearance Memorandum facilitates effective and efficient communication to the group auditor of the significant matters related to the audit work performed at the component.

[What does the Clearance Memorandum include?](#) [ISA | 1591.160065]

The Clearance Memorandum includes the following information:

- certain confirmations related to the work requested to be performed , including a confirmation that the component auditor has complied with our Group Audit Instructions and performed the work requested by us
- any significant outstanding or unresolved matters, including those that are to be followed up by us
- significant matters, which include, but are not limited to, the following:
 - a list of significant risks of the group financial statements associated with the component, the component auditor's responses , and the results of the component auditor's related procedures,
 - significant unusual transactions, excluding related party significant unusual transactions,
 - related parties, relationships or transactions with related parties, including related party significant unusual transactions,
 - significant matters identified during the review of interim financial information, if applicable ,
 - significant matters involving the selection, application and consistency of accounting principles, including related disclosures,
 - results of auditing procedures that indicate a need for significant modification of planned auditing procedures,
 - accumulated misstatements and the existence of material misstatements (including omissions in the component's financial information) based on component performance materiality ,
 - deficiencies in internal control over financial reporting,
 - disagreements among members of the engagement team of the component auditor or with others consulted on the engagement about final conclusions reached on significant accounting or auditing matters, including the basis for the final resolution of those disagreements. If an engagement team member disagrees with the final conclusions reached, they document that disagreement,
 - circumstances that cause significant difficulty in applying auditing procedures,
 - significant changes in the component auditor's risk assessments, including risks that were not identified previously, and the modifications to audit procedures or additional audit procedures performed in response to those changes,
 - any matters that could result in modification of the component auditor's report, if one is issued,
 - sufficient information relating to significant matters that are inconsistent with or contradict the final conclusions,
- any revisions to relevant statutory materiality measures used for purposes of the group audit, (i.e. the amount of the revised statutory performance materiality and/or, if applicable, lower statutory performance materiality for particular accounts or disclosures) and the rationale for the revision,
- any findings affecting the consolidating or combining of accounts in the group's consolidated financial statements,

- information on instances of identified or suspected:
 - non-compliance with laws or regulations, including illegal acts, other than clearly inconsequential matters, or
 - fraud involving component management, employees who have significant roles in the group's system of internal control at the component, or others where the fraud resulted in a material misstatement of the component financial information, or
 - for US engagement teams, governmental agency enforcement investigations, at the component or group level,
- indicators of possible management bias,
- all matters communicated or to be communicated to those charged with governance of the component. This also includes:
 - other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component
 - any violations of applicable independence standards or regulations
 - matters for consideration to be communicated by the group auditor to those charged with governance of the group,
- any exceptions noted in the written representations that the component auditor requested from component management
- disagreements with component management about matters that, individually or in aggregate, could be significant to the component's financial information or our reporting,
- when performing audit procedures designed by us, a description of the procedures performed and the results of those procedures.
- any unusual or unexpected items identified as a result of performing final analytical procedures
- any financial statement level risks of the group financial statements where the component auditor was requested to perform procedures over these risks, the component auditor's responses, and the results of the component auditor's related procedures,
- the testing approach and results and findings related to journal entries and other adjustments, if the component auditor has been instructed to test journal entries and other adjustments
- any 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 and, if agreed with the group auditor, the component auditor's responses, and the results of the component auditor's related procedures
- any litigation, claims and assessments affecting the component that could have an impact exceeding the AMRT or that the component auditor wishes to draw to our attention,
- any consultations made by the component auditor, or matters that would have caused the component auditor to consult in a financial statement audit,
- information relevant to describe key audit matter(s)/critical audit matter(s) in the group auditor's report, if requested by us
- any other matters that may be relevant to the group audit or that the component auditor determines are appropriate to draw to our attention.

The Clearance Memorandum might include cross-references to other relevant supporting audit documentation within the component auditor's files. If so, that relevant supporting documentation is provided to us with the Clearance Memorandum.

[In what instances do we obtain the Clearance Memorandum?](#) [ISA | 1591.13502]

As the group auditor, we obtain the Clearance Memorandum from all component auditors performing audit work related to a component.

[When do component auditors provide us with the Clearance Memorandum?](#) [ISA | 1591.160067]

We request component auditors to provide us with the Clearance Memorandum on a timely basis, during completion of the audit, with sufficient time to review the Clearance Memorandum and address any issues that arise.

