

# KAEG-I [INTL VERSION 2024]: ISA 300 Planning an Audit of Financial Statements Contents

## KAEG-I [INTL VERSION]: ISA 300 Planning an Audit of Financial Statements [ISA | KAEGISA300]

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# ISA 300 Planning an Audit of Financial Statements

[View the Full Chapter for this Standard](#)

## *ISA 300 Planning an Audit of Financial Statements*

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

International Standard on Auditing (ISA) 300, *Planning an Audit of Financial Statements*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

## Introduction and Objective

## International Standards on Auditing: ISA 300.01-04

### Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to plan an audit of financial statements. This ISA is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.
2. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Quality management at the engagement level in accordance with ISA 220 (Revised), in

conjunction with adequate planning in accordance with this ISA, benefits the audit of financial statements in several ways, including the following: (Ref: Para. A1-A4)

- Helping the auditor to devote appropriate attention to important areas of the audit.
- Helping the auditor identify and resolve potential problems on a timely basis.
- Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.
- Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
- Facilitating the direction and supervision of engagement team members and the review of their work.
- Assisting, where applicable, in coordination of work done by auditors of components and experts.

## Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

## Objective

4. The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

## ISA Application and Other Explanatory Material: ISA 300.A1-A4

### Application and Other Explanatory Material

A1. ISA 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of ISA 220 (Revised) is relevant to this ISA. For example, in accordance with ISA 220 (Revised), the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, taking into account the nature and circumstances of the audit engagement. Such a determination is directly relevant when ascertaining the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ISA.

### The Role and Timing of Planning (Ref: Para. 2)

A2. The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ISA 220 (Revised)<sup>50</sup> describes how such techniques and tools may support the engagement team in managing the quality of the engagement.

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<sup>50</sup> ISA 220 (Revised), paragraphs A73–A74

A3. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:

- The analytical procedures to be applied as risk assessment procedures.
- Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
- The determination of materiality.
- The involvement of experts.
- The performance of other risk assessment procedures.

A4. The auditor may decide to discuss elements of planning with the entity's management to help the auditor manage and achieve quality at the engagement level (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

## Involvement of Key Engagement Team Members

### International Standards on Auditing: ISA 300.05

#### Requirements

#### **Involvement of Key Engagement Team Members**

5. The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members. (Ref: Para. A5)

### ISA Application and Other Explanatory Material: ISA 300.A5

#### **Involvement of Key Engagement Team Members (Ref: Para. 5)**

A5. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process.<sup>8</sup>

8 ISA 315 (Revised), paragraph 10, establishes requirements and provides guidance on the engagement team's discussion of the susceptibility of the entity to material misstatements of the financial statements. ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 15, provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to material misstatement due to fraud.

# How do we comply with the Standards?

[ISA | KAEGHDWC]

## 1 Plan the audit [ISA | 955]

### What do we do?

Involve the engagement partner and other key members of the engagement team in properly planning the audit.

### Why do we do this?

Proper planning underpins the entire audit process. It helps us perform an effective and efficient audit, regardless of the entity's size or complexity, or our experience with it. A well-considered and documented audit strategy and plan, updated when facts and circumstances change, helps the entire engagement team clearly understand the activities we perform throughout the audit.

## Execute the Audit

How do we plan the audit? [ISA | 955.10733]

We plan the audit by:

- [Performing preliminary engagement activities](#)
- [Evaluating matters important to the financial statements and ICFR](#)
- [Establishing the overall audit strategy](#)
- [Developing the audit plan](#)
- [Assessing homogeneity of locations](#)
- [Determining who will perform procedures at locations](#)
- [Modifying the audit strategy and audit plan if circumstances change](#)
- [Taking responsibility for the audit](#); and
- [Performing procedures for initial audits](#)

We also conduct a Risk Assessment and Planning Discussion (RAPD) (see activity '[Discuss matters affecting the identification and assessment of RMMs among the engagement team](#)').

Who is responsible for audit planning? [ISA | 955.1400]

The engagement partner is ultimately responsible for the audit - so they are responsible for its effective planning. This includes planning and participating in the discussions among engagement team members.

Other team members may play a significant role, but the engagement partner cannot delegate their responsibility for the audit to others - e.g. other partners, senior managers.

When we include other engagement team members in audit planning, we can draw on the whole team's experience and capture all their insights. This collective knowledge contributes to an effective, efficient audit, and maximizes the benefits of planning. No matter who helps plan the audit, all team members follow the auditing standards and our audit methodology.

#### What are the benefits of properly planning our audits? [ISA | 955.1700]

Successful audit planning helps us devote the right attention to the right activities at the right time. Performing audit activities in the wrong order could lead to audit quality issues and an inefficient audit. Successful planning also sets the proper tone and helps us execute the audit thoughtfully. Specifically, it helps us to:

- better perform our risk identification and assessment activities, including understanding ICFR and the entity's processes;
- identify issues, or other matters that may affect our audit approach, earlier in the audit;
- better coordinate our audit activities with the entity;
- use our resources effectively; and
- respond to changes that occur or new information we identify throughout the audit.

#### How are audit planning and risk assessment related? [ISA | 955.1800]

Audit planning is not a discrete phase of an audit - it's a continuous and iterative process. Planning, risk identification and assessment, and risk response activities are closely related, and the lines between them are not clear.

Audit planning prepares us to perform thorough risk assessment procedures, which help us identify and assess the risks of material misstatement for which we design our audit responses. Meanwhile, information we learn or decisions we make while conducting risk assessment procedures or performing audit procedures can cause us to re-evaluate or re-perform certain planning activities.

#### Initial Audit | What other activities do we perform for initial audits? [ISA | 955.1900]

When we plan an initial audit, we [perform specific audit planning activities for initial audits](#). Considering these unique steps upfront helps us include them in our audit plan from the start.

## 1.1 Discuss matters affecting the identification and assessment of RMMs among the engagement team [ISA | 552]

### What do we do?

Conduct a discussion among engagement team members regarding the risks of material misstatement

### Why do we do this?

Holding a discussion among team members allows us to share experience, insights and opinions, and to generate questions about the entity and its risks of material misstatement (RMMs). Considering these questions helps us make our initial risk assessment and planning decisions.

# Execute the Audit

## Why do we discuss matters affecting the identification and assessment of RMMs among engagement team members? [ISA | 552.1300]

The engagement team discussion is an opportunity for us to understand and discuss possible RMMs with the key members of the engagement team. At KPMG, we call this the Risk Assessment and Planning Discussion (RAPD).

The RAPD allows us to harness the collective knowledge and different views of the engagement team regarding RMMs. Hearing others' points of view helps spur ideas and thinking, and helps engagement team members:

- give appropriate thought to the audit areas, events or matters which may indicate RMMs; and
- understand how the results of our audit procedures may affect other aspects of the audit — including decisions about the nature, timing and extent of further audit procedures.

The RAPD is a means to gather key engagement team members early in the audit, and collectively analyze what we know about the entity. It's most effective when all the key team members have been sufficiently involved in the risk assessment procedures and are fully engaged in the discussion.

We conduct the RAPD in an environment where all team members feel free to speak up and express their thoughts and concerns. This allows us to consider all their different viewpoints and observations.

Our RAPD is not merely a 'check-the-box' exercise — it's a key element of our overall risk assessment procedures, and of identifying and assessing the relevant RMMs up-front.

## Who are the key members of the engagement team? [ISA | 552.11510]

The key members of the engagement team are, at the minimum, the engagement partner and engagement manager. The engagement partner may decide to involve other members of the engagement team in the RAPD or equivalent discussion.

## Group Audit | Do we include component auditors in the RAPD? [ISA | 552.160035]

Yes, we include, at a minimum, the component engagement partner and component engagement manager in the RAPD. This can be achieved through a single RAPD with component engagement partners and component engagement managers or through a series of RAPDs.

## When do we hold this discussion? [ISA | 552.1400]

The RAPD is most effective:

- after we've obtained an understanding of the entity and its environment — including all components of its internal control; but
- before we start designing and executing the remainder of our audit plan.

This information provides a better knowledge base for our discussion.

The auditing standards don't prevent us from holding engagement team discussions and communications more than once during an audit — in fact they promote it. The RAPD is a key element of risk assessment, but we can communicate information and risk factors at any time.

Risk assessment is an iterative process, so we remain alert throughout the audit to matters that may affect our identification and assessment of RMMs. Circumstances may arise, or we may obtain



information, indicating that our identification and assessment of RMMs may be different from that determined in the RAPD.

We *may* discuss RMMs due to error separately from fraud risks. However, it's usually more convenient to hold the two discussions together — especially as all of the relevant members are already participating, and it leverages the same information we have gathered.

#### Who participates in the discussion? [ISA | 552.1500]

The lead engagement partner always participates in the discussion. Key engagement team members also participate in the discussion, but don't all have to participate at the same time.

The engagement partner may decide to involve other members of the engagement team in the RAPD or equivalent discussion by using professional judgment, prior experience with the entity and knowledge of current developments.

The other participants in the discussion may include:

- other partner(s)
- other audit senior manager(s)/manager(s)
- audit senior associate(s)/in-charge auditor(s)
- audit associate(s)
- tax partner(s) and manager(s)
- IT Audit partner(s) and manager(s)
- other specific team members and/or employed KPMG specialists partner(s) and manager(s) of member firms that are participating in the audit.
- In addition, the engagement quality review (EQR) partner and their delegates may attend the discussion to gain the necessary understanding of the entity.

#### Are there certain matters that we always discuss at the RAPD? [ISA | 552.1600]

Yes. At a minimum, we discuss the items included in the [RAPD agenda](https://alex.kpmg.com/AROWeb/document/lfc/GO_AR_KCW_AR_205900_RAPD_Agenda_LP) [https://alex.kpmg.com/AROWeb/document/lfc/GO\\_AR\\_KCW\\_AR\\_205900\\_RAPD\\_Agenda\\_LP](https://alex.kpmg.com/AROWeb/document/lfc/GO_AR_KCW_AR_205900_RAPD_Agenda_LP) template, unless the item is indicated as optional. We may add additional items.

#### What other topics may be discussed during our discussion? [ISA | 552.1700]

When the key engagement team members are gathered together, we may take this opportunity to discuss other important matters related to planning and organizing the audit — for example:

- the overall responsibilities of each key engagement team member;
- topics we may want to discuss throughout the audit with the EQR, specific team members, and other reviewers;
- whether the results of the latest Quality Performance Review apply to the audit, and any matters to pay close attention; and
- our preliminary thoughts on potential audit responses for other identified RMMs.

#### Group Audit | How may we incorporate group audit considerations in the RAPD? [ISA | 552.8079]

When we hold a RAPD for a group audit, we think about the items included in the RAPD agenda template in the context of the group audit and discuss those items not only for the group entity but for its components as relevant. We customize the RAPD agenda, as necessary, to document the contents

of our discussion including: the significant decisions reached, how and when the discussion occurred, and the audit team members who participated.

Examples of items that we may discuss from a group audit perspective include:

- How the accounting principles have been communicated to management of entities or business units and how differences in accounting principles are identified and adjusted
- Fraud risk factors that are present across components that may indicate a fraud risk or non-compliance with national laws or regulations to the extent relevant to the group financial statements
- Significant risks to the group financial statements and the components where we plan to perform work to address those significant risks
- Financial statement level risks and the risk of management override and the components where we plan to perform work to address those
- Significant unusual transactions and related parties at the components
- Any other relevant group audit scoping considerations
- The overall responsibilities of component auditors

## Preliminary Engagement Activities

### International Standards on Auditing: ISA 300.06

#### Preliminary Engagement Activities

6. The auditor shall undertake the following activities at the beginning of the current audit engagement:

- (a) Performing procedures required by ISA 220 (Revised) regarding the continuance of the client relationship and the specific audit engagement;<sup>1</sup>
- (b) Evaluating compliance with relevant ethical requirements, including independence, in accordance with ISA 220 (Revised),<sup>2</sup> and
- (c) Establishing an understanding of the terms of the engagement, as required by ISA 210.<sup>3</sup> (Ref: Para. A6-A8)

<sup>1</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 22 - 24

<sup>2</sup> ISA 220 (Revised), paragraphs 16 - 21

<sup>3</sup> ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 9 - 13

## ISA Application and Other Explanatory Material: ISA 300.A6-A8

### Preliminary Engagement Activities (Ref: Para. 6)

A6. Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to manage and achieve quality at the engagement level in accordance with ISA 220 (Revised).

A7. Performing these preliminary engagement activities enables the auditor to plan an audit engagement in order to, for example:

- Maintain the necessary independence and ability to perform the engagement.
- Determine that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
- Determine that there is no misunderstanding with the client as to the terms of the engagement.

A8. Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

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

### 1 Perform preliminary engagement activities [ISA | 956]

#### What do we do?

Perform preliminary engagement activities before starting the audit.

#### Why do we do this?

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

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

### Execute the Audit

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

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

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

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

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

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

# 1.1 Perform procedures over client and engagement continuance [ISA | 957]

## What do we do?

Perform procedures over the continuance of the client relationship and the audit engagement.

## Why do we do this?

Early in our audit planning, we consider the client relationship and evaluate the specific audit engagement. We often refer to this process as client and engagement continuance. It also helps us evaluate whether we can perform the audit with competence and objectivity.

## Execute the Audit

[Who determines that our client and engagement continuance procedures have been followed and that conclusions reached are appropriate?](#) [ISA | 957.1800]

The engagement partner determines that:

- our client and engagement continuance procedures have been followed; and
- conclusions reached in this regard are appropriate.

[How do we perform client and engagement continuance?](#) [ISA | 957.1300]

We perform client and engagement continuance each year by following the protocols in the Global Quality & Risk Management Manual together with any local policies, procedures and guidance.

Client continuance focuses on the risks associated with the client. Engagement continuance focuses on the risks associated with the audit engagement, and whether we have the appropriate resources and skills available to perform the engagement.

The Global Quality & Risk Management Manual together with any local policies, procedures and guidance detail the specific activities we perform as part of the client and engagement continuance process, including the use of our firm tools, such as CEAC and Sentinel.

[When do we perform client and engagement continuance?](#) [ISA | 957.1600]

We complete the steps related to client and engagement continuance before we obtain a signed engagement letter and start the audit.

[When do we revisit or update our client and engagement continuance evaluation?](#) [ISA | 957.2000]

At times during the engagement, it may be appropriate to re-evaluate client and/or engagement continuance. This may be the case if a particular event significantly changes the engagement's risk profile since we last evaluated continuance.

Examples of such events can be found in the Global Quality & Risk Management Manual.

[How do we re-evaluate our existing client and/or audit relationship?](#) [ISA | 957.2300]

When we identify changes that cause us to re-evaluate our client and/or engagement continuance, we follow the Global Quality & Risk Management Manual. This tells us what procedures to perform and when.

[What information may we learn during the client/engagement continuance or re-evaluation process that might affect our audit?](#) [ISA | 957.2400]

During the continuance or re-evaluation process, we may identify information that may affect our planned audit approach or audit strategy. Examples of such matters include:

- changes in the nature, size, or organizational structure of the entity's business or the industry in which it operates which may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed;
- factors that point to other accounting, auditing, or financial reporting risks; and
- industry-specific training or experience requirements.

[What do we do with information that we obtain during the continuance or re-evaluation process?](#) [ISA | 957.2500]

As evidence that we considered information obtained from the continuance or re-evaluation process, we include the relevant CEAC reports in our audit file, along with our consideration of how this information affects the audit.

For example, when performing our client and engagement continuance procedures, we may learn that the entity's credit rating has been downgraded to a non-investment grade. This fact alone may not affect our decision to perform the audit; however, the information may help us identify and assess certain risks that are relevant to the audit - for example, an increased risk related to going concern.

[What if the engagement partner becomes aware of information that may have caused us to decline the audit engagement had that information been known prior to continuing the client relationship or specific engagement?](#) [ISA | 957.2600]

The engagement partner consults the risk management partner as soon as practicable if we become aware of information that may have caused us to:

- significantly alter our original risk assessment in CEAC; or
- decline the audit engagement

had that information been known prior to continuing the client relationship or specific engagement.

[How do we document our conclusions reached regarding the continuance of client relationships and audit engagements?](#) [ISA | 957.2700]

We document conclusions on client and engagement continuance by including items such as Sentinel approval e-mails and CEAC documentation in the KPMG Clara workflow.

## 1.2 Initial Audit | Perform client and engagement acceptance procedures [ISA | 981]

# What do we do?

Perform procedures over client and engagement acceptance before starting the initial audit

## Why do we do this?

In an initial audit, we often have little or no experience with the entity, so we perform additional steps as part of our client and engagement acceptance process.

We perform these additional procedures before we accept an initial audit because the information we obtain might affect our decision to accept an audit client or engagement.

## Execute the Audit

[Initial Audit | Who determines that our client and engagement continuance procedures have been followed and that conclusions reached are appropriate?](#) [ISA | 981.157412]

The engagement partner determines that:

- our client and engagement acceptance procedures have been followed; and
- conclusions reached in this regard are appropriate.

[Initial Audit | What procedures do we perform during client and engagement acceptance for an initial audit?](#) [ISA | 981.1300]

The client and engagement acceptance procedures we perform for initial audits are set out in the Global Quality & Risk Management (GQ&RM) Manual together with any local policies and procedures and guidance.

[Initial Audit | How do we document our conclusions reached regarding the acceptance of client relationships and audit engagements?](#) [ISA | 981.1400]

We document conclusions on client and engagement acceptance by including items such as Sentinel approval e-mails and CEAC documentation in the KPMG Clara workflow.

[Initial Audit | When do we perform the procedures relating to client and engagement acceptance for an initial audit?](#) [ISA | 981.1500]

We perform the procedures for an initial audit as part of our other client and engagement acceptance procedures and before we accept the initial audit.

The information we learn during this process can affect whether we decide to accept an audit client or engagement and how we conduct the audit. For example, we may identify certain risks or complexities during client and engagement acceptance that suggest a need for more experienced resources.

[Initial Audit | What information do we focus on when performing client and engagement acceptance procedures on an initial audit?](#) [ISA | 981.1600]

When performing client and engagement acceptance procedures, we focus on information that helps us decide how we approach our initial audit, given our lack or limited knowledge about the entity.

Specifically, we focus on those matters that could affect our risk assessment, overall audit approach, and/or the audit procedures we will perform in the audit's first year.

**Initial Audit | How might information obtained through client and engagement acceptance procedures on an initial audit impact our audit plan and audit strategy?** [ISA | 981.1700]

Information obtained through client and engagement acceptance procedures may:

- affect how we staff the engagement, including specialists and specific team members we involve;
- lead us to obtain special knowledge of a particular industry;
- highlight highly complex accounting policies or principles that we will address early in the initial audit;
- highlight significant transactions (e.g. a large acquisition) in the prior period for which we will plan to obtain evidence over opening balances; and
- suggest that the entity does not have a knowledgeable accounting and finance department.

The table below sets out some more specific examples of information we may learn through the acceptance process, and how it may affect the way we plan and perform the audit.

Type of new information	Examples of how we might change our audit plan
<b>New client has a history of losses</b>	<ul style="list-style-type: none"> <li>• Perform additional testing over going concern and plan to perform these tests earlier in the audit</li> <li>• Determine whether there are any new risks of material misstatement and significant risks</li> </ul>
<b>New audit client had a material acquisition in the prior year</b>	<ul style="list-style-type: none"> <li>• Perform additional procedures over the opening balances, to obtain evidence over the balances related to the business acquired so we do not rely unduly on procedures performed by the predecessor auditor</li> <li>• Increase our supervision over the opening balances procedures</li> <li>• Increase our oversight of and coordination with specialists and specific team members</li> <li>• Determine whether there any new risks of material misstatement and significant risks</li> </ul>
<b>New client has a history of issues in ICFR - e.g. control deficiencies - due to a lack of qualified accounting staff and executive officers</b>	<ul style="list-style-type: none"> <li>• Understand historical control deficiencies to determine if we can rely on the entity's ICFR</li> <li>• Determine whether there any new risks of material misstatement and significant risks</li> </ul>
<b>Engagement requires industry-specific experience</b>	<ul style="list-style-type: none"> <li>• Determine whether the engagement partner and other engagement team members have sufficient industry credentials before we plan the audit and perform audit procedures</li> </ul>

**Engagement requires extensive involvement of specialists or specific team members**

- Increase our oversight of and coordination with specialists and specific team members

[What if we don't appropriately respond to information we learn through the acceptance process for an initial audit?](#) [ISA | 981.10893]

If we don't identify and respond to these matters appropriately in the initial audit, we might:

- perform an insufficient audit and fail to support our audit opinion;
- fail to identify material misstatements in the financial statements;
- fail to exercise the appropriate level of due professional care throughout the audit; or
- expose the firm to potential legal and regulatory investigation.

[What do we do with information that we obtain during the acceptance process?](#) [ISA | 981.157413]

As evidence that we considered information obtained from the acceptance process, we include the relevant CEAC reports in our audit file, along with our consideration of how this information affects the audit.

For example, when performing our client and engagement acceptance procedures, we may learn that the entity's credit rating has been downgraded to a non-investment grade. This fact alone may not affect our decision to perform the audit; however, the information may help us identify and assess certain risks that are relevant to the audit - for example, an increased risk related to going concern.

[What if the engagement partner becomes aware of information that may have caused us to decline the audit engagement had that information been known prior to accepting the client relationship or specific engagement?](#) [ISA | 981.157415]

The engagement partner consults the risk management partner as soon as practicable if we become aware of information that may have caused us to:

- significantly alter our original risk assessment in CEAC; or
- decline the audit engagement

had that information been known prior to accepting the client relationship specific engagement.

[How do we document our conclusions reached regarding the acceptance of client relationships and audit engagements?](#) [ISA | 981.157416]

We document conclusions on client and engagement acceptance by including items such as Sentinel approval e-mails and CEAC documentation in the KPMG Clara workflow.

## 1.3 Determine compliance with ethics and independence [ISA | 958]



## What do we do?

Determine compliance with ethical and independence requirements both during planning and throughout the audit as circumstances change.

## Why do we do this?

Ethics and independence are core principles that underpin a quality audit. If we are not independent, or if we violate our ethical obligations, it doesn't matter how well we performed our audit.

## Execute the Audit

[How do we remain ethical and independent during our audit engagements?](#) [ISA | 958.1300]

We remain ethical and independent by performing the activities in '[Remain ethical and independent during our audit engagement](#)'.

[When do we comply with ethics and independence requirements?](#) [ISA | 958.1400]

We determine whether we are compliant with independence and ethics requirements before we accept an audit engagement, and consider these requirements throughout the audit to maintain independence and compliance.

## 1.4 Establish an understanding of the terms of the audit

[ISA | 1224]

### What do we do?

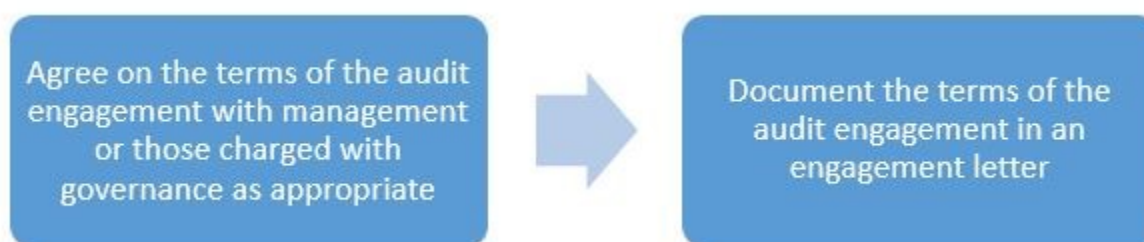
Agree on the terms of the audit engagement with management or those charged with governance, as appropriate AND record the required items in an engagement letter.

