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Description of content of ISSAI 1600

Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1600 is comprised of International Standard on Auditing (ISA) 600 – Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors), and a corresponding Practice Note. The ISA and the Practice Note are read together.

Authority

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

Description of the ISA

The ISAs apply to group audits. ISA 600 deals with special considerations that apply to group audits, in particular those that involve component auditors.

An auditor may find ISA 600, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.

A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. The group engagement team may decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit

evidence for the group audit, but the requirements of ISA 600 nevertheless apply.

In accordance with ISA 220¹, the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.

The group engagement partner applies the requirements of ISA 220¹ regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. ISA 600 assists the group engagement partner to meet the requirements of ISA 220¹ where component auditors perform work on the financial information of components.

Audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements². In a group audit, this includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement. ISA 600 explains the matters that the group engagement team considers when determining the nature, timing and extent of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components. The purpose of this involvement is to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements.

Objective of the auditor in terms of the ISA

The objectives of the auditor are:

- a. To determine whether to act as the auditor of the group financial statements; and
- b. If acting as the auditor of the group financial statements:
 - i. To communicate clearly with component auditors about the scope and timing of their work on financial information related to components and their findings; and
 - ii. To obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all

¹ ISA 220, Quality Control for an Audit of Financial Statements, paragraphs 14 and 15.

² ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph A32.

material respects, in accordance with the applicable financial reporting framework.

Among other matters, the requirements in this ISA deal with:

- a. Responsibility. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and regulatory and legal requirements, and whether the auditor's report that is issued is appropriate in the circumstances.
- b. Acceptance and continuance. The engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of component auditors to the extent necessary to obtain sufficient appropriate audit evidence.
- c. The need for an overall group audit strategy and group audit plan.
- d. The need to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment.
- e. The need to obtain an understanding of whether the component auditor is professionally competent and understands and will comply with the ethical requirements relevant to the group, particularly around independence.
- f. Materiality at the group level and at the component level.
- g. Responding to assessed risks.
- h. Determining the type of work to be performed on the financial information of significant and non-significant components.
- i. Involvement in the work performed by component auditors.
- j. The consolidation process.
- k. Subsequent events.
- l. Communication with the component auditor.
- m. Evaluating the sufficiency and appropriateness of audit evidence obtained.
- n. Communication with group management and those charged with governance of the group.
- o. Documentation.

Description of the Practice Note

The Practice Notes provides supplementary guidance for auditors applying ISA 600 when conducting financial audits of public sector entities.

Content of the Practice Note

- a. The Practice Note provides additional guidance for public sector auditors related to: Overall considerations relating to additional auditing responsibilities or public expectations.
- b. Definitions of component and significant component.
- c. Acceptance and continuance.
- d. Understanding the group, its components and their environments.

- e. Understanding the component auditor.
- f. Materiality.
- g. Responding to assessed risks.
- h. Consolidation process.
- i. Communication with the component auditor.
- j. Communication with group management and those charged with governance of the group.