Additionally, when component auditors perform hard close procedures prior to year-end, we request them to provide us with a Clearance Memorandum as of the hard close date and an update as of year-end.

[What group auditor designed procedures may we request the component auditor to perform on the component's group reporting package?](#) [ISA | 1591.160068]

As the group auditor, we may request the component auditor to perform certain audit procedures designed by us that the component auditor would not already be performing as part of the scope of their work, such as:

- determine that the amounts in the general ledger and sub-ledgers of the component agree to the group reporting package to evaluate the classification of those amounts
- test the mathematical accuracy of the group reporting package
- test the movement of net equity and the reconciliation between reporting in the group reporting package and local GAAP
- test the completeness and accuracy of supporting schedules included in the group reporting package (e.g. roll forward schedule of property, plant and equipment)
- test the appropriateness of management's reconciliation from the group reporting package to the statutory financial statements to confirm their consistency with amounts submitted for the group audit and to confirm they are internally consistent
- when the component's local currency and the group's currency are different, evaluate whether the foreign currency translation of the component's financial information from the local currency to the group's currency is appropriate

[Who determines whether the audit documentation is sufficient to support the auditor's report?](#) [ISA | 1591.13513]

The engagement team issuing the report determines that audit documentation is sufficient to support the auditor's report. For a group auditor, this includes the work performed by component auditors.

[What are component auditors responsible for with regard to audit documentation?](#) [ISA | 1591.160059]

The component auditors involved in the group audit comply with the relevant audit documentation guidance included in the chapter on audit documentation ([ISA 230](#), [AU-C 230](#), [AS 1215](#)), including with respect to the audit documentation that the component auditor provides or makes accessible to the group auditor.

What do we retain in our audit documentation in relation to the component auditors' work? [ISA | 1591.1600]

As the group auditor, we retain the communications from the component auditor, such as the Clearance Memorandum and other reporting, which supports the audit procedures performed by the component auditors.

We also retain evidence of our review and evaluation of the communications received from component auditors.

When do we obtain and review communications from component auditors relevant to our conclusion with regard to the group audit? [ISA | 1591.1700]

As the group auditor, we do this before the date of the auditor's report. It is best to obtain and review the communications as soon as possible to allow sufficient time to review, perform any additional procedures necessary and properly resolve any issues that arise.

How do we determine the appropriate timing for component auditor reporting? [ISA | 1591.160069]

We think about the following, when determining the appropriate timing of component auditor reporting:

- the timing of the component auditor's work; for example, does the component auditor have sufficient time to complete the audit work related to a component, subsequent to period-end?
- the timing of our work after the component auditor's reporting; for example, do we have sufficient time to read, evaluate, respond to, where necessary, and document the conclusions on the component auditor's reporting?
- the timing of communications within the group; for example, where matters may need to be communicated at components, then up to group management;
- the timing and level of procedures to be performed by us at the group level, including procedures over the consolidation of components, evaluation of control deficiencies, audit misstatements, etc.

How do we obtain the component auditors' documentation related to their work relevant to our conclusion with regard to the group audit? [ISA | 1591.1800]

As the group auditor, we request component auditors to provide us with documentation related to their work relevant to our conclusion with regard to the group audit in writing. For KPMG component auditors, we use of 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 their work relevant to our conclusion with regard to the group audit is not always necessary, except when specifically required (e.g. confirmation of compliance with ethical and independence requirements), 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., significant matters, uncorrected misstatements).

When work is performed by the group auditor or a component auditor on behalf of a component auditor, how is the work performed communicated? [ISA | 1591.160061]

Sometimes, component auditors rely on work performed by another auditor (i.e. the group auditor or another component auditor) for purposes of their audit work related to the component or local statutory audit. For example, the group auditor may centralize the work performed over an assumption used in an estimate.

When the work performed is over the group's centralized services, the Centralized Services Scope Document and related appendices are used to communicate the work performed.

When the work performed is not over the group's centralized services and is only a centralized testing approach, there is no standard form of communication. The Centralized Services Scope Document and related appendices may be adapted for this purpose or a memorandum summarizing the work performed and the results obtained may be provided. However, the communication is not intended to contain all information necessary to enable the component auditor to complete all the fields within the relevant activities in the Workflow.