### Why do we do this?

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

### Execute the Audit

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



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

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

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

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

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



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

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

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

[ISA | 1224.159772]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We refer to our local member firm engagement letter template.

#### Who is an originating auditor? [ISA | 1224.8901]

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

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

Examples of other auditors are:

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

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

[alex.kpmg.com/AROWeb/document/lfc/KAEG5\\_INTL\\_2023](https://alex.kpmg.com/AROWeb/document/lfc/KAEG5_INTL_2023).

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

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

We refer to our local member firm example communication template.

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

We perform the following procedures based upon the scenarios below:

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

## 2 Determine whether the audit is a group audit [ISA |

8161]

### What do we do?

Determine whether the audit is a group audit.

## Why do we do this?

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

## Execute the audit

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

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

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

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

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

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

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

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

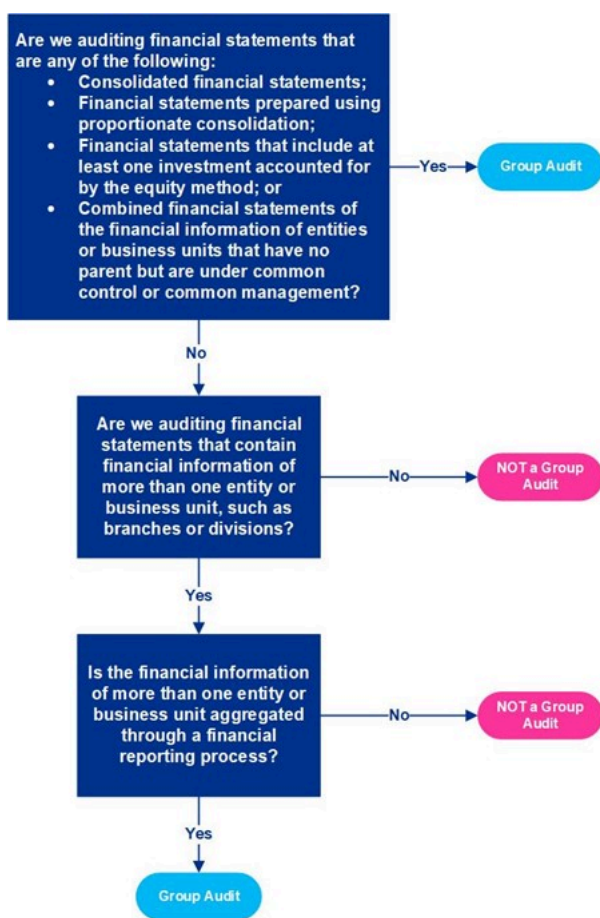
### Who is a component auditor? [ISA | 8161.160190]

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

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

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

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



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

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

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

When those business units have characteristics such as:

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

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

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

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

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

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

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

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

## Planning Activities

### International Standards on Auditing: ISA 300.07-11

#### Planning Activities

7. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

8. In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ISA 220 (Revised) and:

- (a) Identify the characteristics of the engagement that define its scope;
  - (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
  - (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
  - (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
  - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement<sup>44</sup>.
- (Ref: Para. A9-A13)



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44 ISA 220 (Revised), paragraph 25

9. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work (Ref: Para. A18).
- (b) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised).<sup>4</sup>
- (c) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330.<sup>5</sup>
- (d) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A14-A16)

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4 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

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

10. The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A17)

11. The engagement partner shall review the overall audit strategy and audit plan.

## ISA Application and Other Explanatory Material: ISA 300.A9-A18

### Planning Activities

#### *The Overall Audit Strategy (Ref: Para. 7-8)*

A9. The process of establishing the overall audit strategy, subject to the completion of the auditor's risk assessment procedures, may include such matters as:

- The nature of resources (human, technological or intellectual) to be deployed for specific audit areas. For example, the deployment of experienced team members for high risk areas, or the assignment of experts to address complex matters;
- The amount of resources to be allocated to specific audit areas. For example, the number of team members assigned to attend the physical inventory count at multiple locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
- When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
- How such resources are, directed, supervised or used. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site).



A10. ISA 220 (Revised) contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).

A11. The Appendix lists examples of considerations in establishing the overall audit strategy.

A12. Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

### Considerations Specific to Smaller Entities

A13. In audits of small entities, the entire audit may be conducted by a very small engagement team. Many audits of small entities involve the engagement partner (who may be a sole practitioner) working with one engagement team member (or without any engagement team members). With a smaller team, co-ordination of, and communication between, team members are easier. Establishing the overall audit strategy for the audit of a small entity need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the audit, and the size of the engagement team. For example, a brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters noted in paragraph 8.

### *The Audit Plan (Ref: Para. 9)*

A14. The audit plan is more detailed than the overall audit strategy in that it includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

A15. Determining the nature, timing and extent of planned risk assessment procedures, and the further audit procedures, as they relate to disclosures is important in light of both the wide range of information and the level of detail that may be encompassed in those disclosures. Further, certain disclosures may contain information that is obtained from outside of the general and subsidiary ledgers, which may also affect the assessed risks and the nature, timing and extent of audit procedures to address them.

A16. Consideration of disclosures early in the audit assists the auditor in giving appropriate attention to, and planning adequate time for, addressing disclosures in the same way as classes of transactions, events and account balances. Early consideration may also help the auditor to determine the effects on the audit of:

- Significant new or revised disclosures required as a result of changes in the entity's environment, financial condition or activities (for example, a change in the required identification of segments and reporting of segment information arising from a significant business combination);

- Significant new or revised disclosures arising from changes in the applicable financial reporting framework;
- The need for the involvement of an auditor's expert to assist with audit procedures related to particular disclosures (for example, disclosures related to pension or other retirement benefit obligations); and
- Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.<sup>9</sup>

<sup>9</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph A13

## *Changes to Planning Decisions during the Course of the Audit* (Ref: Para. 10)

A17. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures. For example, audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.

## *Direction, Supervision and Review* (Ref: Para. 9(a))

A18. ISA 220 (Revised) deals with the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work.<sup>10</sup>

<sup>10</sup> ISA 220 (Revised), paragraphs 29-31

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

## 1 Establish the overall audit strategy [ISA | 963]

### What do we do?

Establish the overall audit strategy.

### Why do we do this?

Our overall audit strategy sets the framework for conducting our audit and preparing our detailed audit plan. It helps us:

- keep a record of the key decisions we considered necessary to plan the audit properly; and
- communicate significant matters within our engagement team.

To establish the overall strategy, we use the appropriate workflow.

# Execute the Audit

How do we establish the overall audit strategy? [ISA | 963.10887]

We establish the overall audit strategy by:

- [taking specific matters into account](#);
- [selecting appropriate auditing standards](#);
- [evaluating certain matters during planning](#); and
- [involving specific team members and specialists as appropriate](#).

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

### What do we do?

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

### Why do we do this?

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

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

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

# Execute the Audit

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

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

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

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

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

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

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

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

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

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

These key factors include:

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

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

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

The engagement partner reviews and approves the overall audit strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Examples

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

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

Type of consideration	Examples of matters we may consider
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**The characteristics of the engagement that define its scope**

- The financial reporting framework used to prepare the financial information we are auditing, including any need for reconciliations to other financial reporting frameworks and applicable legislative or regulatory requirements (e.g. US GAAP, IFRS, accounting and reporting policies issued by a parent company to its locations or business units)
- Auditing standards (e.g. PCAOB, U.S. GAAS, ISA, auditing standards of a specific jurisdiction or country)
- The type of audit we are performing (i.e. financial statement audit only or integrated audit) and the reports we will issue as part of the audit engagement (including our report on the audit of ICFR for an integrated audit)
- Legislative or regulatory requirements (e.g. SEC rules and regulations)
- The internal control framework on which management bases its assessment of the effectiveness of the entity's ICFR (e.g. COSO 2013)
- Industry-specific reporting requirements (e.g. reports mandated by industry regulators)
- Other information included with the financial statements in the annual report
- Information management may plan to disclose in the financial statements we plan to audit, which is not required to be prepared by the financial reporting framework
- Number of components and/or locations where procedures are expected to be performed
- The nature of control relationships between a parent and its components that determine how the group is to be consolidated
- The extent to which components are audited by component auditors
- The nature of the business lines or segments to be audited, including specialized skills or knowledge we may need
- The reporting currency to be used, including any need for currency translation for the financial information we are auditing
- The need for statutory audit of stand-alone financial statements in addition to an audit for consolidation purposes
- The availability of the work of the entity's internal auditors and the extent of our potential reliance on such work

	<ul style="list-style-type: none"> <li>• The entity's use of service organizations and how we might obtain evidence over the design and operating effectiveness of controls they perform</li> <li>• The expected use of audit evidence obtained in previous audits (e.g. benchmarking of certain automated process control activities)</li> <li>• The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques</li> <li>• The coordination of the timing and execution of audit procedures with any interim reviews and the effect on the audit of information we may obtain through these reviews</li> <li>• The availability of entity personnel and information, including whether the entity can provide the right information in the right way</li> </ul>
<b>Reporting objectives of the engagement and nature of communications required by the relevant auditing standard</b>	<ul style="list-style-type: none"> <li>• The entity's timetable for both interim and final reporting</li> <li>• The planning of meetings with management and those charged with governance to discuss the planned scope and timing of the audit, including significant risks</li> <li>• Discussion with management and those charged with governance about the expected type and timing of reports to be issued and other required communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance</li> <li>• Discussion with management about the expected communications on the status of audit work throughout the engagement</li> <li>• Communications with component auditors about the expected types and timing of reports to be issued and other communications connected with the audit of components</li> <li>• The expected nature and timing of communications with other auditors, including other KPMG offices/member firms or non-KPMG firms</li> <li>• The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed</li> <li>• Whether any communications with third parties are expected, including any statutory or contractual reporting responsibilities arising from the audit</li> </ul>

<p><b>Factors that are significant in directing the activities of the engagement team</b></p>	<ul style="list-style-type: none"> <li>• Preliminary identification of areas that may present a higher risk of material misstatement</li> <li>• The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review</li> <li>• How we emphasize to engagement team members to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence</li> </ul>
<p><b>Results of preliminary engagement activities and our evaluation of matters important to the financial statements and ICFR</b></p>	<ul style="list-style-type: none"> <li>• Preliminary determination of materiality, including: <ul style="list-style-type: none"> <li>- determination of performance materiality for components and communication to component auditors; and</li> <li>- preliminary identification of components and significant accounts balances and disclosures of the group financial statements</li> </ul> </li> <li>• Risks identified through our client continuance process</li> <li>• How we may direct engagement personnel, use specialists and specific team members, and supervise and review the audit</li> <li>• Results of previous audits involving evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them</li> <li>• Information learned from other engagements performed for the entity, including interim reviews, other assurance engagements and agreed-upon procedures</li> <li>• Discussion of matters that may affect the audit with KPMG professionals who provide other services to the entity, which may include: <ul style="list-style-type: none"> <li>- identifying other services (e.g. tax and advisory services) provided by KPMG or its member firms;</li> <li>- discussing findings that could be relevant to the audit; and</li> <li>- reviewing reports or correspondence generated during these other services</li> </ul> </li> <li>• Evidence of the entity's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control</li> <li>• Volume of transactions, which may lead us to decide it is more efficient for us to rely on internal controls</li> </ul>



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

## 1.2 Select appropriate auditing standards [ISA | 965]

### What do we do?

Select the applicable set of auditing standards that reflect the type of engagement that we are performing

### Why do we do this?

Using the appropriate auditing standards within KPMG Clara workflow helps us to perform a quality audit and comply with the applicable auditing standards, including relevant documentation requirements.

Answering scoping questions - including identifying the applicable auditing standards and financial reporting framework - will deliver the relevant workflow and knowledge content and help us in establishing our audit strategy.

## Execute the Audit

[How do we make the appropriate selection of auditing standards? \[ISA | 965.1300\]](#)

We select the appropriate auditing standards by completing the scoping questions in the Engagement Profile in KPMG Clara workflow. This will then establish the appropriate workflow - PCAOB, AICPA or ISA.

[What if we are performing an audit under auditing standards other than ISA, PCAOB or AICPA? \[ISA | 965.10000\]](#)

If we are performing an audit under auditing standards other than PCAOB, ISA or AICPA, we select ISA and follow local policies to comply with any incremental requirements in those auditing standards.

[What might happen if the selections made in the Engagement Profile are incorrect? \[ISA | 965.10920\]](#)

Selections made in the Engagement Profile determine the relevant requirements in KPMG Clara workflow and deliver the guidance and KPMG Clara workflow library content applicable to the engagement. If we make incorrect scoping decisions, we may not receive the relevant requirements applicable to the engagement.

When incorrect scoping decisions are made, we revisit the Engagement Profile and correct our scoping decisions. This will then update the remainder of KPMG Clara workflow.

## 1.3 Evaluate certain matters during planning [ISA | 1365]

### What do we do?

During planning, evaluate whether certain matters are important to the entity's financial statements and internal control over financial reporting and, if so, how they will affect our procedures to the entity's financial statements and internal control over financial reporting and, if so, how they will affect our procedures.

### Why do we do this?

During planning, we evaluate some matters that help us understand the entity's financial statements and internal controls. Doing this can help us identify areas that may demand more attention during our audit planning and our risk assessment procedures, and therefore may influence the audit procedures we design and perform.

## Execute the Audit

[What matters do we evaluate during planning? \[ISA | 1365.1300\]](#)

During planning, matters we consider include:

- knowledge of the entity's ICFR obtained during other engagements we have performed;
- matters affecting the industry in which the entity operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes;
- matters relating to the entity's business, including its organization, operating characteristics, and capital structure;
- the extent of any recent changes in the entity, its operations, or its ICFR;
- our preliminary judgments about materiality, risk, and, in integrated audits, other factors relating to the determination of material weaknesses;
- control deficiencies previously communicated to those charged with governance or management (\*);
- legal or regulatory matters that the entity is aware of;
- the type and extent of available evidence related to the effectiveness of the entity's ICFR, and, in an integrated audit, this includes evidence from management's assessment process;
- preliminary judgments about the effectiveness of ICFR;
- public information about the entity that helps us evaluate the likelihood of material financial statement misstatements and the effectiveness of the entity's ICFR;
- knowledge about risks related to the entity evaluated as part of our client acceptance and retention evaluation;
- the complexity of the entity's operations;
- information obtained from internal sources such as annual reports, internal audit function reports, compliance reports, minutes of meetings of those charged with governance and committees of those charged with governance, and management's financial analyses, objectives and strategies; and
- information provided by other KPMG partners or employees involved in providing non-audit services to the entity.

(\*) For audits performed under the PCAOB standards, those charged with governance for this activity are the audit committee or, if no audit committee exists, the board of directors

#### [How do we evaluate these matters?](#) [ISA | 1365.1400]

During planning, we evaluate these matters as follows:

**We first determine which of these matters we expect to significantly affect our overall audit approach.**

We do not necessarily identify information that is less important or is unlikely to affect our audit.



Once we have the population of matters that we believe significantly affect our audit, **we specifically think about**

- **what we know or learned about them, and**
- **how they will affect our audit procedures.**



**We use this information during risk assessment and other parts of our audit.**

Not Integrated Audit | How does evaluating these matters help us develop the audit strategy and audit plan? [ISA | 1365.10798]

Evaluating these matters during planning may help us indicate a number of different impacts, including:

- potential risks that it is necessary to address;
- areas of the audit that may be more complex or require specialized resources; and
- expectations about where we may or may not rely on controls in the audit.

## Examples

What are some examples of the matters we evaluate when developing the audit strategy and audit plan?

[ISA | 1365.1500]

The following table provides examples of the matters we evaluate that are key to developing the audit strategy and audit plan in relation to the financial statements and ICFR.

Matter	Example	Impact to the audit strategy and plan
<b>Knowledge of the entity's ICFR obtained during</b>	During a review of interim financial information, we identified several	During audit planning, we may decide that we will not take a controls-based approach for

<b>other engagements performed by us</b>	misstatements, which led us to conclude that the entity's controls over recording a certain revenue stream are not effective.	addressing risks of material misstatement related to that revenue stream in the financial statement audit.
<b>Matters affecting the industry in which the entity operates (e.g. financial reporting practices, economic conditions, laws and regulations, and technological changes)</b>	The government recently de-regulated the entity's industry, allowing the entity to expand its operations overseas.	We may decide more on how the entity intends to integrate the overseas market with its current operations and how they will monitor its activities and internal controls in the new market.
<b>Matters relating to the entity's business, including its organization, operating characteristics, and capital structure</b>	During initial discussions, management made us aware that the entity entered into a long term debt agreement to fund its growth into other markets.	We may include procedures during risk assessment to read the debt agreements and identify any financial and non-financial covenants. We may also include procedures to evaluate the design, implementation, and operating effectiveness of the controls over compliance with those covenants.
<b>The extent of recent changes in the entity, its operations, or its ICFR</b>	The entity has created a shared service center to consolidate its processes over fixed asset management and procurement.	We will likely include procedures to help us understand the flow of transactions at the shared service center, and procedures to evaluate the design, implementation, and operating effectiveness of certain controls.
<b>Our preliminary judgments about materiality and risk</b>	The entity's revenues and profits have declined by about 30% from the prior year.	We may form some initial expectations that materiality will also decrease by roughly the same magnitude. This may alter the number of accounts and disclosures we identify as

		significant and increase the amount of time we devote to planning and risk assessment as compared to prior years.
<b>Control deficiencies previously communicated to those charged with governance or management</b>	Management asserts that they have remediated a significant deficiency from the prior period related to revenue cut-off at period end.	As part of our audit plan, we may include specific procedures to both understand the entity's remediation process, including identifying any new control activities management implemented, and evaluate the design, implementation, and operating effectiveness of the relevant control activities.
<b>Legal or regulatory matters of which the entity is aware</b>	We have learned that the entity is being investigated by a regulatory agency for potential illegal payments made to state and local officials.	As part of our audit strategy and detailed audit plan, we may consider involving certain specialists and specific team members in the audit (e.g. forensics, attorneys). We may also include in our detailed audit plan any required procedures and internal consultations related to illegal acts.
<b>Type and extent of available evidence related to the effectiveness of the entity's ICFR</b>	We learn that the entity implemented a new ERP system that automates several core business processes and eliminates unnecessary paper documents.	We may obtain an understanding of the new processes, especially how the entity is using IT and any automated process control activities and GITCs, to understand what type of audit evidence is available and where substantive procedures alone may not be sufficient.
<b>Preliminary judgments about the effectiveness of ICFR</b>	During the prior year audit, management identified numerous post-closing entries for inventory reserves that	We may decide to take a substantive approach to auditing the inventory reserves in the financial statement audit, considering the level of inherent

	required material adjustments to the financial statements.	risk associated with the account balance.
<b>Public information about the entity relevant to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of the entity's ICFR</b>	Throughout the year, several news stories have reported lawsuits against the entity alleging fraudulent and/or inaccurate billing practices related to a particular line of business.	We may initially identify a fraud risk/fraud risk factor or an increased level of inherent risk associated with the entity's recording and reporting of revenue transactions within that line of business.
<b>Knowledge about risks related to the entity evaluated as part of our client acceptance and retention evaluation</b>	As part of our engagement continuance evaluation, we flagged the entity as high-risk due to a history of negative cash flows from operations.	We will critically evaluate whether or not there are any going concern issues, which may include formally consulting our national office.
<b>The relative complexity of the entity's operations</b>	The entity has multiple operations throughout the world. Each location is involved in a different type of business and uses a different ERP system for its accounting functions.	Since the accounting functions are decentralized, our audit plan may consider the locations that are in scope and how the corporate office monitors the day-to-day activities at each location. Given these complexities, we will likely involve other auditors to perform audits or specific audit procedures at one or more of these locations.
<b>Information obtained from internal sources</b>	In reviewing the entity's board of directors meeting minutes, it was noted that the entity entered into a complex debt transaction.	We may identify a new risk of material misstatement related to this transaction. We may also determine whether this is a significant unusual transaction and whether it is necessary to involve an employed KPMG specialist.

<p><b>Information provided by other KPMG partners or employees involved in providing non-audit services to the entity.</b></p>	<p>In the prior year, the entity announced the implementation of a critical new ERP system that would impact the upcoming years' financial statements. The entity engaged specific team members with expertise in IT to assist with real time system implementation assessment, which is an allowable non-audit service. IT Audit provided critical feedback along the way; however, the entity did not take any of the feedback into consideration.</p>	<p>We understand how the critical feedback from IT Audit impacts the financial statements under audit, including the relevant significant accounts affected, to determine the impact to our planned audit procedures and identification of deficiencies in internal controls.</p>
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## 1.4 Involve specific team members and specialists as appropriate [ISA | 970]

### What do we do?

Involve specific team members and specialists as appropriate

### Why do we do this?

To plan and resource the audit appropriately, we determine whether and how to involve specific team members and specialists.

## Execute the Audit

[How do we involve specific team members and specialists?](#) [ISA | 970.1500]

We involve specific team members and specialists by:

- [determining whether to involve specific team members and specialists](#)
- [performing procedures if specific team members or specialists participate in the audit](#)

### 1.4.1 Determine whether to involve specific team members and specialists [ISA | 971]

### What do we do?



Determine whether to involve specific team members and specialists, to perform risk assessments, plan or perform audit procedures, or evaluate audit results

## Why do we do this?

The entities we audit engage in different businesses and types of transactions. Therefore, we often encounter situations where it's appropriate to involve specific team members and specialists. They can help us:

- understand the entity and its environment, including its internal control;
- identify and assess RMMs;
- plan and perform audit procedures; and
- evaluate the sufficiency and appropriateness of audit evidence obtained.

Identifying these situations enables us to plan:

- when the specific team members and specialists will be involved;
- what required workpapers and consultations will be completed; and
- how we supervise and evaluate specific team members and specialists.

## Execute the Audit

[How do we determine whether to involve specific team members and specialists?](#) [ISA | 971.10817]

We determine whether to involve specific team members and specialists by following this activity and [involving specific team members with expertise in Tax and IT, as appropriate](#).

[Who are specific team members and specialists?](#) [ISA | 971.1300]

Specific team members and specialists include:

- specific team members (e.g. professionals in IT Audit, Tax);
- employed KPMG specialists (e.g. professionals employed by KPMG with specialized skills or knowledge in fields other than accounting and auditing);
- engaged KPMG specialists (e.g. professionals who are engaged by KPMG with specialized skills or knowledge in fields other than accounting and auditing); or
- management's specialists (e.g. professionals who are engaged or employed by management with specialized skills or knowledge in fields other than accounting and auditing)

Employed KPMG specialists, engaged KPMG specialists and management's specialists are collectively referred to as "specialists".

[Who are 'specialists'?](#) [ISA | 971.10818]

Specialists are those individuals who possess specialized skills or knowledge in a field other than accounting or auditing. Specialists are also referred to as 'experts' in some auditing standards. Either management or KPMG can employ or engage them.

[Who are 'specific team members'?](#) [ISA | 971.10819]

Our engagement team may include specific team members with specialized skills or knowledge in accounting or auditing, such as professionals with knowledge of income tax, IT and other complex accounting issues.

Sometimes these specific team members are also called 'specialists'. However, because they don't meet the auditing standards' definitions as a specialist or an expert, we treat them as members of the engagement team.

Specific team members do not include those with specialized skills or knowledge who are only involved on a consultation basis - e.g. DPP, KPMG Accredited Sampling Professional, etc.

[What are differences and similarities between specific team members and specialists?](#) [ISA | 971.10820]

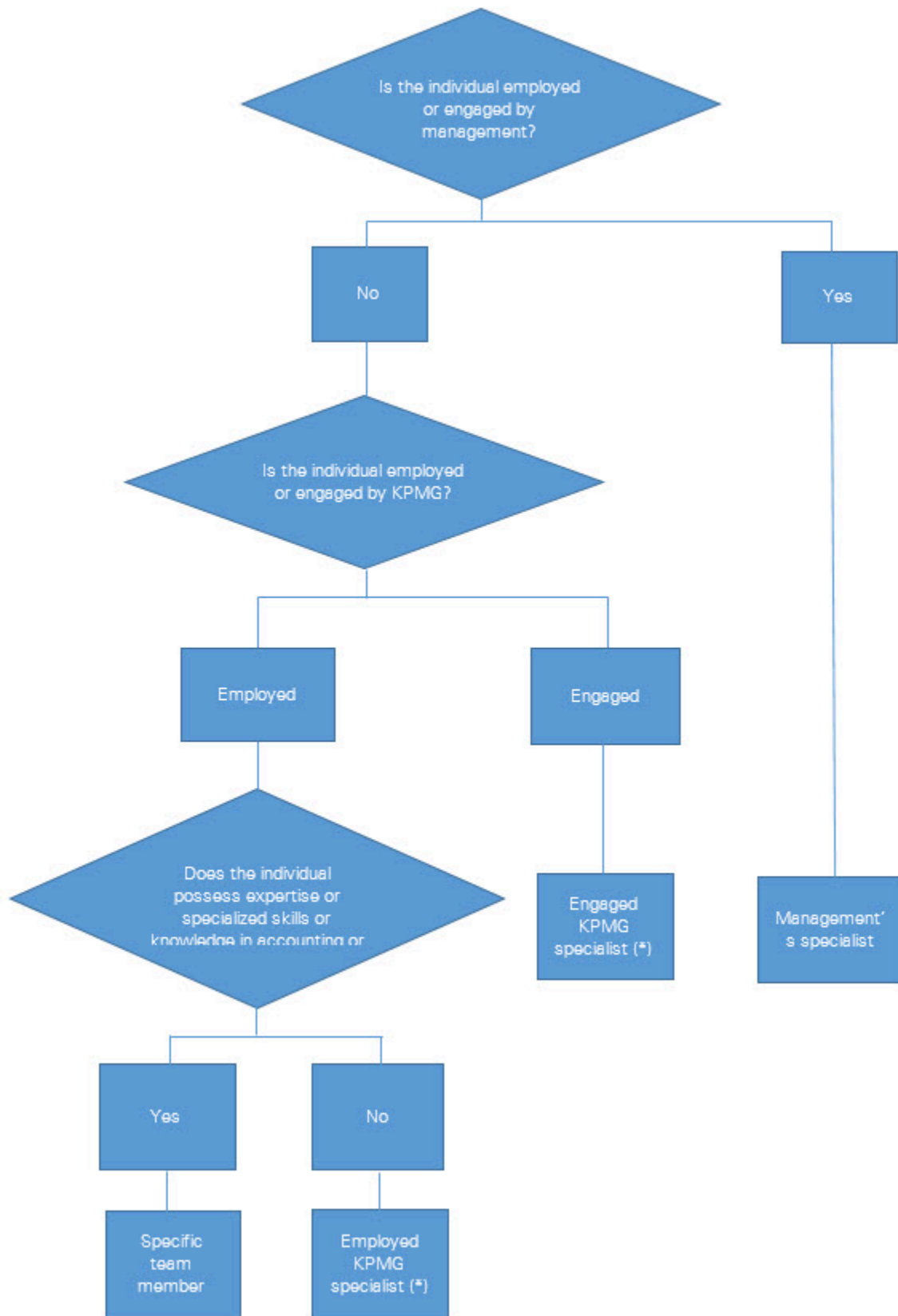
The differences and similarities between specific team members and specialists are set out in the table below.

	Type of professional			
Roles	Specific team member	Employed KPMG specialists	Engaged KPMG specialists	Management's specialists
Have expertise in accounting or auditing?	Yes	No	No	No
Have expertise in a field other than accounting or audit?	No	Yes	Yes	Yes
Is a member of the engagement team?	Yes	Yes	No	No
Work is used by the entity in the preparation of financial statements?	No	No	No	Yes
Work is used by us to assist in obtaining sufficient appropriate audit evidence?	Yes	Yes	Yes	Yes

What are the categories of professionals with specialized skills or knowledge we might use in the audit?

[ISA | 971.1400]

The following decision tree can help us categorize the professionals with specialized skills or knowledge we may interact with in the audit.



This categorization can affect how we work with these professionals, including how we supervise and/or interact with them and evaluate the results of their work

## How do we identify when it is appropriate to involve professionals with specialized skills or knowledge?

[ISA | 971.10821]

Throughout the entire audit, we determine whether to involve specialized skills or knowledge by thinking about a number of factors.

Stages of the audit	Factors we think about
<b>Pre-engagement activities</b>	<ul style="list-style-type: none"> <li>Client and engagement acceptance and continuance</li> <li>Completion of firm standard workpapers, where applicable (see <a href="#">this activity for US workpapers</a>)</li> </ul>
<b>Management activities</b>	<ul style="list-style-type: none"> <li>Whether management has used a specialist to help them prepare the financial statements</li> <li>Whether the specialist is employed by management or is engaged by management to provide relevant services to management</li> <li>Whether management can exert control over or influence the specialist's work</li> <li>Whether the entity has implemented controls over the specialist's work</li> </ul>
<b>Complex audit areas</b>	<ul style="list-style-type: none"> <li>Whether specialty areas are relevant to the audit, such as areas in which complex valuations or actuarial determinations are needed</li> <li>The nature and significance of audit matters, including their complexity</li> <li>The assessed risks of material misstatement associated with the audit matter</li> <li>The expected nature of procedures to respond to identified risks, including whether alternative sources of audit evidence are available</li> </ul>

How does client acceptance and continuance help us identify the appropriate skills or knowledge? [ISA | 971.10822]

During the client and engagement acceptance and continuance process, we consider specific risks and complexities for the client and audit engagement.

Reviewing the outputs from our client and engagement acceptance and continuance process - along with other information we collect during that process - helps us identify areas in which we may involve specific team members or specialists with the appropriate skills and knowledge.

[Do we always involve specific team members and/or specialists in complex areas of the audit?](#) [ISA | 971.10823]

Not always. In some cases, we have or can obtain a sufficient understanding of the subject matter to perform the audit without involving another person.

This understanding may be based on:

- our experience in auditing other entities that require similar skills, knowledge and experience;
- our own education or professional development in the particular field, which may include formal courses;
- discussion with people possessing skills, knowledge and experience in the field that enhances our own capacity to deal with matters in that field; and
- discussion with auditors who have performed similar engagements.

## Examples

[What are the types of specific team members with specialized skills in accounting or auditing?](#) [ISA | 971.1500]

The following table provides examples of the types of specific team members with specialized auditing and accounting skills, along with audit areas in which we commonly involve them.

Types	Examples of common audit areas
Specific team members with expertise in Tax	<ul style="list-style-type: none"> <li>• Evaluating the accounting or reporting for federal, foreign, state and local income, and other taxes, including valuation of: <ul style="list-style-type: none"> <li>- deferred tax assets and liabilities; and</li> <li>- valuation of tax contingency accruals</li> </ul> </li> <li>• Evaluating tax calculations and positions, including related income statement and balance sheet accounts and financial statement presentation and disclosure</li> </ul>
Specific team members with expertise in IT	<ul style="list-style-type: none"> <li>• Understanding an entity's information system, related business processes relevant to the preparation of the financial statements, and the flow of transactions, including understanding IT systems and service organizations</li> <li>• Understanding and testing automated controls, including general IT controls that support the effective operations of automated controls</li> <li>• Performing walkthroughs</li> <li>• Evaluating changes to IT systems or implementation of new IT systems</li> </ul>

	<ul style="list-style-type: none"> <li>Evaluating audit evidence available in electronic form only, and performing related audit procedures</li> <li>Designing and/or applying computer-assisted audit techniques</li> </ul>
Specific team members with expertise in the application of accounting standards (e.g., Accounting Advisory Services)	<ul style="list-style-type: none"> <li>Analyzing and evaluating the terms and conditions in specified contracts and agreements, and the associated accounting implications</li> <li>Evaluating the impact of adopting new accounting standards, including disclosure requirements</li> <li>Evaluating potential acceptable alternative accounting treatments for a specified transaction</li> </ul>
Specific team members with expertise in Forensics	<ul style="list-style-type: none"> <li>Evaluating our documentation regarding the identification of fraud risk factors and fraud risks</li> <li>Evaluating the designed response to assertion level fraud risks and the associated RMM due to fraud</li> </ul>

What are the types of employed KPMG specialists and engaged KPMG specialists? [ISA | 971.15090]

The following table provides examples of the types of employed KPMG specialists and engaged KPMG specialists and audit areas in which we commonly involve them.

Types of professionals	Examples of common audit areas
Specialists with expertise in actuarial determinations and third-party actuaries	<ul style="list-style-type: none"> <li>Evaluating actuarial calculations of liabilities associated with insurance contracts or employee benefit plans, including evaluating assumptions and models</li> </ul>
Specialists with expertise in long-term construction contracts	<ul style="list-style-type: none"> <li>Evaluating reporting for long-term construction contracts principally related to the probable recovery of revenue associated with claims and change orders</li> <li>Evaluating management assumptions used to estimate costs to complete long-term contracts</li> </ul>
Specialists with expertise in valuation of environmental liabilities	<ul style="list-style-type: none"> <li>Evaluating the valuation of environmental liabilities and asset retirement obligations, principally related to:</li> </ul>

	<ul style="list-style-type: none"> <li>- environmental technical, regulatory and site visit evaluations;</li> <li>- review of management's approach; and</li> <li>- the process for determining management's exposures and benchmark analysis</li> </ul>
Specialists with expertise in valuation services	<ul style="list-style-type: none"> <li>• Evaluating the fair value, including assumptions and models, of certain assets and liabilities, including: <ul style="list-style-type: none"> <li>- tangible and intangible assets; assets acquired and liabilities assumed in a business combination;</li> <li>- assets that may have been impaired; and</li> <li>- valuations prepared for use in goodwill or other impairment assessments of non-financial assets</li> </ul> </li> <li>• Evaluating the valuation and reporting of share-based compensation arrangements</li> </ul>
Specialists with expertise in regulatory risk	<ul style="list-style-type: none"> <li>• Evaluating the appropriateness of a financial institution's (e.g. bank and/or bank-holding entity's) risk-based capital calculations relative to Financial Services - Regulatory Risk Advisory Practice's understanding of the applicable bank regulatory requirements</li> <li>• Reviewing regulatory, internal audit function, or credit review reports to help us identify risks</li> <li>• Evaluating the adequacy of our planned procedures over higher-risk loan portfolios or components of the allowance for loan losses</li> <li>• Evaluating the entity's internal or external loan review process, including risk-rating policies</li> <li>• Evaluating the entity's allowance methodology, including the</li> </ul>



	<p>reasonableness of loss factors and qualitative assumptions used</p> <ul style="list-style-type: none"> <li>• Performing credit file reviews (or evaluating the adequacy of credit file reviews performed by us), and evaluating the appropriateness of management's loan grading conclusion</li> <li>• Evaluating the entity's modeling procedures and mathematical processes used to estimate the allowance for loan losses for homogeneous loan portfolios - including, for example, mortgages, auto loans and leases, credit cards, installment and small business loans</li> <li>• Evaluating loss and prepayment assumption methodologies used for calculations related to homogeneous loan portfolios</li> <li>• Evaluating asset-backed securitization valuations</li> <li>• Evaluating high credit risk matters, including: <ul style="list-style-type: none"> <li>- the reliability of credit risk rating processes;</li> <li>- identification of problem assets;</li> <li>- appraisal management;</li> <li>- credit administration;</li> <li>- underwriting; and</li> <li>- loan loss reserving</li> </ul> </li> <li>• Evaluating model governance reviews and the valuation models used by the entity</li> <li>• Evaluating the accounting, valuation, and reporting of derivatives and hedging activities</li> <li>• Evaluating the fair value of other financial instruments</li> </ul>
Third-party attorneys	<ul style="list-style-type: none"> <li>• Interpreting contracts, laws and regulations</li> </ul>

Third-party engineers	<ul style="list-style-type: none"> <li>Evaluating the amount of oil, gas and other mineral reserves</li> <li>Determining physical characteristics related to quantity on hand or condition - for example, quantity or condition of minerals, or materials stored in stockpiles</li> </ul>
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## 1.4.1.1 Involve specific team members with expertise in Tax and IT as appropriate [ISA | 972]

### What do we do?

Involve specific team members with expertise in Tax and IT as appropriate AND consider involving them in planning the audit.

### Why do we do this?

Specific team members with expertise in Tax and IT have specialized skills or knowledge in accounting or auditing and are members of our audit engagement team. Their skills or knowledge help us plan and execute the audit in some areas.

Specific team members with expertise in Tax (Tax STMs) can help us understand and interpret tax laws and regulations, which are often complex.

Specific team members with expertise in IT (IT Audit STMs) can help us understand how transactions flow in the entity's IT systems, including which aspects of the IT systems could be relevant to financial reporting.

## Execute the Audit

### When do we involve Tax STMs in our audits? [ISA | 972.1401]

The following table identifies the involvement of Tax STMs - i.e. professionals with specific tax knowledge - depending on the type of entity we are auditing.

Type of entity	Involvement of Tax STMs
Entities audited under PCAOB standards	Yes
All other entities audited under ISA/US GAAS/ local GAAS	Yes - we have a discussion of likely tax risks during planning to determine their further involvement. This discussion may be conducted with a Tax STM or with a general team member (engagement partner, other

	audit partner, or manager) who is also a designated a tax specialist.
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### When do we involve IT Audit STMs in our audits? [ISA | 972.8754]

The following table identifies the involvement IT Audit STMs - i.e. professionals with specific IT skills - depending on the type of entity we are auditing.

Type of entity	Involvement of IT Audit STMs
Banks	Yes  Refer to the question ' <a href="#">For audits of banking entities, how do we involve IT Audit STMs in our audit?</a> '.
Listed entities	Yes  If IT Audit STMs are not involved, we complete the IT Criticality Checklist and the engagement quality control reviewer reviews the significant judgment made by the engagement team to not involve IT Audit STMs.
All other entities	Yes, when: <ul style="list-style-type: none"> <li>the entity is highly dependent on IT processing to maintain its financial reporting and accounting books and records, including IT processing performed by service organizations, so we cannot obtain sufficient appropriate audit evidence without relying on automated process control activities; or</li> <li>we plan to rely on the operating effectiveness of automated process control activities to respond to a significant risk</li> </ul>

In addition, regardless of the type of entity, if a cybersecurity incident at any layer comes to our attention during the course of our audit, or if we identify cybersecurity risks that lead us to the identification of an RMM, we involve IT Audit STMs to help us with our response to the incident and/or RMM, including the identification of process risk points (PRPs) and process control activities and related general IT controls, when applicable. See activity '[Understand cybersecurity risks and incidents](#)' for further information.

**What is the IT Criticality Checklist?** [ISA | 972.10836]

The IT Criticality Checklist is a workpaper to help determine whether the entity is highly dependent on IT processes.

This in turn helps us determine whether to involve IT Audit STMs, and to what extent.

The IT Criticality Checklist may also evidence our conclusion that the entity is not that highly dependent on IT processing to maintain its financial reporting and accounting books and records, including IT processing performed by service organizations, such that we are able to obtain sufficient appropriate audit evidence without reliance on automated process control activities.

**How do we assess whether the entity is highly dependent on IT processing?** [ISA | 972.10835]

Sometimes, an entity depends so heavily on IT processes to maintain its financial reporting and accounting books and records - including IT processes performed by service organizations - that we can't obtain sufficient appropriate audit evidence without relying on automated process control activities.

The following table includes some typical indicators and examples that this may be the case.

Typical Indicators	Examples
<p>The entity's financial reporting and accounting systems have a degree of IT dependency with little or no manual intervention.</p>	<ul style="list-style-type: none"> <li>the entity relies on embedded, automated process control activities for initiating, processing and/or recording financial transactions and for creating its financial statements</li> <li>the entity has a complex system with many interfaces and/or regular updates are made to the system</li> <li>approvals and/or document matching are performed online by the IT system with little or no manual intervention</li> <li>management, the internal audit function or the entity's regulatory bodies consider IT risks significant to financial reporting</li> <li>the entity may maintain separate, customized IT systems for each business unit, or each country may maintain a separate accounting system for local regulatory and financial reporting purposes. In these circumstances, interfaces are configured among the IT systems to support consolidation, management reporting, and treasury functions.</li> </ul>

	<ul style="list-style-type: none"> <li>important elements of information that allow traceability to the original transactions exist solely in electronic form</li> <li>other information to be used as audit evidence is mostly in electronic form or sourced from the entity's financial reporting and accounting systems.</li> </ul>
The entity uses a system to provide summarized information from many different systems to business process owners or management, and management relies on system generated reports to generate its financial statements. We may also rely on such reports.	<ul style="list-style-type: none"> <li>the entity uses various IT systems for management and financial reporting purposes and those systems are interfaced and integrated such that reporting systems generating information used to manage the business and/or to prepare the entity's financial statements are inherently dependent on the effective operation of those systems.</li> <li>management relies on system-generated reports in the performance of key manual controls.</li> </ul>
Financial statement level risks or significant risks arising from the use of IT have been identified.	<ul style="list-style-type: none"> <li>a significant change in the entity's financial information systems has occurred during the period under audit (e.g. upgraded or new IT systems have been implemented where automated process control activities are to be relied on by the entity)</li> <li>a significant new business acquisition/ combination with different IT infrastructure has occurred during the period under audit</li> </ul>
The entity transacts electronically with third parties.	<ul style="list-style-type: none"> <li>sales and/or purchases are automatically recorded between the entity and third parties with little or no manual intervention, e.g.: <ul style="list-style-type: none"> <li>customers purchase software services directly through an online website with little or no manual intervention. The entity's recorded revenues are generated directly through these website sales, and even though there are daily sales summary reports, individual transactions cannot be traced to their source.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>- an entity conducts business with vendors over the web (i.e. a specific order is placed by the entity, the entity's system sends the order information through an automated electronic data interchange to the vendor, the system then automatically matches the receipt and makes payment without manual intervention).</li> <li>- the entity runs an internet-based consumer marketplace that aggregates data for consumers and bills suppliers on a "per click" basis, to deliver its products and to bill its customers in a manner highly reliant on IT</li> <li>• the entity generates a billing transaction initiated by a third-party customer. The consumption is recorded by the customer electronically and automatically transmitted to the entity's systems for "quantity" recording and billing.</li> <li>• the entity receives an electronic bank account statement via an online messaging system and uses the electronic account statements to perform an automated reconciliation of its bank accounts.</li> </ul>
<p>The entity relies on a third-party service provider to process transactions in its core business processes.</p>	<ul style="list-style-type: none"> <li>• The entity receives a service organization report in which the complementary user entity controls (CUECs*) are dependent on IT controls and we plan to rely on controls at the service organization as part of our audit.</li> <li>• we plan to rely on the operating effectiveness of automated process control activities and/or general IT control(s) that address risk(s) arising from IT specific to relevant layer(s) of technology, owned by the third-party service organization.</li> </ul> <p>* CUECs are controls that the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary</p>

	to achieve the control objectives stated in the SOC report.
Additional considerations, including other known issue(s) arising during the prior period and current period audits	<ul style="list-style-type: none"> <li>• cybersecurity incidents</li> <li>• processing errors/data loss</li> <li>• systems unavailability</li> <li>• other IT failures impacting IT systems</li> <li>• non-compliance with an industry law/regulation due to an IT-relevant root cause</li> </ul>

For audits in which KAEG does not say that we involve IT Audit STMs, we may still choose to involve them when considering the same factors and indicators above.

#### Group Audit or Component Audit | When do we involve IT Audit STMs at a component? [ISA | 972.10837]

To determine whether to involve IT audit STMs in the work performed over components, the lead group auditor:

(1) works together (as needed) with the:

- component auditor - as component auditors may have greater experience with and a more in-depth knowledge of the component than the group auditor,
- IT Audit STM of the lead group auditor; and/or
- IT Audit STM of the component auditor

(2) takes into consideration the question 'When do we involve IT Audit STMs in our audits?', and

(3) considers the scope of work performed at the component.

If a cybersecurity incident at any layer at a component comes to our attention during the course of our audit, or if we identify cybersecurity risks at a component that lead us to the identification of an RMM, we involve IT Audit STMs to help us with our response to the incident and/or RMM, including the identification of process risk points (PRPs) and process control activities and related general IT controls, when applicable.

For example, a component is highly dependent on IT processing to maintain its financial reporting and accounting books and records, and sufficient appropriate audit evidence over the RMMs of the group financial statements cannot be obtained without relying on automated process control activities at that component. As a result, the scope of work at the component includes obtaining an understanding of IT, obtaining an understanding of the component's relevant processes, and performing procedures over the relevant automated process control activities and the GITCs that address the related risks arising from IT. In this case, the lead group auditor determines, in conjunction with the component auditor and IT Audit STM of the lead group auditor, that involvement of IT Audit STMs in the work to be performed over the component is necessary.

For example, the only RMM of the group financial statements where further audit procedures are necessary at the component is 'Cash and cash equivalents are not completely and accurately recorded or do not exist, and the entity does not have rights to the recorded amount.' The scope of work at the component only includes:

- Testing the manual control activities at the component that address the relevant PRPs, and

- Performing substantive procedures over bank reconciliations and requesting external confirmations.

In this case, the lead group auditor determines, in conjunction with the component auditor, that involvement of IT Audit STMs in the work to be performed over the component is not necessary.

For example, based upon the lead group auditor's understanding of IT, the lead group auditor learned the head office performs centralized IT services related to user provisioning and change management. Although all components use SAP, each component has its own instance of SAP, and the components are highly dependent on IT processing to maintain their financial reporting and accounting books and records.

A controls reliance approach is planned at the component to address the RMMs of the group financial statements and certain automated process control activities will be tested at the component.

Based upon discussions among the lead group auditor, component auditor and their IT Audit STMs, the group engagement team worked together to identify the risks arising from IT and the GITCs that addressed those risks. They also agreed on the scope of work as follows:

- the relevant automated process control activities and the relevant GITCs, not subject to centralized IT services, would be tested by the component auditor, who would involve IT Audit STMs and
- the relevant GITCs would be tested by the lead group auditor, who would also involve IT Audit STMs.

#### Group Audit or Component Audit | When do we involve Tax STMs at a component? [ISA | 972.159590]

To determine whether to involve Tax STMs in the work performed over components, the lead group auditor:

- (1) works together (as needed) with the:
  - component auditor - as component auditors may have greater experience with and a more in-depth knowledge of the component than the group auditor, and
  - when applicable, Tax STM of the lead group auditor and/or Tax STM of the component auditor
- (2) takes into consideration 'When do we involve Tax STMs in our audits?', and
- (3) considers whether the work performed at the component relates to tax-related RMMs.

#### How do we involve IT Audit STMs in our audit? [ISA | 972.2000]

The nature, timing, and extent of IT Audit STMs' participation may vary based on several factors, including:

- the entity's level of reliance on an IT system; and
- the identified and assessed risks of material misstatement.

Involving them early in the audit may help us consider what we know about the entity, both from our past experience and through planning, to determine where to involve IT Audit STMs in the audit.