When the centralized services auditor is used for the purpose of a component's statutory audit, the communication is detailed enough to enable the component auditor to determine that work performed by the other auditor is relevant to their engagement and sufficient for their purposes.

How do we review the component auditors' documentation related to their work? [ISA | 1591.13514]

As the group auditor, we follow the guidance in the activity ["Evaluate the adequacy of component auditor's communications and discuss significant matters"](#).

Can the information in the Clearance Memorandum be shared with management or others? [ISA | 1591.1900]

Communicating certain information and matters to component or group management may impact the quality of our future audits because group and component management may be able to predict our audit procedures. Therefore, we, as the group auditor, or the component auditor do not provide component or group management with the following:

- the Clearance Memorandum in its entirety
- specific information regarding the nature, timing and extent of our audit procedures, other than matters that we are required to communicate (e.g. critical or key audit matters)
- conclusions on audit areas, significant matters or fraud risks, other than specific matters that are required to be communicated to those charged with governance (who may also be involved in managing the entity), such as our views on significant qualitative aspects of the entity's accounting practices
- disagreements among engagement team members, and
- EQC review or LSQC review procedures, findings and conclusions.

However, we may provide component or group management with a summary of certain information from the Clearance Memorandum to facilitate the discussion of reporting matters with component or group management and/or those charged with governance. Examples of these matters include:

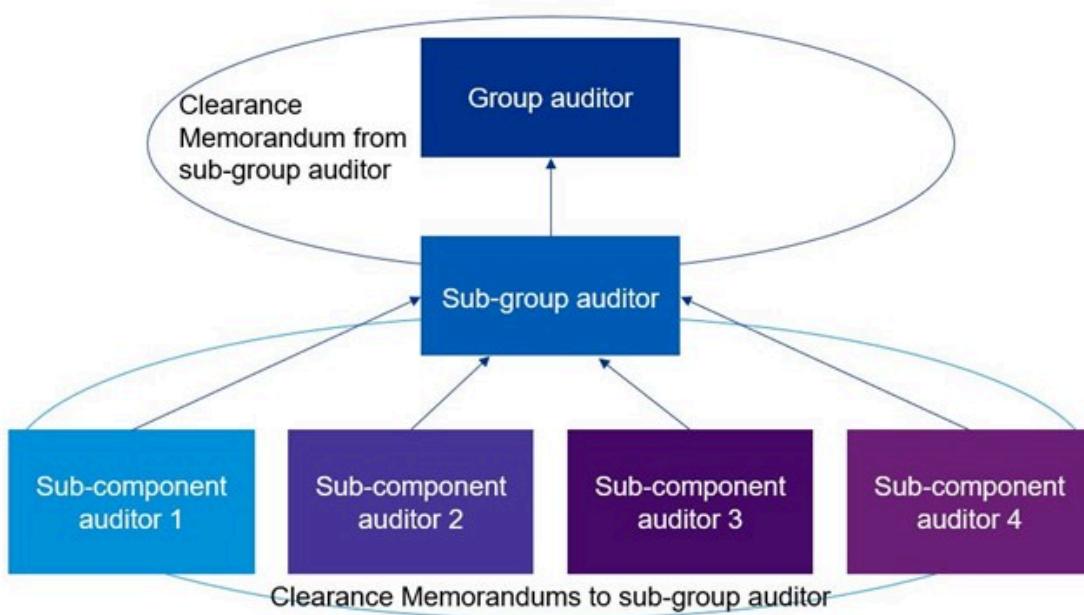
- significant matters involving the selection, application and consistency of accounting policies or principles, including related disclosures
- unusual and/or significant transactions and/or balances
- control deficiencies
- uncorrected and corrected audit misstatements
- outstanding or unresolved matters, and

- communications made or expected to be made to those charged with governance.
 - Such summaries may be common practice where component auditors hold closing meetings at the component level and certain conclusions are discussed with component management. Many times the group auditor will attend these discussions (in person or via other means), as will group management.
 - For all other parties, we follow the guidance about providing documentation in the relevant Risk Management Manual.