#### What are some common areas where IT Audit STMs may be involved? [ISA | 972.10842]



Common areas where IT Audit STMs may be involved include:

#### Risk assessment procedures

- Obtaining an understanding of the entity and its environment, including the entity's IT systems and internal controls over financial reporting
- Obtaining an understanding of the entity's processes (e.g. performing walkthroughs) including identifying process risk points and automated controls that the entity uses to address those process risks points when we take a controls approach to an RMM
- Identifying and assessing financial statement level risks and assertion level risks, including fraud risks, that are related to IT or resulting from the use of IT and could lead to a material misstatement of the financial statements
- Identifying the 'layers of technology' that are relevant to the effective operation of automated controls or the integrity of data and information within an IT system
- Identifying the RAFITs within those 'layers of technology' that could affect the effective operation of automated controls or the integrity of data and information within an IT system

#### Identification of controls

- Identifying automated process control activities that address PRPs and controls that support the integrity of data and information we plan to rely on as part of our audit
- Identifying relevant general IT controls that address the identified RAFITs

#### Testing of controls

- Evaluating the design and implementation and operating effectiveness of relevant general IT controls and automated process control activities including those controls that support the integrity of data and information we plan to rely on as part of our audit

#### Concluding on controls

- Identifying and evaluating deficiencies in GITCs and their impact on the effective operation of automated process control activities and audit approach.

For purposes of involving IT Audit STMs, what is the definition of a bank? [ISA | 972.8752]

An entity is considered to be a bank:

- where the entity is required to have a banking or equivalent license in order to operate in any of the jurisdictions it trades in, or
- where the entity is identified as a bank or equivalent institution in relevant local legislation.

These guidelines are applicable to the following situations:

- Entities of all sizes that meet the above definition of a bank (i.e. banks of all sizes irrespective of factors such as the bank's profitability, total assets and liabilities (including deposits and loans), number of employees and number of customers);
- All types of banks (e.g. commercial banks, investment banks, credit unions, industrial banks, agricultural banks and savings banks);
- Neobanks, such as digital, online and fintech banks (including entities using innovation and new technology) that meet the definition of a bank above;
- Local subsidiaries (or components) of an international group (or a group located in another country), where the local subsidiaries (or components) meet the above definition of a bank;
- Banks where KPMG member firm is the group auditor or the component auditor;

- A country's central or national bank;
- A bank branch; and
- An entity providing other financial services (such as asset management, trustee and custody services, broker-dealer services and insurance services) if the entity meets the above definition of a bank (i.e. these other services are provided by an entity that is a bank).

For audits of banking entities, how do we involve IT Audit STMs in our audit? [ISA | 972.8749]

For audits of banking entities, IT Audit STMs are involved in the following minimum areas:

- risk assessment,
- identification of controls,
- testing of controls and
- concluding on controls.

Refer to the question '[What are some common areas where IT Audit STMs may be involved?](#)' for the specific procedures that may be performed in each of these areas.

For audits of banking entities, with whom do we consult if IT Audit STMs are not involved in the minimum areas? [ISA | 972.8750]

When we do not plan to involve IT Audit STMs in the minimum areas, we consult with the following parties depending on the engagement size (based on total planned engagement hours):

- Engagements with 5,000 or less total planned engagement hours: Local DPP
- Engagements between 5,001 - 15,000 total audit hours: Local DPP, Local Audit Quality Leader and Local Audit Risk Management Partner
- Engagements greater than 15,000 total audit hours: Local DPP, Local Audit Quality Leader, Local Head of Audit, Local Audit Risk Management Partner, Regional Audit Quality Leader and Global Banking Audit Quality Leader.

How do we oversee specific team members? [ISA | 972.2100]

We supervise and oversee the work of specific team members as we would for any other member of the engagement team.

## Examples

What approvals are obtained when we decide not to use IT Audit STMs across the minimum areas in a bank audit? [ISA | 972.8757]

### **Fact pattern:**

An engagement team auditing a listed bank used the IT Criticality Checklist and determined that the entity is highly dependent on IT processing to maintain its financial reporting and accounting books and records, including IT processing supported by service organizations, and the engagement team is unable to obtain sufficient appropriate audit evidence without reliance on automated controls.

The engagement team involves an IT Audit STM in:

- risk assessment,
- identification of controls, and
- concluding on controls.

However, the engagement team is planning to utilize members of the core audit team to test the automated process control activities and related general IT controls and not involve IT Audit STMs in this area.

Total planned engagement hours are 15,100.

### **Analysis**

Because the engagement team does not plan on involving IT Audit STMs in all of the minimum areas, they consult with Local DPP, Local Audit Quality Leader, Local Head of Audit, Local Audit Risk Management Partner, Regional Audit Quality Leader and Global Banking Audit Quality Leader. Additionally, because the audit is of a listed entity, the engagement quality control reviewer reviews this significant judgment made by the engagement team.

## 1.4.2 Perform procedures if specific team members or specialists participate in the audit [ISA | 976]

### What do we do?

IF specific team members or specialists participate in the audit, THEN perform certain procedures

### Why do we do this?

We remain responsible for all aspects of the audit, even when we use specific team members and specialists.

We therefore perform specific procedures relating to those professionals, to help us oversee their work properly.

## Execute the Audit

What procedures do we perform when we decide to involve specific team members or specialists in the audit? [ISA | 976.1300]

When we decide to involve specific team members or specialists in the audit, we then:

- [document each professional's name and subject matter;](#)
- [determine whether we have sufficient knowledge of the subject matter.](#)

### 1.4.2.1 Document each professional's name and subject matter [ISA | 977]

#### What do we do?

Document the name of each specific team member and specialists and the subject matter they will address

#### Why do we do this?

Determining whether to involve professional(s) with specialized skills or knowledge is a helpful first step. We then identify who exactly will be involved, and the subject matter they will address.

This helps us involve these professionals in the audit from start to finish, especially as we plan the audit and perform our risk assessment procedures. Documenting their involvement helps us:

- inform the engagement team about those specific team members or specialists taking part in the engagement;
- properly supervise those specific team members or specialists; and
- evaluate whether we have appropriate resources engaged and available to help us at the right points in the audit.

## Execute the Audit

[Where do we document the name and subject matter of the specific team member and specialists?](#) [ISA | 977.1400]

We document this information electronically on a screen in KPMG Clara workflow, or in a hard copy that we attach to the electronic audit file.

### 1.4.2.2 Determine whether we have sufficient knowledge of the subject matter [ISA | 978]

#### What do we do?

Determine whether we have sufficient knowledge of the subject matter to be addressed by specific team members or specialists, to meet our responsibility in performing the audit

#### Why do we do this?

We involve specific team members and specialists in a number of circumstances. We also obtain sufficient knowledge of the subject matter these professionals will address so we can:

- properly communicate the objectives of their work;
- determine that their procedures meet our objectives; and
- evaluate the results of the procedures they perform.

In short, we cannot simply turn over part of the audit to these professionals without our obtaining sufficient knowledge regarding them.

## Execute the Audit

[Who is responsible for involving specific team members and specialists?](#) [ISA | 978.1300]

The engagement partner is responsible for involving specific team members, employed KPMG specialists, and engaged KPMG specialists, and determining whether their procedures meet our objectives.

[How does understanding the subject matter help us meet this responsibility?](#) [ISA | 978.1400]

Understanding the subject matter being addressed helps us to:

- properly supervise the work of specific team members of the engagement team;
- communicate the objectives of specific team members, employed KPMG specialists and engaged KPMG specialists;
- determine whether the procedures performed meet these objectives; and
- evaluate the results of the procedures performed as they relate to:
  - the nature, timing and extent of the other planned audit procedures; and
  - the effects on our report.

#### How do we obtain an understanding of the subject matter? [ISA | 978.1500]

We may obtain an understanding of the subject matter in several ways.

First, we may directly discuss the subject matter with specific team members with specialized skills in accounting or auditing or specialists.

We may also attend internal training, read independent research, or rely on our experience in auditing entities that require such expertise.

#### Is a discussion to understand the subject matter with a specific team member or specialists the same as a consultation with that person? [ISA | 978.10888]

No. A discussion to understand the subject matter with a specific team members or specialists are not the same as a consultation. In a consultation, we generally:

- focus a specific set of circumstances encountered on the engagement; and
- give them all the relevant facts so they can provide informed advice about the particular matter.

#### What aspects of the subject matter may be relevant to our understanding? [ISA | 978.10889]

Aspects of the subject matter that may be relevant to our understanding include:

- whether the professional has areas of specialty in their field that are relevant to the audit;
- whether professional or other standards, and regulatory or legal requirements apply;
- what assumptions, methods, and/or models the individual uses, and whether they are:
  - generally accepted in the their field;
  - appropriate for financial reporting purposes; and
  - approved for use by the firm (where applicable); and
- the nature of internal and external data or information the professional uses.

#### How do we evaluate the results of the nature, timing, and extent of the audit procedures? [ISA | 978.10891]

In evaluating the nature, timing and extent of the planned audit procedures we consider:

- performing inquiries
- reviewing the working papers and reports
- observing the work being performed
- confirming relevant data with third parties
- reperforming calculations

#### What if we intend to use the work of management's specialists? [ISA | 978.1600]

If we intend to use the work of management's specialists, we perform the same procedures to obtain sufficient knowledge of the subject matter as when specific team members, employed KPMG specialists and engaged KPMG specialists are involved.

In the case of management's specialists, it is less likely there will be a written agreement. Inquiry of the management's specialists and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding and may help us determine whether the following are appropriate:

- the nature, scope, and objective of the professional's work;
- roles and responsibilities of management and that professional; and
- nature, timing and extent of communication between the entity and the professional, including the form of any report to be provided by the professional.

## 2 Determine whether to involve individuals with relevant knowledge of foreign jurisdictions [ISA | 8148]

### What do we do?

Determine whether to involve individuals with relevant knowledge of foreign jurisdictions to perform risk assessments, plan or perform audit procedures, or evaluate audit results.

### Why do we do this?

The entities we audit may engage in business activities in foreign jurisdictions that are subject to different laws and regulations, business practices, language and culture. Therefore, we often encounter situations where it's appropriate to involve individuals with relevant knowledge of foreign jurisdictions. They can help us:

- understand the entity and its environment, including its internal control;
- identify and assess RMMs;
- plan and perform audit procedures; and
- evaluate the sufficiency and appropriateness of audit evidence obtained.

Identifying these situations enables us to plan when these individuals will be involved in our audit.

### Execute the audit

**What are examples of individuals with relevant knowledge of foreign jurisdictions?** [ISA | 8148.159853]

Individuals from that foreign jurisdiction with relevant knowledge may include:

- component auditors
- participating auditors
- specific team members (e.g. professionals in IT Audit, Tax);
- employed KPMG specialists (e.g. professionals employed by KPMG with specialized skills or knowledge in fields other than accounting and auditing);
- engaged KPMG specialists (e.g. professionals who are engaged by KPMG with specialized skills or knowledge in fields other than accounting and auditing); or

- management's specialists (e.g. professionals who are engaged or employed by management with specialized skills or knowledge in fields other than accounting and auditing)
- loan staff that are not employed by our member firm.

[How do we determine whether to involve individuals with relevant knowledge of foreign jurisdictions?](#) [ISA | 8148.159852]

In order to determine whether to involve individuals with relevant knowledge of foreign jurisdictions, we think about whether we have a sufficient understanding of the foreign jurisdiction to be able to execute the audit effectively without the assistance of individuals from that foreign jurisdiction.

## 3 Inform the specific team members of work to be performed [ISA | 7672]

### What do we do?

Inform the specific team members of work to be performed and agree on specific matters, in writing

### Why do we do this?

After we have identified what audit areas will involve the work of specific team members and who those specific team members will be, we reach a written agreement with the specific team members about certain matters.

Our aim is to determine and mutually understand the roles and responsibilities of the specific team members. Obtaining this understanding in writing during audit planning helps us to:

- communicate the roles and responsibilities properly; and
- align the objectives of all parties.

Documenting upfront our understanding with specific team members therefore results in a more effective audit strategy and plan. This helps us perform an effective, efficient and collaborative audit.

## Execute the audit

[What do we agree to in writing with specific team members?](#) [ISA | 7672.14131]

We document the key aspects of understanding of the work to be performed by the specific team members that will drive their roles and responsibilities and integration of their work with that of the rest of the engagement team.

[What are the key aspects of understanding that will drive the roles and responsibilities of the specific team members?](#)

The table below sets out some key aspects that will drive the roles and responsibilities of the specific team members.

Aspect	Related matters to think about
--------	--------------------------------

The nature, scope and objectives of their work	This may include relevant facts about the subject matter of the specific team member's involvement, related entity processes and controls, applicable laws to be followed, and the specific requests we have for the work to be performed by the specific team members
Our respective roles and responsibilities	This may include who will perform the detailed testing of data or assumptions, if any, the timing and scope of the procedures to be performed by the specific team members
The nature, timing and extent of communication between us	This includes the form of any report or audit documentation each specific team member will provide
Any confidentiality requirements	Confidentiality requirements may be driven by professional standards and/or laws or regulations of a particular jurisdiction

#### Do the working papers of specific team member form part of our audit documentation?

Yes. Specific team members are members of the engagement team, so their working papers form part of our audit documentation.

#### What other matters may we consider informing the specific team members about? [ISA | 7672.14134]

There may be a variety of other matters that are relevant to the specific team member's work. They may include, for example:

- materiality, performance materiality and audit misstatement posting threshold relevant to the subject matter of the specific team member's work
- relevant requirements of the applicable financial reporting framework
- other matters
  - Whether the work of the specific team member will be part of the matters to be communicated with those charged with governance, if applicable;
  - How to deal with storage of large amounts of data used by the specific team member, including retention and sign-offs on their work;
  - Establishing a timeline or milestones for the work of the specific team member (e.g. RAPD, kick-off meeting with the audit engagement team, kick-off meeting with management and any management's specialists, timing of communications between the audit engagement team and the specific team member, deadline for completion of procedures to be performed by the specific team member, deadline for obtaining all audit documentation relating to the specific team member's work, expected date of our auditor's report).

#### How might we communicate relevant matters to specific team members?

We may inform the specific team members about relevant matters in various ways but some leading practices include:



- Either inviting the specific team members to attend our planning and risk assessment discussion (RAPD) or, after the RAPD, communicating to the specific team member relevant matters discussed during the RAPD that could affect the specific team member's work.
- Sharing with the specific team members, to the extent considered appropriate in the circumstances of the particular audit, our documentation regarding the RMMs identified with reference to the subject matter of the specific team member's work, our CAR assessment for those identified RMMs, and our planned audit approach to the RMMs, which may include, if applicable, relevant PRPs and controls to be tested, and our planned substantive procedures; in addition, for accounting estimates, communicating to the specific team members the data, assumptions and methods we have identified for the estimate. We consider the feedback provided by the specific team members on these matters.

[When determining the roles and responsibilities of the specific team members, what else might we think about?](#) [ISA | 7672.14136]

If this is not the first year of the specific team member's involvement in our audit, we may review the scope, nature and timing of the specific team member's involvement in the prior year audit and consider whether it is necessary to revise any aspect of their involvement to appropriately respond to changes in identified and assessed risks of material misstatement and/or combined audit risk or for their involvement to be more effective and efficient in the current year.

[How do we evidence our agreement with the specific team member?](#) [ISA | 7672.14137]

Our written agreement of the key aspects that drive the roles and responsibilities of the specific team members may be in the form of:

- a document manually signed by each party outside the KPMG Clara workflow and incorporated into our audit documentation; or
- a sign-off by us and the specific team member on a relevant activity screen and/or attachment in the KPMG Clara workflow.

## 4 Develop the audit plan [ISA | 967]

### What do we do?

Develop an audit plan that describes our planned procedures

### Why do we do this?

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

## Execute the Audit

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

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

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

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

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

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

These key factors include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner reviews and approves the audit plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Elements we may discuss with entity management	How this can help us
Leveraging the entity's work	We may be able to coordinate some of our planned audit procedures with work performed by the entity's own personnel.
Gathering the information to perform our audit	Coordinating with the entity helps us gather the right information at the right time in our audit.
Understanding the entity's internal controls	<p>Upfront planning and conversations with management can help us deepen our understanding of the design of their controls, as well as how the entity evidences controls that we plan to rely on in the audit.</p> <p>If we delay exploring this with the entity, we may identify deficiencies late in the audit. The entity may then be unable to remediate deficient controls before the end of the period - e.g. by improving the control's precision or maintaining sufficient appropriate evidence of its operation.</p>
How we plan to perform our procedures	<p>Improper planning can affect our ability to execute the planned procedures.</p> <p>For example, obtaining audit evidence through observation may only be possible by upfront planning and coordinating with the</p>

entity, so that we are present when the entity executes a control.
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### What are the risks if we involve the entity in planning the audit? [ISA | 967.10941]

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

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

## Examples

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

#### Fact pattern

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

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

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

#### Analysis

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

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

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

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

#### Fact pattern

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

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

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

### **Analysis**

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

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

### **Fact pattern**

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

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

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

### **Analysis**

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

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

### **Fact pattern**

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

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

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

## Analysis

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

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

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

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

## 5 Assess homogeneity of control activities [ISA | 3749]

## What do we do?

IF we are testing controls across locations THEN we assess whether control activities are homogeneous

## Why do we do this?

When we identify that an entity has homogeneous control activities across locations, we design our audit approach accordingly. Consequently, in order to validate the appropriateness of our audit approach, we perform procedures to support our assessment that control activities are, in fact, homogeneous.

## Execute the Audit

[How do we assess whether control activities are homogeneous?](#) [ISA | 3749.1300]

We assess whether control activities are homogeneous by considering [whether locations subject to those control activities have shared characteristics, which indicate homogeneity](#)

When there are shared characteristics, we then:

- [Determine the number of locations to obtain evidence from](#)
- [Perform procedures to confirm our initial assessment of homogeneity](#)
- [Reassess our conclusions and consider the impact on the audit if we identify information that may contradict out initial assessment](#)

[What is a location?](#) [ISA | 3749.12444]

A location is a physical site where an entity conducts aspect(s) of its business. Locations may be in the same country as the entity or abroad. Examples of locations include entities or business units of a group, branches of a retailer, warehouses that hold inventory or regional sales offices. Certain operational and financial records (i.e., supporting documentation) may physically exist at the locations.

[What are examples of sources of information that can help us identify locations?](#) [ISA | 3749.160250]

The following sources of information can help us identify locations:

### Sources of information

Management hierarchies and reporting lines (operational and accounting/finance)

Organizational charts displaying:

- management structures
- geographic locations

Flowcharts/narratives over:

- processes
- IT systems/information flows



Geographical codes in the general ledger

Refer to "[What are examples of sources of information that can help us identify entities or business units of a group?](#)" when locations are entities or business units of a group.

## 5.1 Consider shared characteristics that may indicate homogeneity [ISA | 3750]

### What do we do?

IF we are testing controls across locations THEN consider whether controls at locations have shared characteristics, which indicate homogeneity of control activities.

### Why do we do this?

We perform an initial assessment of homogeneity to determine whether we can take advantage of a homogeneous approach to locations, when performing controls testing. We determine homogeneity by first identifying whether locations share certain characteristics. When we are able to employ a homogeneous audit approach to testing control activities, we can use the results of our control testing at individual locations to draw a conclusion about the operating effectiveness across all locations within that homogeneous population.

## Execute the Audit

[How do we perform an initial assessment of whether control activities are homogeneous?](#) [ISA | 3750.1300]

To perform an initial assessment of whether control activities are homogeneous (i.e. 'homogeneous control activities'), we consider whether locations share characteristics, which indicate homogeneity.

[What are homogenous control activities?](#) [ISA | 3750.160278]

Homogenous control activities are control activities designed centrally and implemented as designed at locations such that they operate consistently across locations.'

[What is a location?](#) [ISA | 3750.12444]

A location is a physical site where an entity conducts aspect(s) of its business. Locations may be in the same country as the entity or abroad. Examples of locations include entities or business units of a group, branches of a retailer, warehouses that hold inventory or regional sales offices. Certain operational and financial records (i.e., supporting documentation) may physically exist at the locations.

[What shared characteristics indicate homogeneity?](#) [ISA | 3750.1400]

The following is a listing of characteristics we consider when assessing the homogeneity of control activities across locations:

Shared characteristics	Indications that control activities may not be homogenous
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The nature and complexity of business activities and types of transactions (sales of products and/or services)	We expect that homogeneous control activities are more likely to be designed and implemented for the processing of more routine transactions that are of the same nature as compared to transactions that are more complex or involve a greater degree of judgment, knowledge and/or expertise. For example, sales of one product across multiple locations that follow the same simple revenue recognition model is more likely to have homogeneous control activities than more complex multiple-element revenue arrangements or unique percentage-of-completion construction projects. Transactions that are more complex or involve a greater degree of judgment, knowledge and/or expertise indicates the related control activities may not be homogenous.
Policies, practices and procedures	Since homogeneous control activities are centrally designed and implemented as designed at locations, differences in policies, practices and procedures indicate the related control activities are not homogenous, because the control activity will not implemented as designed.
The IT system (the application and instance with general IT controls (GITCs)) used to process the transactions	The use of different IT systems and/or instances introduces the possibility of different business processes and different control activities. Processes that use different IT systems, different instances of IT systems or inconsistent RAFITs and/or GITCs across locations indicates the related automated control activities and manual control activities that rely on information from the system are not homogenous.
Process risk points (PRPs)	If there are different PRPs at the locations, it is likely that the nature of the business activities or transactions at the locations are different. Control activities are unlikely to be designed to operate homogeneously when the nature of the business activities or transactions at the locations are different.
Risks of material misstatement (RMM) (including fraud risks)	If we identify that the RMMs are different, it is likely that the nature of the business activities or transactions at the locations are different. Control activities are unlikely to be designed to operate homogeneously when the nature of business activities or transactions at the locations are different.
Control environment, risk assessment process, monitoring of controls	When locations are subject to different control environments, risk assessment processes, information and communication, and/or monitoring activities, it indicates control activities over

and information and communication

those locations are less likely to be designed centrally to operate homogeneously across those locations.

What sources of information may be used to identify whether locations have the shared characteristics that are indicative of homogeneity? [ISA | 3750.1600]

Sources of information may include the following:

- considering prior year audit results
- inquiring of management regarding changes in business, people, processes and transactions

For example, if management does not believe a deficiency identified in one location would apply across the other locations, this is an indicator that control activities are non-homogeneous.

As we assess homogeneity, it is helpful if we ask ourselves the same question. If we later decide that a deficiency does not apply to other locations, we are implicitly concluding that the control activity is not homogeneous.

- considering the results of our evaluation of CERAMIC components
- inquiring of internal audit and inspecting internal audit reports, and
- understanding the flow of transactions.

What do we do if we assess that control activities are homogeneous? [ISA | 3750.1700]

If we assess that control activities are homogeneous, then we may treat them as a single population when performing our audit procedures and draw conclusions across all the locations subject to those control activities.

## 5.2 Determine the number of locations to obtain audit evidence from for homogenous control activities [ISA | 3751]

### What do we do?

IF we are testing control activities that operate homogeneously across locations THEN determine the number of locations to obtain audit evidence from, considering relevant factors

### Why do we do this?

When we are taking advantage of the 'homogeneous approach' for controls testing, we extrapolate our findings at one location to others within the homogeneous population. We therefore do not necessarily perform procedures at every location. In order to draw our conclusions, we determine a sufficient number of locations at which to perform procedures so we can both confirm our initial assessment of homogeneity and to gain audit evidence over the locations to address our identified risks of material misstatement (RMMs).

# Execute the Audit

Do we obtain audit evidence from all locations when we are testing process control activities that operate homogeneously across locations? [ISA | 3751.1300]

Not necessarily. We have a few possible approaches to obtaining audit evidence across locations.

The chart below describes the potential approaches:

Scenario	Guidance
Audit evidence can be obtained centrally but locations are not subject to centralized services	<p>When audit evidence for all locations can be obtained centrally but the locations are not subject to centralized services, we may aggregate the populations of the locations into a single population and perform procedures on that population centrally - for example, by selecting one overall sample from the combined population. When deciding whether to test one overall sample for locations with centralized accounting records, we think about the quality of evidence we are able to obtain centrally, for example whether we will be examining original documentation or we will be speaking directly to personnel that are familiar with the controls and transactions.</p> <p>When audit evidence can be obtained centrally, because centralized services are used to process transactions on behalf of each location, we follow the guidance in '<a href="#">Design specific procedures to be performed over the centralized services</a>'.</p>
Audit evidence exists at each location	<p>We may obtain evidence from certain locations when <b>our initial assessment indicates that the process control activity operates homogeneously at all of the locations</b>. When we have determined that the combined population is homogeneous, we can apply our conclusions from the locations we obtained audit evidence from to all locations. We follow the guidance in this activity and '<a href="#">Allocate the control sample size when testing homogenous control activities</a>' to determine the number of locations, sample sizes and number of items at each location.</p>

How do we determine which approach to use to obtain audit evidence across locations? [ISA | 3751.12482]

When it is not practical to obtain audit evidence from all locations or obtain audit evidence centrally from an aggregated population, we select some locations to obtain evidence from.

How do we determine the number of locations when we are obtaining audit evidence from certain locations? [ISA | 3751.1400]

We use the suggested number of locations table as a starting point to assist us in determining the number of locations to obtain evidence from when we are testing the operating effectiveness of control activities that operate homogeneously across locations. The suggested number of locations is not a minimum number.

When determining the number of locations to obtain evidence from, we consider the assessed RAWTC to determine whether the suggested number in the locations table is appropriate to the specific circumstances or whether it is necessary to adjust the number (either up or down).

**Suggested number of locations table:**

Total number of locations subject to the homogeneous control activity	Suggested number of locations to obtain audit evidence from
3 or less	All
10	3
25	7
50	12
100	20
1,000+	30

Where our total number of locations is not shown in the table we may pro rate the suggested number of locations to obtain audit evidence from. For example, if there are 40 locations, it may be appropriate to determine the suggested number of locations to be 10 locations (calculated as  $(12-7)/(50-25) \times (40-25) + 7$ ) and then consider any necessary adjustments based on RAWTC.

For example, in a scenario where an entity has 10 locations subject to a homogeneous control activity, and RAWTC is Base, we have chosen to obtain evidence from 3 of those locations. In the event we have identified an elevated RAWTC, we may decide to obtain evidence from 4 locations. When selecting locations to obtain evidence from, we may also want to include an element of unpredictability.

**Do we obtain audit evidence from all locations when there are 3 or fewer locations?** [ISA | 3751.6249]

There may be situations where we determine not to obtain audit evidence from all locations when there are 3 or fewer locations.

For example, if inventory is maintained in 3 locations and only a small proportion of transactions are processed at one location and make up a small proportion of the relevant account balance, we may decide it is appropriate to only obtain audit evidence from the two locations that contain the vast majority of the transactions and account balance.

**If we can treat the results of testing for one location as applying to all, why do we obtain evidence from more than one location?** [ISA | 3751.1600]

We obtain audit evidence from more than one location to gain sufficient appropriate audit evidence that the control activity operates homogeneously across locations. We obtain audit evidence from enough locations and perform controls testing to support our initial assessment that the control activity operates homogeneously across locations.

[How do we select the locations to obtain audit evidence from?](#) [ISA | 3751.1700]

We select the locations randomly or haphazardly - i.e., without bias. This may include selecting different locations from the prior year.

[Can we exclude certain locations from selection?](#) [ISA | 3751.12484]

No, we cannot exclude any locations from selection and all locations are eligible for selection each audit period. When we assess control activities as homogeneous, we are saying that operation of the control activity at one location is deemed representative of the operation of the control activity at all locations.

If a location has no chance of selection (for example, because of remote geographical location), it is excluded from the population and treated as a separate population.

## 5.3 Perform procedures to confirm homogeneity assessment [ISA | 3752]

### What do we do?

IF we are testing control activities that operate homogeneously across locations THEN perform procedures to confirm our initial assessment of homogeneity.

### Why do we do this?

Our initial assessment is based only on *indications* of homogeneity from shared characteristics. We do not reach a conclusion on homogeneity until we perform our audit procedures and evaluate the related findings. After completing our initial assessment, we perform procedures to confirm that assessment. The procedures we perform allow us to:

- Confirm that the control activity at the locations is in fact homogeneous in nature (through our procedures to obtain an understanding of the business processes and through our tests of the design of the control activity); and
- Reach a conclusion on the design and effective operation of the control activity that address the RMM(s) at those locations.

## Execute the Audit

[Enhanced | What procedures do we perform when confirming a control activity is homogeneous?](#) [ISA | 3752.1300]

We perform the following procedures at locations we obtain evidence from to confirm that the control activity operates homogeneously:

- Evaluate the design and implementation, and test the operating effectiveness of the control activity
- Compare the results of the procedures at locations. If we identify deficiencies at certain locations that we determine are isolated, and not representative of control failures at the other locations, this may indicate the control activity does not operate homogeneously across locations.
- Consider the results of substantive procedures related to the RMMs addressed by the control activity. If we identify misstatements at certain locations that we determine are isolated, and not representative of misstatements at the other locations, this may indicate the control activity does not operate homogeneously across locations.

We may also perform the following procedures at locations we obtain evidence from to confirm that the control activity operates homogeneously:

- Confirming that the relevant CERAMIC processes, such as monitoring activities, are applied at the locations
- Performing either (i) a walkthrough or (ii) inquiry and observation or inspection of the process that contains the homogeneous control activity. See question "[How do we obtain an understanding of business processes?](#)" for guidance on when to perform (i) a walkthrough or (ii) inquiry and observation or inspection based on the applicable International-Enhanced methodology.

If we are not performing procedures over the location ourselves, we may provide flowchart/process narratives and tests of design results to the participating auditor performing the work.

#### Core and Less Complex | What procedures do we perform when confirming that a control activity is homogeneous? [ISA | 3752.1301]

We perform the following procedures at locations we obtain evidence from to confirm the control activity operates homogeneously:

- Evaluate the design and implementation, and test the operating effectiveness of the control activity.
- Compare the results of the procedures at locations. If we identify deficiencies at certain locations that we determine are isolated, and not representative of control failures at the other locations, this may indicate the control activity does not operate homogeneously across locations.
- Consider the results of substantive procedures related to the RMMs addressed by the control activity. If we identify misstatements at certain locations that we determine are isolated, and not representative of misstatements at the other locations, this may indicate the control activity does not operate homogeneously across locations.

We may also perform the following procedures at locations we obtain evidence from to confirm that the control activity operates homogeneously:

- Confirming that the relevant CERAMIC processes, such as monitoring activities, are applied at the locations
- Performing either (i) a walkthrough or (ii) inquiry and observation or inspection of the process that contains the homogeneous control activity. See question '[How do we obtain an understanding of business processes?](#)'

If we are performing procedures at the location ourselves, we provide flowchart/process narratives and tests of design results to the participating auditor performing the work.

What do we do if we find information that disconfirms our initial assessment of homogeneity? [ISA | 3752.1400]

If we find information that disconfirms our initial assessment of homogeneity, we perform procedures in accordance with the activity '[Reassess homogeneity and consider audit impact if we identify disconfirming information](#).'

## 5.4 Reassess homogeneity and consider audit impact if we identify disconfirming information [ISA | 3753]

### What do we do?

IF we identify information that may disconfirm our initial assessment of the homogeneous operation of control activities across locations THEN reassess homogeneity and consider impact on the audit

### Why do we do this?

Although we may initially determine that certain control activities operate homogeneously across locations, we continue to reassess this conclusion throughout the audit. If we identify disconfirming evidence to this assessment when performing our audit procedures, it calls into question the appropriateness our audit approach.

### Execute the Audit

How do we reassess the homogeneity of control activities? [ISA | 3753.1300]

To reassess the homogeneity of control activities, we:

- Consider confirming/disconfirming evidence to determine whether our initial assessment that the control activities operate homogeneously across locations remains appropriate
- Assess whether the disconfirming evidence means it is necessary to change our initial assessment

When do we reassess homogeneity of control activities? [ISA | 3753.1400]

We reassess the homogeneity of control activities throughout the audit and each audit period that we are engaged as the auditor. It is not a "one-off" assessment and is performed as soon as we are aware of disconfirming information.

What information may contradict our initial assessment of homogeneity? [ISA | 3753.1500]

Any of the following occurrences (in isolation or in combination with others) may be information that disconfirms our initial assessment of homogeneity as it implies that locations may not share characteristics that indicate that a control activity operates homogeneously across those locations:

- Control deficiencies and/or misstatements identified by us at certain locations that we determine are isolated and not representative of control failures or misstatements at the other locations.
- Changes in the business activities of one or more of the locations
- Changes in the factors at certain locations that impact RAWTC - e.g. turnover of personnel operating the control activities, implementation of new IT systems.



- The results of management's assessment of internal controls or internal audit findings suggesting that the control activities do not operate homogeneously.

### What is the impact of determining that control activities do not operate homogeneously across locations?

[ISA | 3753.1600]

When control activities do not operate homogeneously across some locations, we identify the control activities at those locations as separate controls and determine if they are relevant control activities.

We update our audit plan for these changes in accordance with activity '[Modify the audit strategy and audit plan if circumstances change](#)'. Since we wouldn't be able to draw a conclusion across those locations, we may also perform procedures at more locations than originally selected for testing. We also may have new risks to address, for example, new process risk points, at those locations.

If we incorrectly identify control activities as homogeneous, this can lead to significant levels of additional work towards the end of the audit, and impact on our ability to report in accordance with the timetable agreed with entity management. We therefore apply appropriate skepticism to our initial assessment that control activities operate homogeneously across locations.

## 6 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 <a href="#">obtain an understanding</a> of the participating auditor. However, it is not necessary to <a href="#">obtain information in writing about their applicable experience and training</a></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 '<a href="#">Evaluate the results of our understanding</a></p>

	<p><a href="#">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</a> 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 '<a href="#">Determine SPM if applicable</a>' 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 <a href="#">direct and supervise the participating auditor and review their work</a>. To direct and supervise their work we:</p> <ul style="list-style-type: none"> <li>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"> <li>- the Elevated and Significant RMMs of the financial statements that are associated with the location</li> <li>- performance materiality or SPM and</li> <li>- AMPT</li> </ul> </li> <li>when further audit procedures are designed by the participating auditor: <ul style="list-style-type: none"> <li>- obtain and review the participating auditor's written description of the planned audit procedures over Elevated and Significant RMMs</li> <li>- 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</li> </ul> </li> <li>obtain and review a written confirmation as to whether the participating auditor has performed the work in accordance with our instructions and</li> <li>direct the participating auditor to provide specified documentation concerning the work requested to be performed, such as the Clearance Memorandum.</li> </ul> <p>The Group Audit Instructions templates may be adapted to direct the participating auditor and <a href="#">to communicate their responsibilities and our expectations</a>.</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 ' <a href="#">What qualitative factors do we think about when determining which other components to select for review of their audit documentation in their audit file?</a> ' for the qualitative factors.
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 ' <a href="#">Evaluate the component auditor's communication and adequacy of their work</a> '.

#### 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.

## 7 Plan the work to be performed when centralized services exist [ISA | 7637]

### What do we do?

Plan the work to be performed when centralized services exist

### Why do we do this?

Entities centralize services to perform consistent transaction processing, record keeping and IT services for locations. In order to efficiently and effectively perform audit procedures, we plan the work to be performed over the centralized services.

## Execute the audit

### What are centralized services? [ISA | 7637.1301]

Centralized services may be performed by centralized service teams that may be part of the head office or an entity or business unit or by a formal shared services center (SSC) that is a separate entity or business unit within an organization focusing only on the services provided. SSCs or centralized service teams are responsible for the execution of specific tasks (i.e. services) for the parent entity and/or entities or business units within that group (i.e. Centralized Services users). Examples of centralized services include transactional accounting, procurement, payroll, information technology, and facility management.

Centralizing services enables larger entities to standardize procedures and practices, save costs by creating economies of scale and improve the control environment through separation and centralization of certain activities within an organization.

For example, often IT systems are centralized within an organization and managed by a centralized IT team.

When third parties provide centralized services to an organization, they are service organizations, and we perform the activities in the chapter on service organizations ([AS 2601](#), [ISA 402](#), [AU-C 402](#)).

### How do we plan procedures when centralized services exist? [ISA | 7637.12872]

We perform the following:

- [Determine whether centralized services are relevant to the audit](#)
- [Determine who will perform the procedures over the centralized services and the procedures to be performed](#)
- [Obtain an understanding of the centralized services](#)
- [Design procedures to be performed over the centralized services](#)

When we use the work of Centralized Services (CS) auditor, we also:

- [Communicate the nature, timing and extent of the procedures to be performed over the centralized services](#)
- [Evaluate communications from the Centralized Services auditor](#)

## 7.1 Determine whether centralized services are relevant to the audit [ISA | 1627]

### What do we do?

Determine whether centralized services, including shared services centers, exist and understand the centralized services to determine if they are relevant to the audit

## Why do we do this?

Groups centralize services to perform consistent transaction processing, record keeping and IT services for locations. In order to efficiently and effectively perform audit procedures, we identify whether they exist and understand and plan the work to be performed over these centralized services.

## Execute the Audit

### What are centralized services? [ISA | 1627.1301]

Centralized services may be performed by centralized service teams that may be part of the head office or an entity or business unit or by a formal shared services center (SSC) that is a separate entity or business unit within an organization focusing only on the services provided. SSCs or centralized service teams are responsible for the execution of specific tasks (i.e. services) for the parent entity and/or entities or business units within that group (i.e. Centralized Services users). Examples of centralized services include transactional accounting, procurement, payroll, information technology, and facility management.

Centralizing services enables larger entities to standardize procedures and practices, save costs by creating economies of scale and improve the control environment through separation and centralization of certain activities within an organization.

For example, often IT systems are centralized within an organization and managed by a centralized IT team.

When third parties provide centralized services to an organization, they are service organizations, and we perform the activities in the chapter on service organizations ([AS 2601](#), [ISA 402](#), [AU-C 402](#)).

### Who gets involved in an audit of an entity that centralizes services? [ISA | 1627.1400]

When we audit an entity that centralizes services, the following participants are involved in the audit:

Participant	Description
Centralized Services (CS) user	A CS user is who receives or uses the centralized services provided.
Centralized Services (CS) user auditor	The CS user auditor is an auditor who performs procedures on the financial statements/financial information of the CS user. This could be as part of an entity with multiple locations, a group audit, or separate stand-alone audits (e.g., statutory audits).
Centralized Services (CS) auditor	The CS auditor is the auditor who performs audit procedures over the centralized services on behalf of the CS user auditors.

	<p>The CS auditor may be:</p> <ul style="list-style-type: none"> <li>• the group auditor,</li> <li>• a CS user auditor, or</li> <li>• another auditor.</li> </ul>
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How do we determine whether centralized services are relevant to the audit? [ISA | 1627.1500]

We determine whether centralized services are relevant to the audit by:

- [Determining whether centralized services exist](#)
- [Obtaining an understanding of the centralized services and determine whether those are relevant to the audit.](#)

## 7.1.1 Determine whether centralized services exist

[ISA | 1628]

### What do we do?

Determine whether centralized services, including shared services centers (SSC's), exist.

### Why do we do this?

To plan the audit appropriately, we identify whether the entity centralizes services. This may influence the nature, timing and extent of our audit procedures.

## Execute the Audit

How do we determine whether centralized services exist? [ISA | 1628.1300]

During our risk assessment procedures, when we obtain an understanding of the entity, we may:

- inquire of management about the existence of centralized services, including SSC's,
- review information to understand how the entity is organized, e.g.:
  - consolidating hierarchies, schedules and reporting packages
  - management hierarchies and reporting lines (operational and accounting/finance)
  - organizational charts displaying management structures, tax/legal entity structures, and geographic locations
  - listings of reporting
- obtain information from CS user auditors.

We may share our understanding of the centralized services with the CS user auditors in the group audit instructions or audit instructions to participating auditors.

In addition to our initial understanding, we and the CS user auditors may become aware of the existence of centralized services throughout our audit. For example, when we:

- understand the nature of transactions within CS users
- perform audit procedures over the expenses recorded at CS users.

- perform process understanding (e.g. during a walkthrough we may identify that transaction processing is performed by another party such as centralized service team or SSC), etc.

#### Are centralized services a component? [ISA | 1628.1400]

Centralized services may be identified as a component. We may identify centralized services as a component when it is appropriate to combine the significant account balances of entities or business units subject to the centralized services into a single population for purposes of group audit scoping and performing substantive audit procedures.

For example, it may be appropriate to combine the payroll-related significant accounts for multiple entities or business units and identify a centralized services component when:

- centralized payroll services are performed and
- we plan to perform substantive audit procedures over those payroll-related significant accounts as a single population.

However, it may not be necessary to identify a centralized services component when:

- the centralized services only pertain to GITCs and do not include transaction processing (i.e. initiating and recording transactions) and
- we plan to perform substantive audit procedures over the significant accounts of the entities or business units separately.

#### Group Audit | What is a component? [ISA | 1628.1700]

A component is an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for the purposes of planning and performing audit procedures in a group audit.

## 7.1.2 Obtain an understanding of the centralized services [ISA | 1629]

### What do we do?

Obtain an understanding of the centralized services to determine whether they are relevant to our audit.

### Why do we do this?

Understanding the centralized services helps us to identify whether they are relevant to the audit and enable us to plan the work to be performed over the centralized services, including shared services centers (SSCs).

## Execute the Audit

#### What types of centralized services do centralized service teams, including SSCs, provide? [ISA | 1629.1300]

Centralized services can be classified into the following main categories:



Service	Description
Transaction processing	<p>A centralized service team or SSC may initiate and/or record transactions authorized by the Centralized Services (CS) users and report back information about the processed transactions.</p> <div> <p>An example of centralized services related to the initiation of transactions would be a centralized service team that negotiates all rental agreements for CS users and maintains the signed agreements centrally. After negotiation, the CS user is responsible for accounting for those agreements.</p> <p>An example of centralized services related to the recording of transactions would be a centralized service team that processes monthly payroll approved by the CS user's management, which includes processing payroll disbursements and recording the monthly payroll amounts in the CS user's sub ledger and general ledger.</p> </div>
Financial statement processing/ Financial information processing	<p>A centralized service team or SSC prepares and reports on the financial statements / financial information of a CS user.</p> <p>When a centralized service team or SSC performs these services, they may be non-routine and require more judgement. This may also include decision-making processes.</p>
IT services	A centralized service team or SSC manages IT systems on behalf of CS users (e.g. performs GITCs).
Hybrid of the above	A centralized service team or SSC may provide some or all of the service categories described above to the CS user.

#### What do we do to obtain an understanding of the centralized services? [ISA | 1629.1400]

As part of understanding the entity during risk assessment, we may:

- request group management, management of the user entity, and/or management of the centralized service team or SSC to provide a list of:
  - all the centralized services provided to the CS users
  - the CS users
- inquire of group management, management of the user entity, and/or management of the centralized service team or SSC as to which components issue separate standalone audited financial statements.

We may perform these procedures and then share our understanding with the CS user auditors.

What information is relevant to our understanding of the centralized services provided to Centralized Services (CS) users? [ISA | 1629.160032]

The following table sets out relevant information to our understanding of the centralized services provided to the Centralized Services (CS) users.

Understanding over the centralized services, including SSCs	Information that can enhance our understanding
Management	Organizational structure of management
Nature of the centralized services provided and the list of CS users	<p>List and description of:</p> <ul style="list-style-type: none"> <li>the CS users and services provided to them and the related processes and controls relevant to financial reporting</li> <li>the key features of any agreements in place with the CS user.</li> </ul>
IT environment	<ul style="list-style-type: none"> <li>Description of the IT systems within the relevant processes.</li> <li>Description of the IT-interface that exists, if any, between the IT systems used by the centralized service team or SSC and the CS users.</li> <li>Description of the IT processes related to the centralized services</li> <li>Whether a central IT system is addressed by the same GITCs for all or part of the group and who manages them.</li> <li>Whether control activities within an IT system are common for all or some CS users.</li> <li>Description of cybersecurity risks and incidents related to the centralized services</li> </ul>
ICFR over the centralized services, including at the SSCs	<ul style="list-style-type: none"> <li>Flowcharts of the centralized processes, including PRPs and process control activities</li> <li>Whether the processes identified are subject to common controls and procedures that apply consistently across all CS users.</li> <li>CERAMIC principles/elements that are addressed by the centralized service team or SSCs.</li> <li>Layers of technology, RAFITS and GITCs relevant to the centralized services.</li> </ul>
Use of another service provider	<ul style="list-style-type: none"> <li>List of any service providers used by the centralized service team or SSC, the services they provide, and any relevant controls at the service provider.</li> </ul>

Internal audit	<p>If the internal audit department performs procedures over the centralized services or at the SSC, information about internal audit may include:</p> <ul style="list-style-type: none"> <li>• whether the centralized services or SSC are included in the group's internal audit scope or monitored by a separate internal audit department</li> <li>• whether internal audit performs its own testing</li> <li>• who receives the results of testing performed by the internal audit department</li> <li>• whether the findings of internal audit over the centralized services are responded to in writing</li> </ul>
Reporting	<ul style="list-style-type: none"> <li>• To whom does management of the centralized service team or SSC report</li> <li>• Whether the centralized services include preparation of periodic financial statements/ financial information for the CS users.</li> </ul>

#### What do we do when centralized services use another service provider? [ISA | 1629.160033]

When the additional service provider is internal to the group ('centralized subservices'), we treat them as centralized services and follow the guidance for centralized services. In this circumstance, the subservice CS auditor will often interact directly with the CS user auditors, rather than reporting to the CS auditor.

In this case, the CS auditor identifies the controls at the centralized subservice provider that are relevant to the centralized services.

When the service provider is external to the group, the CS auditor applies the service organizations topic ([AS 2601](#), [AU-C 402](#), [ISA 402](#)). In this case, the CS auditor often evaluates the work performed by the service organizations and communicates this evaluation to the CS user auditors.

#### Are all centralized services relevant to our audit? [ISA | 1629.1500]

Centralized services may include operational services that have no financial reporting implications, such as asset management or logistical services. If we do not consider these services relevant to our audit, we may identify these services but indicate they are not relevant to our audit.

#### What factors do we evaluate when determining whether the centralized services are relevant to our audit?

[ISA | 1629.1600]

The following factors help us determine which centralized services may be relevant to our audit:

- the nature and materiality of the transactions centrally processed whether relevant controls over process risk points (PRPs) for each RMM or risks arising from IT (RAFIT) are performed by the centralized service team or SSC or by the CS user,
- whether substantive procedures alone cannot provide sufficient appropriate audit evidence, and
- whether information necessary to perform substantive procedures is available at the at the CS user or is maintained by the centralized service team or SSC.

**When might centralized services be relevant to an audit?** [ISA | 1629.1700]

The centralized services and the controls over them, may be relevant to an audit of the following:

- audits of entities with multiple locations
- group financial statements,
- financial statements/financial information of CS users performed for group audit purposes, and/or
- audited financial statements of CS user prepared for statutory or other local reporting purposes (e.g. statutory audits).

**What do we do when the centralized services are relevant to the audit of the CS user(s)?** [ISA | 1629.1800]

In developing our audit plan, we determine who will perform the procedures over the centralized services and the type of procedures to be performed (see activity '[Determine who will perform the procedures over the centralized services and the type of procedures to be performed](#)').