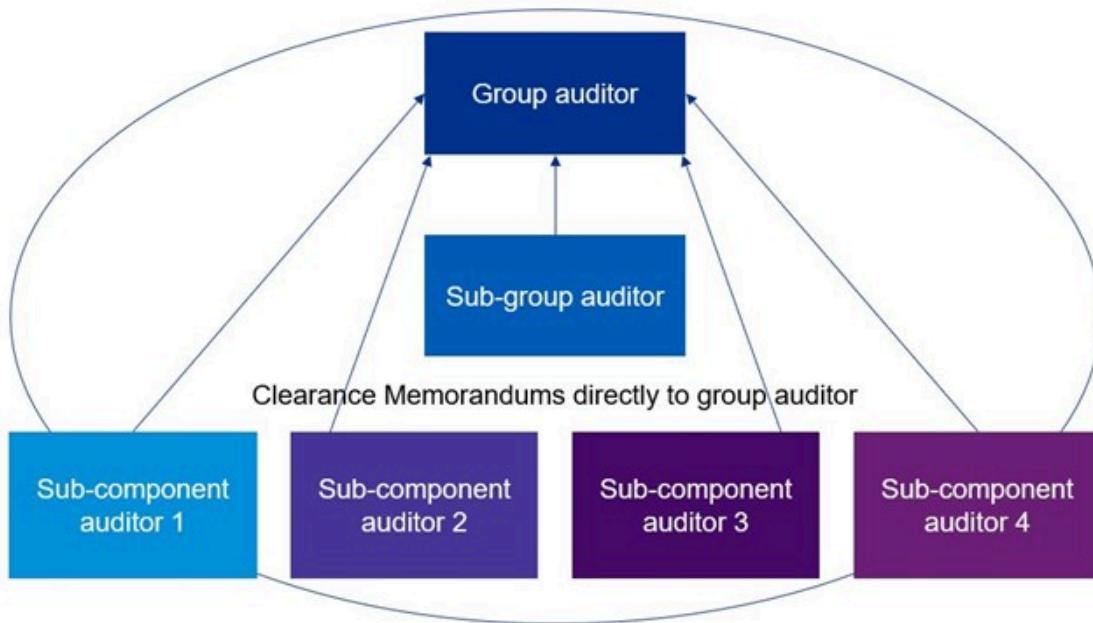
How do we obtain and review the component auditors' documentation related to their work in a multi-tiered audit? [ISA | 1591.2100]

It depends on the circumstances of the engagement. As the group auditor, we may follow one of the following approaches:

- **Sub-groups summarize underlying components:** If the sub-group auditor assists us in directing and supervising the component auditors of components within the sub-group (i.e. the sub-component auditors) and reviewing their work, the sub-group auditor communicates any findings relevant to our conclusion with regard to the group audit from the sub-component auditors to us within the sub-group auditor's Clearance Memorandum. In this case, we may also request that the sub-group auditor provides us with a copy of the Clearance Memorandum received from sub-component auditors.



- **No summarization at sub-group level** - If we directly direct and supervise sub-component auditors and review their work, we directly obtain, review and retain the sub-component auditors' Clearance Memorandum (even if the Clearance Memorandum is also delivered to the sub-group auditor), as well as the sub-group auditor's Clearance Memorandum for the work performed by the sub-group auditor.



15 Evaluate the adequacy of component auditor's communications and discuss significant matters [ISA | 1592]

1592]

What do we do?

Evaluate the adequacy of component auditor's communications and discuss significant matters as appropriate.

Why do we do this?

Evaluating the adequacy of component auditor's communications helps us, as the group auditor, to determine whether the component auditor has performed the procedures we requested them to perform and have obtained sufficient appropriate audit evidence for us to form an opinion on the group financial statements.

Execute the Audit

What constitutes component auditor's communications? [ISA | 1592.1300]

These include the communications from the component auditor to the group auditor with matters relevant to the group audit. These primarily include the communications the group auditor requests the component auditor to provide.

They may also include other written communications the component auditor believes are relevant for the group auditor to consider, even if not specifically requested by the group auditor.

Discussions between the component auditor and group auditor, throughout the audit, also form part of the component auditor communications.

How do we evaluate the adequacy of the component auditor's communications? [ISA | 1592.1400]

As the group auditor, we determine, based on reviewing the communications, discussions with the component auditors, and other information obtained by us during the group audit:

- whether the component auditor performed the procedures agreed to during the planning phase of the audit, including the use of the applicable auditing standards and KAEG for KPMG component auditors.
- whether any significant matters identified are relevant for the group audit.