**Who documents the understanding obtained over the centralized services provided by the centralized services, including SSCs?** [ISA | 1629.160034]

The CS auditor is typically responsible for documenting the understanding of the centralized services. However, the group auditor and/or the CS user auditors may share their understanding of the centralized services and the related processes and controls to assist the CS auditor with their documentation.

## Examples

**What is an example of how we determine whether the centralized services are relevant to our audit?** [ISA | 1629.8881]**Fact pattern**

As part of understanding the group and its environment, we identify a shared services center that provides centralized payroll services for the rest of the business units within the group. Specifically, the centralized services include:

- determining the biweekly payroll based on data provided by group HR
- paying the calculated payroll after approval by business unit management, and
- posting the necessary journal entries to record the payroll.

**Analysis**

We and the component auditors (CS user auditors) determined that those centralized services are relevant. Because of geographical considerations, the group auditor involves a separate CS auditor to perform procedures over the relevant services provided by the SSC.

## 7.2 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](#)

## 7.2.1 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

#### Group Audit | When may the group auditor be the Centralized Services auditor? [ISA | 1631.1700]

##### **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.

## 7.3 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 RAFITs 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 use 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.

## 7.4 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</i></p>



		<i>balance recorded by entity and the results of MUS evaluation.</i>
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 were achieved during the period tested)	<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"> <li>• a summary of controls that address the control objective;</li> <li>• a description of the audit procedures and results; and</li> <li>• a conclusion on whether the control objective has been achieved</li> </ul>	<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 and that payroll data is processed completely and accurately.</i></p>

## 7.5 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?](#)'.

## 8 Modify the audit strategy and audit plan if circumstances change [ISA | 969]

### What do we do?

IF circumstances change significantly during the course of the audit, THEN modify the overall audit strategy and the audit plan as necessary AND document significant modifications.

### Why do we do this?

As we perform and evaluate the results of our audit procedures, our findings may cause us to change our risk assessments or other audit decisions.

As with other audit activities, we stay alert for new information as the audit progresses, and we modify the overall audit strategy and the audit plan as appropriate. If we don't, we may not obtain sufficient appropriate audit evidence to support our opinion.

## Execute the Audit

[What circumstances might lead us to modify our audit strategy and audit plan?](#) [ISA | 969.1300]

We may modify our audit strategy and audit plan at any point in the audit. We often make changes when we learn new information during the audit.

Circumstances when we might modify our audit strategy or audit plan include:

- the occurrence of significant events (e.g. business acquisitions or dispositions);
- external forces that affect the entity (e.g. a deterioration in economic conditions);
- the results of our audit procedures (e.g. identifying misstatements or control deficiencies);
- changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

When we modify our overall audit strategy and audit plan because of significant changes in circumstances, this may include modifying our original risk assessment procedures and planned tests of controls and/or substantive procedures, as well as changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

Remember that planning is not a discrete phase of the audit - it's an iterative process that continues until the audit is complete. We therefore remain alert to potential changes and how they might affect our overall audit strategy and audit plan.

[Group Audit | What circumstances might lead us to modify the audit strategy and audit plan in a group audit?](#) [ISA | 969.1310]

The same [circumstances that might change our audit strategy or audit plan in a stand-alone audit](#) may also change our overall group audit strategy and group audit plan in a group audit.

However, certain circumstances that might change our audit strategy or audit plan apply only to a group audit. For example, in a group audit, we focus on changes in circumstances that may change the identification of components or procedures to be performed.

As the group auditor, we consider new or different information about the group and its components throughout the audit.

If there is new information or significant changes from our initial decisions in planning, we consider whether to change the identification of components or the nature, timing or extent of work we will perform over those components.

For example, changes to our group audit scoping may be necessary when:

- the group structure has changed (e.g. new acquisitions or dispositions of components);
- changes in the risks of material misstatement identified and assessed during the audit might lead us to modify the work to be performed over components;
- there have been significant changes in the financial information of the components (e.g. the financial information at the component level differs from what we initially expected during planning);
- we develop less than serious or serious concerns regarding the component auditors during the audit;
- we identify deficiencies in the group's control environment or monitoring activities which may affect how we evaluate the remaining financial information where further audit procedures haven't been performed;
- there are restrictions to access imposed by group management or other circumstances that was not previously identified;
- there are significant changes to the nature, timing and extent of the planned direction and supervision of component auditors and the review of their work.

#### Group Audit | How might an acquisition affect our group audit plan? [ISA | 969.10959]

The acquisition of a business may mean that, as the group auditor, we decide to:

- perform procedures at that newly acquired business; and/or
- reassess our selection of significant accounts/disclosures of the group financial statements or components where procedures are to be performed.

#### Group Audit | How might a disposal affect our group audit plan? [ISA | 969.10960]

The disposal of a business may mean that, as the group auditor, we decide that:

- we will no longer perform procedures at the disposed component;
- we will reassess our selection of significant accounts/disclosures of the group financial statements or components where procedures are to be performed; or
- we will re-assess our review of component auditor work papers.

For example, we may reassess our selection if:

- a component may be identified as quantitatively significant; or
- we've changed our evaluation of whether there's a reasonable possibility of an RMM in the remaining financial information.

#### Group Audit | Do we update our group audit scoping analysis with the final financial information? [ISA | 969.1320]

Yes. As the group auditor, we update our group audit scoping analysis with the final financial information of the components and the group.

#### What are the implications of modifying our audit strategy or audit plan? [ISA | 969.1500]

We capture all modifications to our audit strategy or audit plan in our audit file so that the audit documentation reflects the final overall audit strategy and audit plan.

We also document the rationale for any significant modifications to our audit strategy or audit plan.

If we change the overall audit strategy and audit plan as a result of the review and approval process, then this is not considered a modification.

#### When are modifications to our audit plan or audit strategy considered significant? [ISA | 969.1600]

We apply our judgment to determine whether a modification is significant. Modifications are often significant when they relate to:

- our overall audit scoping decisions;
- materiality measures;
- significant risks;
- broad or major changes to our planned audit procedures; or
- the timing or scope of key audit activities.

#### Why do we document significant modifications to our audit plan and audit strategy? [ISA | 969.1700]

We maintain a record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures as this explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit.

## Examples

#### How might we modify our audit strategy and/or audit plan? [ISA | 969.1800]

The following table provides examples of how we might modify our audit strategy and/or audit plan when we identify changes during an audit.

Type of change	Example	Example modifications to audit strategy and/or plan
<b>Unexpected events, changes in conditions (including economic conditions), or audit evidence obtained during the audit</b>	A major customer, representing 30% of the entity's revenues, cancels their contract with the entity.	<ul style="list-style-type: none"> <li>• Reassess whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable time period.</li> <li>• Perform additional procedures to evaluate the entity's ability to</li> </ul>

		<p>continue as a going concern.</p> <ul style="list-style-type: none"> <li>• Consider whether materiality remains appropriate.</li> <li>• Reassess RMMs related to the recoverability of long-lived assets or inventory.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work for the areas impacted.</li> </ul>
<p><b>Identification of financial statement level risks after we determined our audit strategy</b></p>	<p>Through our control testing, we identify issues related with the entity's control environment (i.e. significant deficiencies and/or material weakness) -specifically, management's commitment to attract, develop, and retain competent individuals.</p>	<ul style="list-style-type: none"> <li>• Reassess our evaluation of fraud risk factors and identification of fraud risks.</li> <li>• Understand the root cause of issues related with the entity's control environment (i.e. significant deficiencies and/or material weakness) and consider other internal control deficiencies that might exist, as well as how they may affect the assertion-level risks of material misstatement.</li> <li>• For risks of material misstatement and the specific significant accounts, disclosures and relevant assertions the deficiency affects, consider whether we need to alter the nature, timing, and extent of</li> </ul>

		<p>substantive procedures and/or procedures to test internal controls.</p> <ul style="list-style-type: none"> <li>Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<b>Identification of significant accounts and disclosures initially identified as non-significant</b>	<p>Prepaid expenses was initially determined to be a non-significant account. During the year, the entity made a change to its insurance policies requiring it to prepay all of its insurance policies in advance and causing the balance in this account to increase significantly.</p>	<ul style="list-style-type: none"> <li>Designate prepaid expenses as a significant account and identify the relevant assertions and any risks of material misstatement associated with the account.</li> <li>Plan and perform sufficient, appropriate audit procedures over all the assessed RMMs, including testing internal controls over financial reporting in an integrated audit or where we plan to test the operating effectiveness of controls.</li> <li>Reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work related to prepaid expenses.</li> </ul>
<b>Revisions to materiality, performance materiality, and specific performance materiality</b>	<p>The entity's financial results are less than we initially estimated when we set materiality levels, so</p>	<ul style="list-style-type: none"> <li>Consider whether we need to update our sample selections, based on updated</li> </ul>



	<p>materiality, performance materiality, and specific performance materiality measures for all accounts are reduced by significant amounts.</p>	<p>materiality measures, and perform audit procedures on any additional sample items.</p> <ul style="list-style-type: none"> <li>• Consider whether we need to update the acceptable differences determined for our planned substantive analytical procedures.</li> <li>• Consider whether we need to update our assessment of whether controls are sufficiently precise to detect material misstatements</li> <li>• Consider whether we need to reassess our assessment of RMMs and significant accounts and assertions.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<p><b>Changes in the timing of our audit procedures</b></p>	<p>Because of delays, we are unable to perform test work we initially planned to perform as of an interim date.</p>	<ul style="list-style-type: none"> <li>• Reassess the resources assigned to the engagement during final fieldwork, and obtain additional resources as appropriate.</li> <li>• Consider whether we need to reassess the nature and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>

<p><b>Changes in the involvement of the internal audit function</b></p>	<p>The internal audit director is replaced in June by a key member of the accounting department.</p>	<ul style="list-style-type: none"> <li>• Reassess our conclusions about the competence and objectivity of the internal auditors.</li> <li>• Based on our reassessment, determine whether we need to modify the audit plan to perform certain procedures ourselves, rather than using the work of internal auditors as planned.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<p><b>Identification of service organizations used by the entity that we were initially not aware of</b></p>	<p>When we perform our walkthrough of the payroll process, we determine that the entity uses a service organization to process payroll for one of its locations.</p>	<ul style="list-style-type: none"> <li>• Obtain an understanding of the nature of the services provided by the service organization.</li> <li>• Determine the audit procedures we perform over the service organization (e.g. obtaining a service auditor's report, performing specific audit procedures at the service organization).</li> <li>• Reassess the nature, timing and extent of direction and supervision of engagement team members and the review</li> </ul>

		of their work for the areas impacted.
<b>Changes to the combined assessed risk (CAR) level</b>	Results for a particular reporting unit are significantly below the entity's budget for the period. We determine that a significant risk is now associated with the valuation of goodwill for that reporting unit and increase CAR	<ul style="list-style-type: none"> <li>• Alter the nature timing and extent of planned procedures to obtain more persuasive audit evidence about projected financial information used by the entity in their annual impairment test.</li> <li>• For example, we may evaluate additional external evidence (e.g. from industry experts, comparing peer companies) when we evaluate the reasonableness of management's assumptions about revenue growth.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<b>Identification of misstatements</b>	While performing audit procedures, we identify misstatements related to the values of certain pension plan assets. The entity uses the same processes and techniques to value their available-for-sale (AFS) investments, so there may be other misstatements that could be material when aggregated with	<ul style="list-style-type: none"> <li>• Reassess CAR for the risks related to the valuation of pension plan assets and AFS investments.</li> <li>• Reconsider the nature, timing and extent of our testing over the value of pension plan assets and AFS investments. For example, we may decide to increase the</li> </ul>

	misstatements accumulated during the audit.	<p>number of sample items we select and test.</p> <ul style="list-style-type: none"> <li>• Reconsider the nature, timing and extent of the participation of a specialist in the audit. For example, specialists with skills in valuation services may be able to value some securities independently.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of other engagement team members and the review of their work.</li> </ul>
<b>The aggregate of misstatements accumulated during the audit approaches materiality</b>	As we document the audit misstatements accumulated during the audit, we determine that the aggregate of all misstatements is approximately 95% of materiality.	<ul style="list-style-type: none"> <li>• Consider reducing performance materiality and specific performance materiality measures, and re-evaluate the sufficiency of our audit procedures.</li> <li>• Determine whether there are certain accounts or assertions where misstatements primarily exist or whether there are risks of material misstatement that represent higher inherent risk; if so, we perform additional procedures or increase the extent of testing (e.g. increasing sample sizes) so we obtain more persuasive audit evidence.</li> </ul>

		<ul style="list-style-type: none"> <li>• Ask management to record all misstatements identified.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<b>Identification of potential inconsistent or contradictory evidence while performing other audit procedures</b>	<p>While performing audit procedures over the recoverability of deferred income tax assets, we identify that the projected financial information (PFI) used to support management's conclusions is significantly different to that used in management's annual goodwill impairment analysis.</p>	<ul style="list-style-type: none"> <li>• Understand why management used different PFI, and evaluate which PFI is appropriate.</li> <li>• Perform additional procedures to determine the reliability of the PFI.</li> <li>• Evaluate the effect on management's conclusion if the appropriate PFI is different from that used by management.</li> <li>• Consider the impact on our conclusions about ICFR and management bias, and what other areas of the audit may be affected.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review.</li> </ul>

## 9 Direct and supervise the engagement team and review their work [ISA | 767]

### What do we do?

The engagement partner takes responsibility for the direction, supervision, and performance of the audit in compliance with applicable professional standards, legal and regulatory requirements and the firm's policies and procedures, and the review of the work performed.

### Why do we do this?

Direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement.

The engagement partner may seek assistance from appropriate engagement team member(s) in fulfilling their responsibilities to direct, supervise, and perform the engagement and review the work performed by the engagement team members. However, under law, the engagement partner may be held personally accountable (as well as accountable on behalf of KPMG) for the audit and the auditor's report and consequently, at all times, retains responsibility for the engagement and its performance.

## Execute the Audit

### Who is an engagement partner? [ISA | 767.160164]

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

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

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

### Who is an "other audit partner"? [ISA | 767.1600]

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

## Who comprises an engagement team? [ISA | 767.1300]

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

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

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

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

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

The engagement team does not include:

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

## Who is a 'service provider'? [ISA | 767.159667]

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

## What do we consider when engaging individuals who are not personnel (i.e. partners and staff in our member firm) to perform audit procedures? [ISA | 767.159995]

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

#### Who is a 'specialist'? [ISA | 767.14104]

A specialist is an individual (or firm) that possesses special skill or knowledge in a particular field other than accounting or auditing whose work is used to assist us in obtaining sufficient appropriate audit evidence. While different auditing standards refer to these individuals (or firms) as 'specialists' or 'experts', we refer to them as 'specialists'.

#### Are there different categories of specialists? [ISA | 767.14108]

Yes. We categorize specialists into three types depending on their role and relationship to the audit engagement:

- employed KPMG specialists - specialists who are partners or employees of the KPMG member firm that performs the particular audit;
- engaged KPMG specialists - specialists who are not partners or employees of the KPMG member firm that performs the particular audit; and
- management's specialists - specialists who are either employed or engaged by the entity to assist management in the financial reporting process.

There are certain activities that we perform in the same way irrespective of whether a KPMG specialist is engaged or employed by our firm. Within those activities, we simply refer to the specialists as 'KPMG specialists' rather than 'employed KPMG specialists' and 'engaged KPMG specialists.'

#### What are examples of parties engaged or employed by management or KPMG that do not qualify as 'specialists'? [ISA | 767.14110]

Individuals (or firms) with special skill or knowledge in the field of accounting or auditing do not represent specialists. That includes accounting advisory services personnel retained by management or KPMG. In addition, because income taxes and information technology are considered specialized areas of accounting and auditing, individuals (or firms) with special skill or knowledge in these areas are generally not specialists either. Instead, we consider individuals employed by KPMG who have special skill or knowledge in these areas and who assist us in our audits to be 'specific team members.'

Certain individuals (or firms) may or may not be considered a specialist depending on the nature of their work. For example:

Relevant party	Represents a specialist when they...	Does not represent a specialist when they...
<b>Attorney</b>	Assist in the interpretation of a contractual provision or law to help management or the auditor determine or evaluate the appropriate accounting or disclosure	Provide information to the engagement team pursuant to a letter of audit inquiry concerning litigation, claims and assessments.



		However, if certain matters arising from the letter warrant further evaluation by an attorney that includes, for example, interpretation of a contractual provision or law that assists management in determination of appropriate accounting or disclosure, the attorney may represent a specialist for purposes of that further evaluation (see question ' <a href="#">Is a legal counsel consulted by an entity considered to be a 'specialist'?</a> ' for further guidance).
<b>Individual or firm with valuation expertise</b>	Apply their valuation expertise in making an estimate of fair value of securities for which there is no observable market	Provide price data regarding private transactions not otherwise available to the entity or the auditor, which the entity or the auditor then uses in its own estimation process or to develop an independent expectation of an estimate

[Can an individual \(or firm\) with a special skill or knowledge in the field of income taxes be considered a 'specialist' in any circumstances?](#) [ISA | 767.14125]

Yes. There may be situations where the entity's accounting for income taxes or our audit procedures in this area may entail an interpretation of specialized areas of income tax law in order to determine appropriate accounting or disclosure under the applicable financial reporting framework. Individuals (or firms) retained by management or KPMG to lend their knowledge or skill in such areas could be considered specialists (e.g. legal specialists). At the same time, individuals (or firms) who then apply the findings and conclusions of these specialists in accounting for the entity's income taxes or related audit procedures would not be considered specialists.

[Who is a 'specific team member'?](#) [ISA | 767.1400]

A specific team member is a KPMG partner or employee with expertise in a specialized area of accounting or auditing. These include specific team members with expertise in performing audit procedures related to IT (e.g. IT Audit), accounting (e.g. accounting advisory service professionals) and accounting for income taxes (e.g. KPMG Tax professionals with knowledge in the area of income taxes).

[What does it mean to give direction to the engagement team?](#) [ISA | 767.1700]

Giving direction to the engagement team includes a variety of activities, which may include:

- communicating our responsibilities, including complying with all ethical requirements and professional standards

- emphasizing the importance of managing and achieving high quality audits (through our personal conduct, communication and actions), including complying with firm policies and timely raising concerns that arise during the audit
- addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures
- maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional skepticism when gathering and evaluating audit evidence
- communicating key information about the audit, including our key objectives, the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan and information about the entity and risks that will impact the audit
- getting involved in evaluating and resolving issues that arise throughout the audit
- providing leadership to the engagement team
- informing the responsibilities of the respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members
- communicating the responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.

Ongoing discussions and communication among all members of the engagement team can be an effective way to allow less experienced team member(s) to raise questions to more experienced team member(s) (including the engagement partner) in a timely manner and enables effective direction, supervision and review of their work.

#### What does it mean to supervise the engagement team? [ISA | 767.157367]

Supervising the engagement team include a variety of activities, which may include:

- tracking the progress of the 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
- taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated
- identifying matters for consultation or consideration by more experienced engagement team members during the engagement
- providing coaching and on-the-job training to help engagement team members develop skills and competencies
- creating an environment where engagement team members raise concerns without fear of reprisals.

#### What type of factors impact the extent of supervision necessary for the engagement team? [ISA | 767.1800]

In determining the extent of supervision necessary, the engagement partner and other engagement team member(s) performing supervisory activities take into account various factors, including:

Factors	More supervision needed	Less supervision needed
Nature of the entity, including its size and complexity	Complex organizational structure and/or larger entities with complex or diversified operations	Simple organizational structure and/or smaller sized entities with simpler operations
Nature of the assigned work for each engagement team member, including: <ul style="list-style-type: none"> <li>the procedures to be performed, and</li> <li>the controls, or account balances and disclosures to be tested</li> </ul>	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 or more complex accounting areas	More routine and straightforward procedures or areas of the audit
Assessed risks of material misstatement	Areas where inherent risk is assessed as Elevated or Significant	Areas where inherent risk is assessed as Base
Knowledge, skill, and ability of the individual team member(s) performing the audit work	Less experienced members of the engagement team or professionals who have less familiarity with the client's industry	More experienced members of the engagement team or professionals who have extensive experience with the client's industry

These factors may also be relevant for the extent of direction of engagement team members and the review of their work.

#### What does it mean to review the engagement team's work? [ISA | 767.157368]

Review of the engagement team's work provides support for the conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the engagement.

Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with KPMG's policies or procedures, professional standards and applicable legal and regulatory requirements;
- 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 and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
- The objectives of the audit procedures have been achieved.

How does the engagement partner take responsibility for the direction, supervision and performance of the audit, and the review of the work performed? [ISA | 767.14054]

The responsibility for the direction, supervision and performance of the audit, and review of the work performed is undertaken by:

- [the engagement partner determining roles and informing engagement team members of their responsibilities;](#)
- [the engagement partner to assign to engagement team members those tasks which are commensurate with their knowledge, skill and ability and to subsequently supervise the performance of the activities;](#)
- [the engagement partner reviewing the work of engagement team members and us documenting conclusions.](#)

The engagement partner determines that the nature, timing and extent of direction, supervision and review are:

- planned and performed in accordance with KPMG's policies or procedures, professional standards, and applicable legal and regulatory requirements; and
- responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

What does it mean to be responsive to the nature and circumstances of the engagement? [ISA | 767.157369]

The engagement partner thinks about the engagement resources and specifics of the engagement when determining the necessary direction, supervision and review of the engagement and it may depend on a variety of factors, including the size, structure, geographical dispersion and complexity of the entity and the engagement team.

Also, if changes occur during the engagement, the nature, timing and extent of direction, supervision and review may be adjusted.

For example, unanticipated circumstances (e.g. a new complex business transaction) may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available.

For another example, if a more experience engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experience engagement team members.

What may we think about when determining the nature, timing and extent of direction, supervision and review? [ISA | 767.157370]

Examples of factors the engagement team may think about include:

- the engagement team member's previous experience with the entity and the area to be audited

For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related work may be less detailed.

- the manner in which the reviews of the work performed are expected to take place

For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.

- the structure of the engagement team and the location of engagement team members.

For example, direction and supervision of individuals located at service delivery centers and the review of their work may:

- be more formalized and structured than when members of the engagement team are all situated in the same location; or
- use IT to facilitate the communication between the members of the engagement team.

**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 | 767.14052]

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.

**Can only the engagement partner direct and supervise the engagement team and review their work?** [ISA | 767.1900]

No. Appropriate engagement team member(s) can assist the engagement partner in fulfilling the engagement partner's responsibilities. Those team members comply with the same requirements as the engagement partner with respect to the direction, supervision and review responsibilities assigned to them. However, the overall responsibility still resides with the engagement partner despite the delegation of these activities.

**What procedures, tasks or actions can the engagement partner assign to other members of the engagement team?** [ISA | 767.14050]

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

**Who might be considered to be an appropriate engagement team member?** [ISA | 767.2000]

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

**When do we plan our direction and supervision of team members, and the review of their work?** [ISA | 767.14051]

At the beginning of the audit, when we are putting together our audit plan. The audit plan includes a description of the nature, timing and extent of the planned direction and supervision of the engagement team and the review of their work.

If circumstances change during the engagement, we update the audit plan for:

- any significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work, and
- the reasons for such changes.

## Documentation

## International Standards on Auditing: ISA 300.12

### Documentation

12. The auditor shall include in the audit documentation:<sup>6</sup>

- (a) The overall audit strategy;
- (b) The audit plan; and
- (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work,<sup>48</sup> and the reasons for such changes. (Ref: Para. A19-A23)

<sup>6</sup> ISA 230, *Audit Documentation*, paragraphs 8 - 11, and A6

<sup>48</sup> ISA 220 (Revised), paragraphs 30 and A91-A92

## ISA Application and Other Explanatory Material: ISA 300.A19-A23

### Documentation (Ref: Para. 12)

A19. The documentation of the overall audit strategy is a record of the key decisions in managing quality at the engagement level and a means to communicate significant matters to the engagement team. For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

A20. The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programs or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

A21. A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

A22. Documentation of the direction and supervision of engagement team members and the review of their work in accordance with ISA 220 (Revised) may also provide a record of significant changes to the planned nature, timing and extent of the direction, supervision and review.

## Considerations Specific to Smaller Entities

A23. As discussed in paragraph A13, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programs or checklists (see paragraph A20) drawn up on the assumption of few controls<sup>101</sup>, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.

<sup>101</sup> ISA 315 (Revised 2019), paragraph 26(a)

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

## 1 Establish the overall audit strategy [ISA | 963]

### What do we do?

Establish the overall audit strategy.

### Why do we do this?

Our overall audit strategy sets the framework for conducting our audit and preparing our detailed audit plan. It helps us:

- keep a record of the key decisions we considered necessary to plan the audit properly; and
- communicate significant matters within our engagement team.

To establish the overall strategy, we use the appropriate workflow.

## Execute the Audit

### How do we establish the overall audit strategy? [ISA | 963.10887]

We establish the overall audit strategy by:

- [taking specific matters into account](#);
- [selecting appropriate auditing standards](#);
- [evaluating certain matters during planning](#); and
- [involving specific team members and specialists as appropriate](#).

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

### What do we do?

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

### Why do we do this?

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

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

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

## Execute the Audit

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

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

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

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

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



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

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

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

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

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

These key factors include:

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

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

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

The engagement partner reviews and approves the overall audit strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Examples

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

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

Type of consideration	Examples of matters we may consider
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**The characteristics of the engagement that define its scope**

- The financial reporting framework used to prepare the financial information we are auditing, including any need for reconciliations to other financial reporting frameworks and applicable legislative or regulatory requirements (e.g. US GAAP, IFRS, accounting and reporting policies issued by a parent company to its locations or business units)
- Auditing standards (e.g. PCAOB, U.S. GAAS, ISA, auditing standards of a specific jurisdiction or country)
- The type of audit we are performing (i.e. financial statement audit only or integrated audit) and the reports we will issue as part of the audit engagement (including our report on the audit of ICFR for an integrated audit)
- Legislative or regulatory requirements (e.g. SEC rules and regulations)
- The internal control framework on which management bases its assessment of the effectiveness of the entity's ICFR (e.g. COSO 2013)
- Industry-specific reporting requirements (e.g. reports mandated by industry regulators)
- Other information included with the financial statements in the annual report
- Information management may plan to disclose in the financial statements we plan to audit, which is not required to be prepared by the financial reporting framework
- Number of components and/or locations where procedures are expected to be performed
- The nature of control relationships between a parent and its components that determine how the group is to be consolidated
- The extent to which components are audited by component auditors
- The nature of the business lines or segments to be audited, including specialized skills or knowledge we may need
- The reporting currency to be used, including any need for currency translation for the financial information we are auditing
- The need for statutory audit of stand-alone financial statements in addition to an audit for consolidation purposes
- The availability of the work of the entity's internal auditors and the extent of our potential reliance on such work

	<ul style="list-style-type: none"> <li>• The entity's use of service organizations and how we might obtain evidence over the design and operating effectiveness of controls they perform</li> <li>• The expected use of audit evidence obtained in previous audits (e.g. benchmarking of certain automated process control activities)</li> <li>• The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques</li> <li>• The coordination of the timing and execution of audit procedures with any interim reviews and the effect on the audit of information we may obtain through these reviews</li> <li>• The availability of entity personnel and information, including whether the entity can provide the right information in the right way</li> </ul>
<b>Reporting objectives of the engagement and nature of communications required by the relevant auditing standard</b>	<ul style="list-style-type: none"> <li>• The entity's timetable for both interim and final reporting</li> <li>• The planning of meetings with management and those charged with governance to discuss the planned scope and timing of the audit, including significant risks</li> <li>• Discussion with management and those charged with governance about the expected type and timing of reports to be issued and other required communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance</li> <li>• Discussion with management about the expected communications on the status of audit work throughout the engagement</li> <li>• Communications with component auditors about the expected types and timing of reports to be issued and other communications connected with the audit of components</li> <li>• The expected nature and timing of communications with other auditors, including other KPMG offices/member firms or non-KPMG firms</li> <li>• The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed</li> <li>• Whether any communications with third parties are expected, including any statutory or contractual reporting responsibilities arising from the audit</li> </ul>

<p><b>Factors that are significant in directing the activities of the engagement team</b></p>	<ul style="list-style-type: none"> <li>• Preliminary identification of areas that may present a higher risk of material misstatement</li> <li>• The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review</li> <li>• How we emphasize to engagement team members to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence</li> </ul>
<p><b>Results of preliminary engagement activities and our evaluation of matters important to the financial statements and ICFR</b></p>	<ul style="list-style-type: none"> <li>• Preliminary determination of materiality, including:             <ul style="list-style-type: none"> <li>- determination of performance materiality for components and communication to component auditors; and</li> <li>- preliminary identification of components and significant accounts balances and disclosures of the group financial statements</li> </ul> </li> <li>• Risks identified through our client continuance process</li> <li>• How we may direct engagement personnel, use specialists and specific team members, and supervise and review the audit</li> <li>• Results of previous audits involving evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them</li> <li>• Information learned from other engagements performed for the entity, including interim reviews, other assurance engagements and agreed-upon procedures</li> <li>• Discussion of matters that may affect the audit with KPMG professionals who provide other services to the entity, which may include:             <ul style="list-style-type: none"> <li>- identifying other services (e.g. tax and advisory services) provided by KPMG or its member firms;</li> <li>- discussing findings that could be relevant to the audit; and</li> <li>- reviewing reports or correspondence generated during these other services</li> </ul> </li> <li>• Evidence of the entity's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control</li> <li>• Volume of transactions, which may lead us to decide it is more efficient for us to rely on internal controls</li> </ul>

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

## 3 Develop the audit plan [ISA | 967]

### What do we do?

Develop an audit plan that describes our planned procedures

### Why do we do this?

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

## Execute the Audit

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

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

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

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

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

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

These key factors include:

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

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

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

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

- organize and manage the audit engagement, including working with the entity so it can provide us the right information at the right time and help us perform the audit effectively and efficiently;
- improve audit quality, since we will gain input from more experienced team members, including the engagement partner, before we devote time and attention to performing those procedures;
- order our audit activities in the right way, helping us make better judgments earlier in the audit, and identify and resolve issues that arise on a timelier basis;

- thoughtfully identify and assess the risks of material misstatement and design audit procedures that specifically respond to those risks;
- consider unexpected changes in the audit and have enough time to design appropriate responses;
- involve the right people, including specific team members or specialists, with appropriate levels of capabilities and competence to respond to anticipated risks, and properly assign work to them;
- facilitate the direction and supervision of engagement team members and the review of their work; and
- help coordinate work performed by other auditors (when appropriate), including other KPMG offices and member firms, non-KPMG firms, and those specific team members or specialists.

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

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

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

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

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

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

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

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

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

The engagement partner reviews and approves the audit plan.

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

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

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

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

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

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

- identifying the components where we expect RMMS to exist;
- determining how we'll identify and respond to those RMMS that are relevant to the group financial statements; and



- for audits performed under PCAOB and US GAAS, determining whether we intend to make reference to the audit of a referred-to auditor.

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

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

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

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

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

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

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

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

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

Elements we may discuss with entity management	How this can help us
Leveraging the entity's work	We may be able to coordinate some of our planned audit procedures with work performed by the entity's own personnel.
Gathering the information to perform our audit	Coordinating with the entity helps us gather the right information at the right time in our audit.
Understanding the entity's internal controls	<p>Upfront planning and conversations with management can help us deepen our understanding of the design of their controls, as well as how the entity evidences controls that we plan to rely on in the audit.</p> <p>If we delay exploring this with the entity, we may identify deficiencies late in the audit. The entity may then be unable to remediate deficient controls before the end of the period - e.g. by improving the control's precision or</p>

	maintaining sufficient appropriate evidence of its operation.
How we plan to perform our procedures	<p>Improper planning can affect our ability to execute the planned procedures.</p> <p>For example, obtaining audit evidence through observation may only be possible by upfront planning and coordinating with the entity, so that we are present when the entity executes a control.</p>

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

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

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

## Examples

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

#### Fact pattern

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

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

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

#### Analysis

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

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

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

**Example 1 | Evidence used to test manual controls** [ISA | 967.10943]**Fact pattern**

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

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

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

**Analysis**

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

**Example 2 | Evidence used to test automated control activities** [ISA | 967.10944]**Fact pattern**

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

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

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

**Analysis**

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

**Example 3 | Information used to perform substantive testing** [ISA | 967.10945]**Fact pattern**

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

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

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

### Analysis

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

**What are examples of audit procedures that may be included in our audit plan?** [ISA | 967.2000]

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

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

- |  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• Observing inventories</li> <li>• Performing audit procedures for the period after the balance-sheet date</li> </ul> |
|--|--|

## 4 Modify the audit strategy and audit plan if circumstances change [ISA | 969]

### What do we do?

IF circumstances change significantly during the course of the audit, THEN modify the overall audit strategy and the audit plan as necessary AND document significant modifications.

### Why do we do this?

As we perform and evaluate the results of our audit procedures, our findings may cause us to change our risk assessments or other audit decisions.

As with other audit activities, we stay alert for new information as the audit progresses, and we modify the overall audit strategy and the audit plan as appropriate. If we don't, we may not obtain sufficient appropriate audit evidence to support our opinion.

## Execute the Audit

[What circumstances might lead us to modify our audit strategy and audit plan?](#) [ISA | 969.1300]

We may modify our audit strategy and audit plan at any point in the audit. We often make changes when we learn new information during the audit.

Circumstances when we might modify our audit strategy or audit plan include:

- the occurrence of significant events (e.g. business acquisitions or dispositions);
- external forces that affect the entity (e.g. a deterioration in economic conditions);
- the results of our audit procedures (e.g. identifying misstatements or control deficiencies);
- changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

When we modify our overall audit strategy and audit plan because of significant changes in circumstances, this may include modifying our original risk assessment procedures and planned tests of controls and/or substantive procedures, as well as changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

Remember that planning is not a discrete phase of the audit - it's an iterative process that continues until the audit is complete. We therefore remain alert to potential changes and how they might affect our overall audit strategy and audit plan.

[Group Audit | What circumstances might lead us to modify the audit strategy and audit plan in a group audit?](#) [ISA | 969.1310]

The same [circumstances that might change our audit strategy or audit plan in a stand-alone audit](#) may also change our overall group audit strategy and group audit plan in a group audit.

However, certain circumstances that might change our audit strategy or audit plan apply only to a group audit. For example, in a group audit, we focus on changes in circumstances that may change the identification of components or procedures to be performed.

As the group auditor, we consider new or different information about the group and its components throughout the audit.

If there is new information or significant changes from our initial decisions in planning, we consider whether to change the identification of components or the nature, timing or extent of work we will perform over those components.

For example, changes to our group audit scoping may be necessary when:

- the group structure has changed (e.g. new acquisitions or dispositions of components);
- changes in the risks of material misstatement identified and assessed during the audit might lead us to modify the work to be performed over components;
- there have been significant changes in the financial information of the components (e.g. the financial information at the component level differs from what we initially expected during planning);
- we develop less than serious or serious concerns regarding the component auditors during the audit;
- we identify deficiencies in the group's control environment or monitoring activities which may affect how we evaluate the remaining financial information where further audit procedures haven't been performed;
- there are restrictions to access imposed by group management or other circumstances that was not previously identified;
- there are significant changes to the nature, timing and extent of the planned direction and supervision of component auditors and the review of their work.

#### Group Audit | How might an acquisition affect our group audit plan? [ISA | 969.10959]

The acquisition of a business may mean that, as the group auditor, we decide to:

- perform procedures at that newly acquired business; and/or
- reassess our selection of significant accounts/disclosures of the group financial statements or components where procedures are to be performed.

#### Group Audit | How might a disposal affect our group audit plan? [ISA | 969.10960]

The disposal of a business may mean that, as the group auditor, we decide that:

- we will no longer perform procedures at the disposed component;
- we will reassess our selection of significant accounts/disclosures of the group financial statements or components where procedures are to be performed; or
- we will re-assess our review of component auditor work papers.

For example, we may reassess our selection if:

- a component may be identified as quantitatively significant; or
- we've changed our evaluation of whether there's a reasonable possibility of an RMM in the remaining financial information.

## Group Audit | Do we update our group audit scoping analysis with the final financial information? [ISA | 969.1320]

Yes. As the group auditor, we update our group audit scoping analysis with the final financial information of the components and the group.

## What are the implications of modifying our audit strategy or audit plan? [ISA | 969.1500]

We capture all modifications to our audit strategy or audit plan in our audit file so that the audit documentation reflects the final overall audit strategy and audit plan.

We also document the rationale for any significant modifications to our audit strategy or audit plan.

If we change the overall audit strategy and audit plan as a result of the review and approval process, then this is not considered a modification.

## When are modifications to our audit plan or audit strategy considered significant? [ISA | 969.1600]

We apply our judgment to determine whether a modification is significant. Modifications are often significant when they relate to:

- our overall audit scoping decisions;
- materiality measures;
- significant risks;
- broad or major changes to our planned audit procedures; or
- the timing or scope of key audit activities.

## Why do we document significant modifications to our audit plan and audit strategy? [ISA | 969.1700]

We maintain a record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures as this explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit.

# Examples

## How might we modify our audit strategy and/or audit plan? [ISA | 969.1800]

The following table provides examples of how we might modify our audit strategy and/or audit plan when we identify changes during an audit.

Type of change	Example	Example modifications to audit strategy and/or plan
<b>Unexpected events, changes in conditions (including economic conditions), or audit evidence obtained during the audit</b>	A major customer, representing 30% of the entity's revenues, cancels their contract with the entity.	<ul style="list-style-type: none"> <li>• Reassess whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable time period.</li> </ul>

		<ul style="list-style-type: none"> <li>• Perform additional procedures to evaluate the entity's ability to continue as a going concern.</li> <li>• Consider whether materiality remains appropriate.</li> <li>• Reassess RMMs related to the recoverability of long-lived assets or inventory.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work for the areas impacted.</li> </ul>
<b>Identification of financial statement level risks after we determined our audit strategy</b>	<p>Through our control testing, we identify issues related with the entity's control environment (i.e. significant deficiencies and/or material weakness) -specifically, management's commitment to attract, develop, and retain competent individuals.</p>	<ul style="list-style-type: none"> <li>• Reassess our evaluation of fraud risk factors and identification of fraud risks.</li> <li>• Understand the root cause of issues related with the entity's control environment (i.e. significant deficiencies and/or material weakness) and consider other internal control deficiencies that might exist, as well as how they may affect the assertion-level risks of material misstatement.</li> <li>• For risks of material misstatement and the specific significant accounts, disclosures and relevant assertions the deficiency affects,</li> </ul>



		<p>consider whether we need to alter the nature, timing, and extent of substantive procedures and/or procedures to test internal controls.</p> <ul style="list-style-type: none"> <li>Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<p><b>Identification of significant accounts and disclosures initially identified as non-significant</b></p>	<p>Prepaid expenses was initially determined to be a non-significant account. During the year, the entity made a change to its insurance policies requiring it to prepay all of its insurance policies in advance and causing the balance in this account to increase significantly.</p>	<ul style="list-style-type: none"> <li>Designate prepaid expenses as a significant account and identify the relevant assertions and any risks of material misstatement associated with the account.</li> <li>Plan and perform sufficient, appropriate audit procedures over all the assessed RMMs, including testing internal controls over financial reporting in an integrated audit or where we plan to test the operating effectiveness of controls.</li> <li>Reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work related to prepaid expenses.</li> </ul>

<b>Revisions to materiality, performance materiality, and specific performance materiality</b>	<p>The entity's financial results are less than we initially estimated when we set materiality levels, so materiality, performance materiality, and specific performance materiality measures for all accounts are reduced by significant amounts.</p>	<ul style="list-style-type: none"> <li>• Consider whether we need to update our sample selections, based on updated materiality measures, and perform audit procedures on any additional sample items.</li> <li>• Consider whether we need to update the acceptable differences determined for our planned substantive analytical procedures.</li> <li>• Consider whether we need to update our assessment of whether controls are sufficiently precise to detect material misstatements</li> <li>• Consider whether we need to reassess our assessment of RMMs and significant accounts and assertions.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<b>Changes in the timing of our audit procedures</b>	<p>Because of delays, we are unable to perform test work we initially planned to perform as of an interim date.</p>	<ul style="list-style-type: none"> <li>• Reassess the resources assigned to the engagement during final fieldwork, and obtain additional resources as appropriate.</li> <li>• Consider whether we need to reassess the nature and extent of direction</li> </ul>

		and supervision of engagement team members and the review of their work.
<b>Changes in the involvement of the internal audit function</b>	The internal audit director is replaced in June by a key member of the accounting department.	<ul style="list-style-type: none"> <li>• Reassess our conclusions about the competence and objectivity of the internal auditors.</li> <li>• Based on our reassessment, determine whether we need to modify the audit plan to perform certain procedures ourselves, rather than using the work of internal auditors as planned.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<b>Identification of service organizations used by the entity that we were initially not aware of</b>	When we perform our walkthrough of the payroll process, we determine that the entity uses a service organization to process payroll for one of its locations.	<ul style="list-style-type: none"> <li>• Obtain an understanding of the nature of the services provided by the service organization.</li> <li>• Determine the audit procedures we perform over the service organization (e.g. obtaining a service auditor's report, performing specific audit procedures at the service organization).</li> <li>• Reassess the nature, timing and extent of direction</li> </ul>

		and supervision of engagement team members and the review of their work for the areas impacted.
<b>Changes to the combined assessed risk (CAR) level</b>	Results for a particular reporting unit are significantly below the entity's budget for the period. We determine that a significant risk is now associated with the valuation of goodwill for that reporting unit and increase CAR	<ul style="list-style-type: none"> <li>• Alter the nature timing and extent of planned procedures to obtain more persuasive audit evidence about projected financial information used by the entity in their annual impairment test.</li> <li>• For example, we may evaluate additional external evidence (e.g. from industry experts, comparing peer companies) when we evaluate the reasonableness of management's assumptions about revenue growth.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<b>Identification of misstatements</b>	While performing audit procedures, we identify misstatements related to the values of certain pension plan assets. The entity uses the same processes and techniques to value their available-for-sale (AFS) investments, so there may	<ul style="list-style-type: none"> <li>• Reassess CAR for the risks related to the valuation of pension plan assets and AFS investments.</li> <li>• Reconsider the nature, timing and extent of our testing over the value of pension plan assets</li> </ul>

	<p>be other misstatements that could be material when aggregated with misstatements accumulated during the audit.</p>	<p>and AFS investments. For example, we may decide to increase the number of sample items we select and test.</p> <ul style="list-style-type: none"> <li>• Reconsider the nature, timing and extent of the participation of a specialist in the audit. For example, specialists with skills in valuation services may be able to value some securities independently.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of other engagement team members and the review of their work.</li> </ul>
<p><b>The aggregate of misstatements accumulated during the audit approaches materiality</b></p>	<p>As we document the audit misstatements accumulated during the audit, we determine that the aggregate of all misstatements is approximately 95% of materiality.</p>	<ul style="list-style-type: none"> <li>• Consider reducing performance materiality and specific performance materiality measures, and re-evaluate the sufficiency of our audit procedures.</li> <li>• Determine whether there are certain accounts or assertions where misstatements primarily exist or whether there are risks of material misstatement that represent higher inherent risk; if so, we perform additional procedures or increase the extent of testing (e.g. increasing sample sizes) so we obtain</li> </ul>

		<p>more persuasive audit evidence.</p> <ul style="list-style-type: none"> <li>• Ask management to record all misstatements identified.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review of their work.</li> </ul>
<p><b>Identification of potential inconsistent or contradictory evidence while performing other audit procedures</b></p>	<p>While performing audit procedures over the recoverability of deferred income tax assets, we identify that the projected financial information (PFI) used to support management's conclusions is significantly different to that used in management's annual goodwill impairment analysis.</p>	<ul style="list-style-type: none"> <li>• Understand why management used different PFI, and evaluate which PFI is appropriate.</li> <li>• Perform additional procedures to determine the reliability of the PFI.</li> <li>• Evaluate the effect on management's conclusion if the appropriate PFI is different from that used by management.</li> <li>• Consider the impact on our conclusions about ICFR and management bias, and what other areas of the audit may be affected.</li> <li>• Consider whether we need to reassess the nature, timing and extent of direction and supervision of engagement team members and the review.</li> </ul>

## 5 Direct and supervise the engagement team and review their work [ISA | 767]

### What do we do?

The engagement partner takes responsibility for the direction, supervision, and performance of the audit in compliance with applicable professional standards, legal and regulatory requirements and the firm's policies and procedures, and the review of the work performed.

### Why do we do this?

Direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement.

The engagement partner may seek assistance from appropriate engagement team member(s) in fulfilling their responsibilities to direct, supervise, and perform the engagement and review the work performed by the engagement team members. However, under law, the engagement partner may be held personally accountable (as well as accountable on behalf of KPMG) for the audit and the auditor's report and consequently, at all times, retains responsibility for the engagement and its performance.

## Execute the Audit

### Who is an engagement partner? [ISA | 767.160164]

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

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

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

### Who is an "other audit partner"? [ISA | 767.1600]

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

## Who comprises an engagement team? [ISA | 767.1300]

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

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

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

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

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

The engagement team does not include:

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

## Who is a 'service provider'? [ISA | 767.159667]

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

## What do we consider when engaging individuals who are not personnel (i.e. partners and staff in our member firm) to perform audit procedures? [ISA | 767.159995]



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

#### Who is a 'specialist'? [ISA | 767.14104]

A specialist is an individual (or firm) that possesses special skill or knowledge in a particular field other than accounting or auditing whose work is used to assist us in obtaining sufficient appropriate audit evidence. While different auditing standards refer to these individuals (or firms) as 'specialists' or 'experts', we refer to them as 'specialists'.

#### Are there different categories of specialists? [ISA | 767.14108]

Yes. We categorize specialists into three types depending on their role and relationship to the audit engagement:

- employed KPMG specialists - specialists who are partners or employees of the KPMG member firm that performs the particular audit;
- engaged KPMG specialists - specialists who are not partners or employees of the KPMG member firm that performs the particular audit; and
- management's specialists - specialists who are either employed or engaged by the entity to assist management in the financial reporting process.

There are certain activities that we perform in the same way irrespective of whether a KPMG specialist is engaged or employed by our firm. Within those activities, we simply refer to the specialists as 'KPMG specialists' rather than 'employed KPMG specialists' and 'engaged KPMG specialists.'

#### What are examples of parties engaged or employed by management or KPMG that do not qualify as 'specialists'? [ISA | 767.14110]

Individuals (or firms) with special skill or knowledge in the field of accounting or auditing do not represent specialists. That includes accounting advisory services personnel retained by management or KPMG. In addition, because income taxes and information technology are considered specialized areas of accounting and auditing, individuals (or firms) with special skill or knowledge in these areas are generally not specialists either. Instead, we consider individuals employed by KPMG who have special skill or knowledge in these areas and who assist us in our audits to be 'specific team members.'