We also think about whether there are any issues that we expect the component auditor to have reported and matters we may be aware of at the group level, or at other components, which are relevant to certain components. This may include:

- issues at several components that could aggregate to a bigger issue at the group level (e.g. misstatements less than AMPT in one component may need to be included on the summary of audit misstatements if the same misstatement arises in multiple components)
- trends/patterns that may be visible when looking at all components in the aggregate,
- evidence that contradicts a conclusion the group auditor reached at the group level or a component auditor reached at a different component.

For example, no significant matters were communicated by the component auditor for Component 1. When we evaluate communications from other component auditors for Components 2, 3 and 4, the component auditors for those components communicated indicators of management bias with regards to the pension liability estimate.

Based upon our knowledge that Component 1 has a material pension plan, we think about whether there may be indications of management bias at Component 1.

Some of these issues may be difficult to identify unless we step back and evaluate the results of the work that has been performed on all the components.

What is considered a significant matter? [ISA | 1592.1500]

"Significant matters" are substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached. "Significant matters" are also referred to as "significant findings or issues".

They are the matters that we include in the Clearance Memorandum.

What are the group auditor's responsibilities when we identify significant matters for the group financial statements in component auditor communications? [ISA | 1592.1700]

As the group auditor, we discuss these with the component auditor, component management, or group management, as appropriate, and evaluate whether the related communications with the component auditor are adequate for the group auditor's purposes, to determine the impact on the group audit, including whether additional procedures need to be performed, whether there is an impact to the group financial statements or the group auditor's report.

What does the group auditor do when there are significant unresolved matters identified by component auditors? [ISA | 1592.1800]

As the group auditor, we follow up on any significant unresolved matters identified by component auditors that impact the group audit.

We may not have sufficient appropriate audit evidence to form an audit opinion when there are unresolved matters from either the group or component auditors that are significant to the group audit.

We document the resolution of such matters.

What do we do when the component auditor's communication does not include all the requested communications? [ISA | 1592.1900]

As the group auditor, we discuss with the component auditor why all requested information has not been provided.

After evaluating component auditor communications we also consider whether [reviewing the component auditor's additional documentation in their audit file](#) is necessary.

What do we do when we determine that the component auditor's communication is not adequate for the group auditor's purposes? [ISA | 1592.159681]

As the group auditor, we consider the impact on the group audit if the component auditor's communication is not adequate. In this case, we may consider:

- Obtaining further information from the component auditor (e.g. through further discussions or meetings)
- [Determining whether to review additional component auditor documentation after evaluating component auditor communications](#)
- [Determining whether additional procedures are to be performed and who will perform them](#)
- Determining whether there are any concerns about the component auditor's competence or capabilities.

16 Determine whether to review additional component auditor documentation after evaluating their communications [ISA | 1593]

What do we do?

Determine, based on the evaluation of the adequacy of the component auditor's communication, whether, and the extent to which, it is necessary to review additional component auditor audit documentation in their audit file.

Why do we do this?

If we, as the group auditor, feel that we don't have a good understanding of the matters covered in the component auditor's communication, we consider how to obtain a clear understanding of matters relevant to the group audit.

Execute the Audit

How do we determine whether to review additional audit documentation of the component auditor in their audit file based on the evaluation of component auditor's communications? [ISA | 1593.1300]

As the group auditor, we may have reviewed component auditor's relevant documentation in their audit file in accordance with activity '[Review the component auditor's audit documentation in their audit file](#)' earlier in the audit already. Reviewing component auditor communications, such as the Clearance Memorandum, can help us identify additional significant matters or significant judgments made by component auditors.

When there are significant matters or significant judgments made by the component auditor, we determine whether it is necessary to review additional relevant parts of the component auditor's audit documentation in their audit file. In deciding this, we consider:

- the nature, timing and extent of the work performed by the component auditor,
- the competence and capabilities of the component auditor, and
- the direction and supervision of the component auditor and review of their work.

In some cases, we may have already been involved or reviewed work related to these significant matters before we received the communications. In these instances, we think about whether the documentation reviewed is consistent with the component auditor's communications in determining whether to further review the component auditor's documentation in their audit file.