Certain individuals (or firms) may or may not be considered a specialist depending on the nature of their work. For example:

Relevant party	Represents a specialist when they...	Does not represent a specialist when they...
<b>Attorney</b>	Assist in the interpretation of a contractual provision or law to help management or the auditor determine or evaluate the appropriate accounting or disclosure	Provide information to the engagement team pursuant to a letter of audit inquiry concerning litigation, claims and assessments.

		However, if certain matters arising from the letter warrant further evaluation by an attorney that includes, for example, interpretation of a contractual provision or law that assists management in determination of appropriate accounting or disclosure, the attorney may represent a specialist for purposes of that further evaluation (see question ' <a href="#">Is a legal counsel consulted by an entity considered to be a 'specialist'?</a> ' for further guidance).
<b>Individual or firm with valuation expertise</b>	Apply their valuation expertise in making an estimate of fair value of securities for which there is no observable market	Provide price data regarding private transactions not otherwise available to the entity or the auditor, which the entity or the auditor then uses in its own estimation process or to develop an independent expectation of an estimate

[Can an individual \(or firm\) with a special skill or knowledge in the field of income taxes be considered a 'specialist' in any circumstances?](#) [ISA | 767.14125]

Yes. There may be situations where the entity's accounting for income taxes or our audit procedures in this area may entail an interpretation of specialized areas of income tax law in order to determine appropriate accounting or disclosure under the applicable financial reporting framework. Individuals (or firms) retained by management or KPMG to lend their knowledge or skill in such areas could be considered specialists (e.g. legal specialists). At the same time, individuals (or firms) who then apply the findings and conclusions of these specialists in accounting for the entity's income taxes or related audit procedures would not be considered specialists.

[Who is a 'specific team member'?](#) [ISA | 767.1400]

A specific team member is a KPMG partner or employee with expertise in a specialized area of accounting or auditing. These include specific team members with expertise in performing audit procedures related to IT (e.g. IT Audit), accounting (e.g. accounting advisory service professionals) and accounting for income taxes (e.g. KPMG Tax professionals with knowledge in the area of income taxes).

[What does it mean to give direction to the engagement team?](#) [ISA | 767.1700]

Giving direction to the engagement team includes a variety of activities, which may include:

- communicating our responsibilities, including complying with all ethical requirements and professional standards

- emphasizing the importance of managing and achieving high quality audits (through our personal conduct, communication and actions), including complying with firm policies and timely raising concerns that arise during the audit
- addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures
- maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional skepticism when gathering and evaluating audit evidence
- communicating key information about the audit, including our key objectives, the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan and information about the entity and risks that will impact the audit
- getting involved in evaluating and resolving issues that arise throughout the audit
- providing leadership to the engagement team
- informing the responsibilities of the respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members
- communicating the responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.

Ongoing discussions and communication among all members of the engagement team can be an effective way to allow less experienced team member(s) to raise questions to more experienced team member(s) (including the engagement partner) in a timely manner and enables effective direction, supervision and review of their work.

#### What does it mean to supervise the engagement team? [ISA | 767.157367]

Supervising the engagement team include a variety of activities, which may include:

- tracking the progress of the 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
- taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated
- identifying matters for consultation or consideration by more experienced engagement team members during the engagement
- providing coaching and on-the-job training to help engagement team members develop skills and competencies
- creating an environment where engagement team members raise concerns without fear of reprisals.

#### What type of factors impact the extent of supervision necessary for the engagement team? [ISA | 767.1800]

In determining the extent of supervision necessary, the engagement partner and other engagement team member(s) performing supervisory activities take into account various factors, including:

Factors	More supervision needed	Less supervision needed
Nature of the entity, including its size and complexity	Complex organizational structure and/or larger entities with complex or diversified operations	Simple organizational structure and/or smaller sized entities with simpler operations
Nature of the assigned work for each engagement team member, including: <ul style="list-style-type: none"> <li>the procedures to be performed, and</li> <li>the controls, or account balances and disclosures to be tested</li> </ul>	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 or more complex accounting areas	More routine and straightforward procedures or areas of the audit
Assessed risks of material misstatement	Areas where inherent risk is assessed as Elevated or Significant	Areas where inherent risk is assessed as Base
Knowledge, skill, and ability of the individual team member(s) performing the audit work	Less experienced members of the engagement team or professionals who have less familiarity with the client's industry	More experienced members of the engagement team or professionals who have extensive experience with the client's industry

These factors may also be relevant for the extent of direction of engagement team members and the review of their work.

#### What does it mean to review the engagement team's work? [ISA | 767.157368]

Review of the engagement team's work provides support for the conclusion that the engagement partner has taken overall responsibility for managing and achieving quality on the engagement.

Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with KPMG's policies or procedures, professional standards and applicable legal and regulatory requirements;
- 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 and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
- The objectives of the audit procedures have been achieved.

How does the engagement partner take responsibility for the direction, supervision and performance of the audit, and the review of the work performed? [ISA | 767.14054]

The responsibility for the direction, supervision and performance of the audit, and review of the work performed is undertaken by:

- [the engagement partner determining roles and informing engagement team members of their responsibilities;](#)
- [the engagement partner to assign to engagement team members those tasks which are commensurate with their knowledge, skill and ability and to subsequently supervise the performance of the activities;](#)
- [the engagement partner reviewing the work of engagement team members and us documenting conclusions.](#)

The engagement partner determines that the nature, timing and extent of direction, supervision and review are:

- planned and performed in accordance with KPMG's policies or procedures, professional standards, and applicable legal and regulatory requirements; and
- responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

What does it mean to be responsive to the nature and circumstances of the engagement? [ISA | 767.157369]

The engagement partner thinks about the engagement resources and specifics of the engagement when determining the necessary direction, supervision and review of the engagement and it may depend on a variety of factors, including the size, structure, geographical dispersion and complexity of the entity and the engagement team.

Also, if changes occur during the engagement, the nature, timing and extent of direction, supervision and review may be adjusted.

For example, unanticipated circumstances (e.g. a new complex business transaction) may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available.

For another example, if a more experience engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experience engagement team members.

What may we think about when determining the nature, timing and extent of direction, supervision and review? [ISA | 767.157370]

Examples of factors the engagement team may think about include:

- the engagement team member's previous experience with the entity and the area to be audited

For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related work may be less detailed.

- the manner in which the reviews of the work performed are expected to take place

For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.

- the structure of the engagement team and the location of engagement team members.

For example, direction and supervision of individuals located at service delivery centers and the review of their work may:

- be more formalized and structured than when members of the engagement team are all situated in the same location; or
- use IT to facilitate the communication between the members of the engagement team.

**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 | 767.14052]

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.

**Can only the engagement partner direct and supervise the engagement team and review their work?** [ISA | 767.1900]

No. Appropriate engagement team member(s) can assist the engagement partner in fulfilling the engagement partner's responsibilities. Those team members comply with the same requirements as the engagement partner with respect to the direction, supervision and review responsibilities assigned to them. However, the overall responsibility still resides with the engagement partner despite the delegation of these activities.

**What procedures, tasks or actions can the engagement partner assign to other members of the engagement team?** [ISA | 767.14050]

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

**Who might be considered to be an appropriate engagement team member?** [ISA | 767.2000]

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

**When do we plan our direction and supervision of team members, and the review of their work?** [ISA | 767.14051]

At the beginning of the audit, when we are putting together our audit plan. The audit plan includes a description of the nature, timing and extent of the planned direction and supervision of the engagement team and the review of their work.

If circumstances change during the engagement, we update the audit plan for:

- any significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work, and
- the reasons for such changes.

## Additional Considerations in Initial Audit Engagements

### International Standards on Auditing: ISA 300.13

#### Additional Considerations in Initial Audit Engagements

13. The auditor shall undertake the following activities prior to starting an initial audit:

(a) Performing procedures required by ISA 220 (Revised) regarding the acceptance of client relationships and audit engagements;<sup>7</sup> and

(b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A24)

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<sup>7</sup> ISA 220 (Revised), paragraphs 22 - 24

## ISA Application and Other Explanatory Material: ISA 300.A24

### Additional Considerations in Initial Audit Engagements (Ref: Para. 13)

A24. The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.<sup>11</sup>
- Other responses designed and implemented by the firm for initial audit engagements (e.g., the firm's system of quality management may include responses that require another partner or individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

11 ISA 510, *Initial Audit Engagements - Opening Balances*

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

### 1 Initial Audit | Perform procedures for an initial audit [ISA | 741]

#### What do we do?

IF the audit is an initial audit THEN perform the appropriate procedures.

#### Why do we do this?

In an initial audit, we may have little or no experience with the entity, so we perform incremental procedures as part of conducting our initial audit. We perform incremental procedures during an initial audit to help us obtain the evidence in order to conclude on our current audit.

### Execute the Audit

What procedures do we perform for an initial audit? [ISA | 741.10722]

We perform the following procedures for an initial audit:

- [Consult if specific circumstances apply](#)
- [Obtain evidence to support our opinion on the financial statements](#)

What is an initial audit? [ISA | 741.1300]



An initial audit is an engagement to audit the financial statements in which:

- the financial statements for the prior period were not audited; or
- the financial statements for the prior period were audited by a different auditor (i.e. predecessor auditor).

#### When do initial audits arise? [ISA | 741.10723]

There are different scenarios that lead to initial audits, including:

Type of Initial Audit	Scenario
If the financial statements for the prior period were not audited	<b>Newly established entity</b>  This is the first year the entity is in existence (e.g. Start-up company or a newly formed business venture). Since this is a new entity, there is no predecessor auditor and no opening balances or comparative financial figures to consider.

#### What additional procedures do we perform for an initial audit? [ISA | 741.1500]

In addition to the audit procedures we perform for all audits, during an initial audit, there are certain incremental procedures we perform including:

Incremental procedure for an initial audit	Newly established entity	Initial audit of an existing entity, not previously audited	Initial audit of an existing entity, previously audited
<a href="#">Perform incremental client and engagement acceptance procedures</a>	✓	✓	✓
<a href="#">Communicate with the predecessor auditor</a>	N/A - no predecessor auditor	N/A - no predecessor auditor	✓
<a href="#">Consult if specific circumstances apply</a>	N/A - no financial statements or predecessor auditor report	N/A - no financial statements or predecessor auditor report	✓
<a href="#">Obtain evidence to support our opinion on the financial statements</a> by performing the following:			

<a href="#">Reading the financial statements and predecessor auditor's report(s)</a>	N/A - no financial statements or predecessor auditor report	  Read financial statements/ management reports, if available, but there will be no predecessor auditor report	
<a href="#">Reviewing predecessor auditor audit documentation</a>	N/A - no predecessor auditor nor audit documentation	N/A - no predecessor auditor nor audit documentation	
<a href="#">Performing procedures over opening balances</a>	N/A - No opening balances		
<a href="#">Assessing prior financial statements, if applicable, and current period financial statements for consistency</a>	N/A - No comparative application of accounting policies or principles		
<a href="#">Performing additional procedures when a possible misstatement is identified</a>	N/A - no financial statements	  Read financial statements/ management reports, if available, but there will be no predecessor auditor report	

**When do we perform the incremental procedures for an initial audit?** [ISA | 741.1600]

There are certain inquiries we make and firm policies we follow before we accept a client engagement. Other procedures, such as review of the predecessor auditor's audit documentation, can occur before or after we accept the engagement.

# 1.1 Initial Audit | Perform client and engagement acceptance procedures [ISA | 981]

## What do we do?

Perform procedures over client and engagement acceptance before starting the initial audit

## Why do we do this?

In an initial audit, we often have little or no experience with the entity, so we perform additional steps as part of our client and engagement acceptance process.

We perform these additional procedures before we accept an initial audit because the information we obtain might affect our decision to accept an audit client or engagement.

## Execute the Audit

[Initial Audit | Who determines that our client and engagement continuance procedures have been followed and that conclusions reached are appropriate?](#) [ISA | 981.157412]

The engagement partner determines that:

- our client and engagement acceptance procedures have been followed; and
- conclusions reached in this regard are appropriate.

[Initial Audit | What procedures do we perform during client and engagement acceptance for an initial audit?](#) [ISA | 981.1300]

The client and engagement acceptance procedures we perform for initial audits are set out in the Global Quality & Risk Management (GQ&RM) Manual together with any local policies and procedures and guidance.

[Initial Audit | How do we document our conclusions reached regarding the acceptance of client relationships and audit engagements?](#) [ISA | 981.1400]

We document conclusions on client and engagement acceptance by including items such as Sentinel approval e-mails and CEAC documentation in the KPMG Clara workflow.

[Initial Audit | When do we perform the procedures relating to client and engagement acceptance for an initial audit?](#) [ISA | 981.1500]

We perform the procedures for an initial audit as part of our other client and engagement acceptance procedures and before we accept the initial audit.

The information we learn during this process can affect whether we decide to accept an audit client or engagement and how we conduct the audit. For example, we may identify certain risks or complexities during client and engagement acceptance that suggest a need for more experienced resources.

[Initial Audit | What information do we focus on when performing client and engagement acceptance procedures on an initial audit?](#) [ISA | 981.1600]

When performing client and engagement acceptance procedures, we focus on information that helps us decide how we approach our initial audit, given our lack or limited knowledge about the entity.

Specifically, we focus on those matters that could affect our risk assessment, overall audit approach, and/or the audit procedures we will perform in the audit's first year.

**Initial Audit | How might information obtained through client and engagement acceptance procedures on an initial audit impact our audit plan and audit strategy?** [ISA | 981.1700]

Information obtained through client and engagement acceptance procedures may:

- affect how we staff the engagement, including specialists and specific team members we involve;
- lead us to obtain special knowledge of a particular industry;
- highlight highly complex accounting policies or principles that we will address early in the initial audit;
- highlight significant transactions (e.g. a large acquisition) in the prior period for which we will plan to obtain evidence over opening balances; and
- suggest that the entity does not have a knowledgeable accounting and finance department.

The table below sets out some more specific examples of information we may learn through the acceptance process, and how it may affect the way we plan and perform the audit.

Type of new information	Examples of how we might change our audit plan
<b>New client has a history of losses</b>	<ul style="list-style-type: none"> <li>• Perform additional testing over going concern and plan to perform these tests earlier in the audit</li> <li>• Determine whether there are any new risks of material misstatement and significant risks</li> </ul>
<b>New audit client had a material acquisition in the prior year</b>	<ul style="list-style-type: none"> <li>• Perform additional procedures over the opening balances, to obtain evidence over the balances related to the business acquired so we do not rely unduly on procedures performed by the predecessor auditor</li> <li>• Increase our supervision over the opening balances procedures</li> <li>• Increase our oversight of and coordination with specialists and specific team members</li> <li>• Determine whether there any new risks of material misstatement and significant risks</li> </ul>
<b>New client has a history of issues in ICFR - e.g. control deficiencies - due to a lack of qualified accounting staff and executive officers</b>	<ul style="list-style-type: none"> <li>• Understand historical control deficiencies to determine if we can rely on the entity's ICFR</li> <li>• Determine whether there any new risks of material misstatement and significant risks</li> </ul>

<b>Engagement requires industry-specific experience</b>	<ul style="list-style-type: none"> <li>Determine whether the engagement partner and other engagement team members have sufficient industry credentials before we plan the audit and perform audit procedures</li> </ul>
<b>Engagement requires extensive involvement of specialists or specific team members</b>	<ul style="list-style-type: none"> <li>Increase our oversight of and coordination with specialists and specific team members</li> </ul>

What if we don't appropriately respond to information we learn through the acceptance process for an initial audit? [ISA | 981.10893]

If we don't identify and respond to these matters appropriately in the initial audit, we might:

- perform an insufficient audit and fail to support our audit opinion;
- fail to identify material misstatements in the financial statements;
- fail to exercise the appropriate level of due professional care throughout the audit; or
- expose the firm to potential legal and regulatory investigation.

What do we do with information that we obtain during the acceptance process? [ISA | 981.157413]

As evidence that we considered information obtained from the acceptance process, we include the relevant CEAC reports in our audit file, along with our consideration of how this information affects the audit.

For example, when performing our client and engagement acceptance procedures, we may learn that the entity's credit rating has been downgraded to a non-investment grade. This fact alone may not affect our decision to perform the audit; however, the information may help us identify and assess certain risks that are relevant to the audit - for example, an increased risk related to going concern.

What if the engagement partner becomes aware of information that may have caused us to decline the audit engagement had that information been known prior to accepting the client relationship or specific engagement? [ISA | 981.157415]

The engagement partner consults the risk management partner as soon as practicable if we become aware of information that may have caused us to:

- significantly alter our original risk assessment in CEAC; or
- decline the audit engagement

had that information been known prior to accepting the client relationship specific engagement.

How do we document our conclusions reached regarding the acceptance of client relationships and audit engagements? [ISA | 981.157416]

We document conclusions on client and engagement acceptance by including items such as Sentinel approval e-mails and CEAC documentation in the KPMG Clara workflow.

## 1.2 Initial Audit | Determine additional planning activities [ISA | 986]

### What do we do?

Determine additional planning activities for the initial audit, including audit procedures over the opening balances

### Why do we do this?

During initial audits, we perform additional procedures beyond those we perform in a recurring audit, so we also do some additional planning activities.

This planning helps us capture the additional audit procedures in our detailed audit plan and perform them at the right time in the audit.

## Execute the Audit

[Initial Audit | What do we do differently in planning an initial audit?](#) [ISA | 986.1300]

For an initial audit, we determine the additional planning activities we'll perform to establish an appropriate audit strategy and audit plan. This includes audit procedures to obtain sufficient appropriate audit evidence over the opening balances.

[Initial Audit | What additional planning activities might we perform in an initial audit?](#) [ISA | 986.1400]

The incremental audit procedures in an initial audit may include:

Additional procedures we may include in our audit plan	Purpose of procedure
<a href="#">Review the financial statements and the predecessor auditor's report(s)</a>	<p>We read for items that may be relevant during risk assessment or in designing audit procedures, such as:</p> <ul style="list-style-type: none"> <li>• information about the appropriateness of the opening balances, including disclosures;</li> <li>• information about any possible policies that depart from the financial reporting framework (i.e. non-GAAP);</li> <li>• information about significant issues, including application of accounting principles or policies; and/or</li> <li>• modifications of the auditor's report.</li> </ul>
<a href="#">Make inquiries of predecessor auditor and review their audit documentation</a>	<p>We may decide to perform additional planning procedures after making inquiries of the predecessor auditor inquiries, or reviewing their audit documentation.</p>

	For example, we may decide to obtain additional evidence over opening balances or disclosures.
<a href="#">Perform procedures over opening balances</a>	<p>Due to the nature of certain accounts and disclosures we may decide to perform audit procedures in the current period over opening balances.</p> <p>Opening balances can also include matters requiring disclosure that existed at the beginning of the period (e.g. contingencies, commitments).</p>
<a href="#">Assess the consistency between prior period and current period financial statements</a>	<p>We determine whether the accounting policies or principles applied to the opening balances are consistent with those in the current period's financial statements.</p> <p>We do this because the entity could use a change of auditor as an opportunity to inappropriately change to an alternative accounting policy or principle.</p>

## 1.3 Initial Audit | Consult if specific circumstances apply [ISA | 746]

### What do we do?

IF specific circumstances apply THEN consult before agreeing to perform further procedures.

### Why do we do this?

There is an increased risk if the prior year audit opinion was modified or we are asked to issue a report on corrections/adjustments to previously issued financial statements. Under these certain circumstances, because of the increased risk associated, we consult to obtain further guidance.

### Execute the Audit

[In what circumstances do we consult when we are asked to report on adjustments to previously issued financial statements reported on by a predecessor auditor?](#) [ISA | 746.10800]

Prior to agreeing to such arrangements, we consult when we are asked to issue a report on the adjustments to previously issued financial statements reported on by a predecessor auditor that relate to:

- any correction of an error; or
- retroactive application of an accounting policy or principle or discontinued operations presentation, if we determine that the impact of such adjustments is pervasive to the financial statements.

Refer to the relevant reporting and/or consultation requirements in the International Standards Reports Manual and, if relevant, national reporting policies, procedures and guidance as appropriate.

Who do we consult with when we are asked to report on adjustments to previously issued financial statements? [ISA | 746.1300]

When we are asked to report on adjustments to previously issued financial statements, we consult with the following parties:

Who we consult with	
US engagements	INTL engagements
BUPPP and DPP	Risk Management Partner

## Appendix - Considerations in Establishing the Overall Audit Strategy

### International Standards on Auditing: ISA 300. Appendix Appendix Considerations in Establishing the Overall Audit Strategy

(Ref: Para. 7-8, A9-A13)

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will also influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

#### Characteristics of the Engagement

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit coverage, including the number and locations of components to be included.
- The nature of the control relationships between a parent and its components that determine how the group is to be consolidated.
- The extent to which components are audited by other auditors.
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.



- The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes.
- Whether the entity has an internal audit function and, if so, whether, in which areas and to what extent, the work of the function can be used, or internal auditors can be used to provide direct assistance, for purposes of the audit.
- The entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them.
- The expected use of audit evidence obtained in previous audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques.
- The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- The availability of client personnel and data.

### **Reporting Objectives, Timing of the Audit, and Nature of Communications**

- The entity's timetable for reporting, such as at interim and final stages.
- The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
- Communication with auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit of components.
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

### **Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements**

- The determination of materiality in accordance with ISA 320<sup>12</sup> and, where applicable:
  - The determination of materiality for components and communication thereof to component auditors in accordance with ISA 600.<sup>13</sup>
  - The preliminary identification of significant components and material classes of transactions, account balances and disclosures.
- Preliminary identification of areas where there may be a higher risk of material misstatement.
- The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.

- The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.
- Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.
- The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.
- Evidence of management's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control.
- Changes within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures.
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal control.
- Importance attached to internal control throughout the entity to the successful operation of the business.
- The process(es) management uses to identify and prepare the disclosures required by the applicable financial reporting framework, including disclosures containing information that is obtained from outside of the general and subsidiary ledgers.
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.
- Significant industry developments such as changes in industry regulations and new reporting requirements.
- Other significant relevant developments, such as changes in the legal environment affecting the entity.

### **Nature, Timing and Extent of Resources**

- The human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.

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

13 ISA 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs 21 - 23 and 40(c)

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# KAEG-I [INTL VERSION 2024]: ISA 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement

## Contents

## KAEG-I [INTL VERSION]: ISA 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement [ISA | KAEGISA315]

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

### **Introduction, Objective and Definitions**

International Standards on Auditing: ISA 315.01-12

ISA Application and Other Explanatory Material: ISA 315.A1-A10

### **Risk Assessment Procedures and Related Activities**

International Standards on Auditing: ISA 315.13-18

ISA Application and Other Explanatory Material: ISA 315.A11-A47

How do we comply with the standards?

[1 Design and perform risk assessment procedures](#)

[1.1.1 Determine the nature of inquiries about RMMs](#)

[1.1.C Inquire of management and others about RMMs](#)

[1.1.E Inquire of those charged with governance, management and others about RMMs](#)

[1.2 Perform analytical procedures](#)

[1.2.1 Perform analytical procedures, including those related to revenue](#)

[1.2.2 Evaluate the Account Analysis results when AA capability is used](#)

[1.2.2.1 Confirm the pre-determined expectations](#)

[1.2.2.2 Determine consequential unexpected account combinations](#)

[1.2.2.3 Analyze consequential unexpected account combinations](#)

[1.2.3 Consider the analytical procedures applied during interim review engagements](#)

[1.2.4 Use our understanding of the entity to develop expectations about plausible relationships](#)

[1.2.5 Consider unusual or unexpected results in identifying and assessing RMMs](#)

[1.3 Group Audit | Perform analytical procedures at group level](#)