[What other factors would we think about when determining whether, and the extent of which, to review additional documentation of the component auditor?](#) [ISA | 1593.13392]

This decision whether, and the extent of which, to review additional component auditor's documentation in their audit file is based on many factors, such as:

- The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the RMMs of the group financial statements (e.g. participation in the RAPD)
- There are changes in Elevated or Significant RMMs of the group financial statements or the components planned response to those previously communicated
- The magnitude of significant matters (for example, significant unusual transactions, related party transactions, actual or suspected instances of non-compliance with laws and regulations, including illegal acts, actual or suspected instances of fraud, etc.)
- The subjectivity or complexity of the significant matter
- Concerns we have regarding the approach taken, sufficiency of work performed or conclusions drawn by the component auditor related to the significant matter
- 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 competence and capabilities of more experienced individuals from the component auditor responsible for reviewing the work of less experienced individuals
- The adequacy of component auditor communications to the group auditor. For example, if the component auditor's required communications had insufficient details, we think about reviewing the underlying audit documentation related to the relevant areas with insufficient details in the reporting deliverable(s).

- 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's firm's quality control reviews, such as pre-issuance reviews.

[How is this review of documentation different from other forms of involvement?](#) [ISA | 1593.13393]

The focus here is on significant matters reported by the component auditor and significant judgments made by the component auditor. While we made our initial decisions about the nature, timing and extent of our direction and supervision of the component auditor and the review of their work considering the identified Elevated and Significant RMMs of the group financial statements in the component and information about the component auditor, significant matters can arise later in the audit.

As such, they cannot always be planned for prior to receiving the component auditor's communications.

[How do we evidence our review of the component auditor's additional documentation?](#) [ISA | 1593.1400]

As the group auditor, we document our review of the additional component auditor's audit documentation and our conclusions from reviewing the documentation in the group audit file.

We document it the same as any other review of component auditor's audit documentation in their audit file. See question '[How do we evidence our review of the component auditor's documentation?](#)' for further information.

[Do we replicate the component auditor's audit documentation in our audit file?](#) [ISA | 1593.159942]

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 | 1593.159943]

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.

Appendix 1 - Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

International Standards on Auditing: ISA 600.Appendix 1

Appendix 1

(Ref: Para. A42)

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

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

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**
- The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.**
- The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the**

group auditor did not have access to the accounting records, management, or auditor of the component.

- The group auditor has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.¹
- The IESBA Code comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.²
- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

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

² ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements³

Qualified Opinion

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

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects (or give a true and fair view of), the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

³ The sub-title, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for *the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised)⁴ - see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the Other Information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

⁴ ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁵

[*Reporting in accordance with ISA 700 (Revised)⁶ - see Illustration 2 in ISA 700 (Revised)]*

⁵ Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶ ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]*

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA 700 (Revised) - see Illustration 2 in ISA 700 (Revised).]*

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

Appendix 2 - Understanding the Group's System of Internal Control

International Standards on Auditing: ISA 600.Appendix 2

Appendix 2

(Ref: Para. A85)

Understanding the Group's System of Internal Control

1. This appendix 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)¹⁰³ is to be applied in relation to an audit of group financial statements. The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

¹⁰³ ISA 315 (Revised 2019), Appendix 3

Control Environment

2. The group auditor's understanding of the control environment may include matters such as the following:

- The structure of the governance and management functions across the group, and group management's oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
- How oversight over the group's system of internal control by those charged with governance is structured and organized.
- How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g., group-wide programs, such as codes of conduct and fraud prevention programs).
- The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group's Risk Assessment Process

3. The group auditor's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group's risk assessment process is and the involvement of entities and business units in this process.

The Group's Process to Monitor the System of Internal Control

4. The group auditor's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, when relevant, activities of the internal audit function across the group, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group.

ISA 610 (Revised 2013)¹⁰⁴ requires the auditor to evaluate the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

¹⁰⁴ ISA 610 (Revised 2013), Using the Work of Internal Auditors, paragraph 15

The Information System and Communication

5. The group auditor's understanding of the group's information system and communication may include matters such as the following:

- The extent of centralization in the group's IT environment and the commonality of IT applications, IT processes and IT infrastructure.
- Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
- Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
- A process for monitoring the timeliness and evaluating the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group auditor's understanding of the consolidation process may include matters such as the following:

Matters Relating to the Applicable Financial Reporting Framework

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters Relating to the Consolidation Process

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, when applicable, ensuring that 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 required in terms of the applicable financial reporting framework. 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 in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.
- Group management's process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- 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 the group's IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters Relating to Consolidation Adjustments and Reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (when applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements 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).

Control Activities

7. The group auditor's understanding of the control activities component may include matters such as the following:

- The commonality of information processing controls and general IT controls for all or part of the group.
- The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
- The extent to which commonly designed controls have been implemented consistently for all or part of the group.

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

1 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.

2 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 gathered• the 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,

	<p>including how differences in accounting policies are identified and adjusted where applicable</p> <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

	<ul style="list-style-type: none">• standing consolidation adjustments• how non-standard consolidation adjustments are identified• frequency, nature and size of transactions between entities or business units in the group• the procedures for identifying and eliminating intra-group transactions, unrealized profits, and intra-group account balances• process for obtaining a fair value for acquired assets and liabilities• process for impairment testing of goodwill• calculation of the minority interests• arrangements 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.
(*) 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? "		

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.

Appendix 3 - Examples of Events or Conditions that Give Rise to Risks of Material Misstatement of the Group Financial Statements

International Standards on Auditing: ISA 600.Appendix 3 Appendix 3

(Ref: Para. A110)

Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process. The examples provided by inherent risk factor

cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see ISA 315 (Revised 2019), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> • The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group, such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	<ul style="list-style-type: none"> • Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.

Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals or reorganizations.
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unexpected government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.
Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions. • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation. • Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk

Indicators that the control environment, the group's risk assessment process or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

- Poor corporate governance structures, including decision making processes that are not transparent.
- Non-existent or ineffective controls over the group's financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.

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

1 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			
Size of the account at the component relative to group performance materiality	We consider the size of the account balances as a multiple of group performance materiality.  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. Careful consideration is made as the account balance at a component exceeds 13x 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	Group Performance Materiality	7x Performance Materiality	13x Performance Materiality

	of a material misstatement to the group financial statements at a component.
Nature of assets, liabilities and transactions	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.
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.

[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 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	The components process routine transactions and	The components process non-routine transactions

	<p>the accounts do not require complex accounting or significant judgments.</p> <p>Additionally, no significant unusual transactions have been executed outside the normal course of business.</p>	<p>and the accounts require complex accounting or significant judgments.</p> <p>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 components of ICFR considering the nature and complexity of the group. 	<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 appropriate foundation for the other components of ICFR considering the nature and complexity of the group; and/or • 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</p>	<p>Our understanding of the entity's risk assessment</p>

	process indicates group management's risk assessment process is appropriate considering the nature and complexity of the group.	process indicates group management's risk assessment process is not appropriate considering the nature and complexity of the group.
Monitoring activities	Our understanding of the group's monitoring activities indicates that group management performs effective and timely monitoring activities over all entities or business units.	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.
IT systems and IT processes	The recordkeeping and information processing for the components are decentralized, and they do not have the same IT system.	The recordkeeping and information processing for the components are centralized, and they have the same IT system.
Distribution of remaining financial information across components	The remaining financial information is spread across many components (e.g. 50 components, where each is significantly less than group performance materiality).	The remaining financial information is spread across a few components (e.g. 3 components, two of which represent 7x group performance materiality)
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.

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.

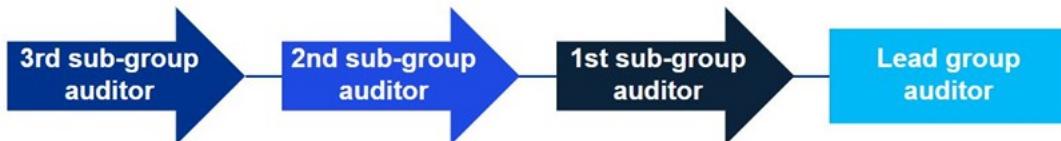
[How do we evaluate the remaining financial information for sub-groups?](#) [ISA | 1502.12256]

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	We consider the size of the account balances as a multiple of group performance materiality.

to group 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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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.

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KAEG-I [INTL VERSION 2024]: ISA 610 (Revised 2013) Using the Work of Internal Auditors

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