



***Statement on
Auditing Standards***

March 2023

149

Issued by the Auditing Standards Board

***Special Considerations — Audits of Group Financial
Statements (Including the Work of Component
Auditors and Audits of Referred-to Auditors)***

(Supersedes Statement on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors) [AICPA, Professional Standards, AU-C sec. 600]; Amends

- ***SAS No. 117, Compliance Audits, as amended (AICPA, Professional Standards, AU-C sec. 935)***
- ***SAS No. 122, as amended***
 - ***Section 230, Audit Documentation [AICPA, Professional Standards, AU-C sec. 230]***
 - ***Section 260, The Auditor's Communication With Those Charged With Governance [AICPA, Professional Standards, AU-C sec. 260]***
 - ***Section 300, Planning an Audit [AICPA, Professional Standards, AU-C sec. 300]***
 - ***Section 320, Materiality in Planning and Performing an Audit [AICPA, Professional Standards, AU-C sec. 320]***
 - ***Section 402, Audit Considerations Relating to an Entity Using a Service Organization [AICPA, Professional Standards, AU-C sec. 402]***
 - ***Section 450, Evaluation of Misstatements Identified During the Audit [AICPA, Professional Standards, AU-C sec. 450]***
 - ***Section 501, Audit Evidence — Specific Considerations for Selected Items [AICPA, Professional Standards, AU-C sec. 501]***
 - ***Section 510, Opening Balances — Initial Audit Engagements, Including Reaudit Engagements [AICPA, Professional Standards, AU-C sec. 510]***
 - ***Section 550, Related Parties [AICPA, Professional Standards, AU-C sec. 550]***
 - ***Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement [AICPA, Professional Standards, AU-C sec. 805]***
 - ***Section 920, Letters for Underwriters and Certain Other Requesting Parties [AICPA, Professional Standards, AU-C sec. 920]***

— *Section 930, Interim Financial Information [AICPA, Professional Standards, AU-C sec. 930]*

- **SAS No. 128, Using the Work of Internal Auditors [AICPA, Professional Standards, AU-C sec. 610]**
- **SAS No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, as amended [AICPA, Professional Standards, AU-C sec. 940]**
- **SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as amended**
 - *Section 700, Forming an Opinion and Reporting on Financial Statements [AICPA, Professional Standards, AU-C sec. 700]*
 - *Section 701, Communicating Key Audit Matters in the Independent Auditor's Report [AICPA, Professional Standards, AU-C sec. 701]*
 - *Section 705, Modifications to the Opinion in the Independent Auditor's Report [AICPA, Professional Standards, AU-C sec. 705]*
- **SAS No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports, as amended [AICPA, Professional Standards, AU-C sec. 720]**
- **SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement [AICPA, Professional Standards, AU-C sec. 315]**
- **SAS No. 146, Quality Management for Engagements Conducted in Accordance With Generally Accepted Auditing Standards [AICPA, Professional Standards, AU-C sec. 220]**

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¹ All ET sections can be found in AICPA *Professional Standards*.

Statement on Auditing Standards (SAS) No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

Introduction

Scope of This Statement on Auditing Standards

1. Generally accepted auditing standards (GAAS) apply to an audit of group financial statements (a group audit). This Statement on Auditing Standards (SAS) applies to all group audits. It addresses special considerations that apply to a group audit, including in circumstances in which component auditors are involved or when the group auditor makes reference to the audit of a referred-to auditor. The requirements and guidance in this SAS refer to, or expand on, the application of other relevant AU-C sections to a group audit, in particular, AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*; AU-C section 230, *Audit Documentation*;¹ AU-C section 300, *Planning an Audit*; AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; and AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. (Ref: par. A1–A2, A32)

2. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in paragraph 16. The term *consolidation process* as used in this SAS refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework but also to the presentation of combined financial statements and to the aggregation of the financial information of entities or business units, such as branches or divisions. (Ref: par. A3–A5, A30)

3. Government entities frequently prepare group financial statements. The AICPA Audit and Accounting Guide *State and Local Governments* provides guidance to assist auditors in auditing and reporting on those financial statements in accordance with GAAS, including the requirements of this section.

4. As explained in AU-C section 220,² this SAS, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this SAS may be useful when involving such an individual to attend a physical inventory count; inspect property, plant, and equipment; or perform audit procedures at a shared service center at a remote location.

Groups and Components

5. A group may be organized in various ways. For example, a group may be organized by legal or

¹ All AU-C sections can be found in AICPA *Professional Standards*.

² Paragraph .A1 of AU-C section 220, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*.

other entities, such as a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method. Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by functions or business activities. In this SAS, these different forms of organization are collectively referred to as *entities* or *business units*. (Ref: par. A6)

6. The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgment in determining the components at which audit work will be performed. This determination is based on the group auditor's understanding of the group and its environment, and other factors such as the ability to perform audit procedures centrally, the presence of shared service centers, or the existence of common information systems and controls. (Ref: par. A7–A9)

Involvement of Component Auditors

7. AU-C section 220³ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. In a group audit, such resources may include component auditors, who are a part of the engagement team. Therefore, this SAS requires the group auditor to determine the nature, timing, and extent of involvement of component auditors.

8. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this SAS. Component auditors may have greater experience with and a more in-depth knowledge of the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit under the direction and supervision of the group auditor. (Ref: par. A10–A11)

9. Audit risk is a function of the risks of material misstatement and detection risk.⁴ Detection risk in a group audit includes the risk that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this SAS requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, this SAS explains the matters that the group auditor takes into account when determining the nature, timing, and extent of the direction and supervision of component auditors and the review of their work. (Ref: par. A12–A13)

Making Reference to the Audit of a Referred-to Auditor

10. In accordance with this SAS, the group engagement partner may also determine to make

³ Paragraph .25 of AU-C section 220.

⁴ Paragraph .A36 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

reference to the audit of a referred-to auditor in the auditor's report on the group financial statements in situations when the referred-to auditor has performed an audit of component financial statements and issued an auditor's report thereon. Reference in the auditor's report on the group financial statements to the fact that part of the audit was conducted by a referred-to auditor communicates the source of audit evidence with respect to those components for which such reference is made. This SAS describes the procedures to be followed to obtain sufficient appropriate audit evidence when the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements. A referred-to auditor is not a component auditor, and accordingly, a referred-to auditor is not a part of the engagement team. Therefore, when the terms *component auditor* and *engagement team* are used in this SAS, they do not include referred-to auditors. Accordingly, the requirements in paragraphs 51–65 and the related application material specific to referred-to auditors are applicable, but the group auditor is not required to be involved in the work of referred-to auditors and therefore is not required to direct and supervise referred-to auditors or review their work. Paragraphs 51–57 set out requirements for determining whether to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements when establishing the overall group audit strategy and group audit plan in accordance with paragraph 24 of this SAS. Therefore, when the group engagement partner plans to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, the requirements in paragraphs 51–65, in addition to other requirements related to the execution of the group audit, are relevant. (Ref: Exhibit A, "Relevancy of Requirements in Various Group Audit Scenarios" and par. A165)

Professional Skepticism

11. In accordance with AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,⁵ the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate maintenance of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member maintaining professional skepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate maintenance of professional skepticism. (Ref: par. A14–A18)

Scalability

12. This SAS applies to all group audits, regardless of size or complexity. However, the requirements of this SAS are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely by the group auditor, some requirements in this SAS are not relevant because they are conditional on the involvement of component auditors or on making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements. This may be the case when the group auditor is able to perform audit procedures centrally or when the group auditor is able to perform procedures at the components without involving component auditors or making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements. The guidance in paragraphs

⁵ Paragraphs .17–.18 and .A22–.A28 of AU-C section 200.

A132 and A133 also may be helpful in applying this SAS in these circumstances. (Ref: Exhibit A, “Relevancy of Requirements in Various Group Audit Scenarios”)

Responsibilities of the Group Engagement Partner and Group Auditor

13. The group engagement partner remains ultimately responsible and therefore accountable for compliance with the requirements of this SAS. Nevertheless, the group engagement partner may seek assistance from others to fulfill these responsibilities. The phrase “the group engagement partner should take responsibility for...” or “the group auditor should take responsibility for...” is used for those requirements for which the group engagement partner or group auditor, respectively, is permitted to assign the design or performance of procedures, tasks, or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors. For other requirements, this SAS expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable. In such circumstances, the group engagement partner or group auditor may need to obtain information from the firm or other members of the engagement team. For example, when others, including component auditors, perform supervisory and review activities, the outcomes of those activities can be taken into account by the group engagement partner or group auditor in fulfilling these responsibilities. (Ref: par. A19 and A33)

Effective Date

14. This SAS is effective for audits of group financial statements for periods ending on or after December 15, 2026.

Objectives

15. The objectives of the auditor are to do the following:

- a.* With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements
- b.* Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks
- c.* Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work
- d.* Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, or through making reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements, as a basis for forming an opinion on the group financial statements

Definitions

16. For purposes of GAAS, the following terms have the meanings attributed as follows:

aggregation risk. The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: par. A20)

component. An entity, business unit, function, or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit. (Ref: par. A21–A22)

component auditor. An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team⁶ for a group audit. (Ref: par. A23–A26)

component management. Management responsible for a component. (Ref: par. A27)

component performance materiality. An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.

group. A reporting entity for which group financial statements are prepared.

group audit. The audit of group financial statements.

group auditor. The group engagement partner and members of the engagement team other than component auditors. The group auditor is responsible for the following:

- i. Establishing the overall group audit strategy and group audit plan
- ii. Directing and supervising component auditors and reviewing their work
- iii. Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements

group audit opinion. The audit opinion on the group financial statements.

group engagement partner. The engagement partner⁷ responsible for the group audit. (Ref: par. A28)

group financial statements. Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this SAS, a consolidation process includes one or more of the following: (Ref: par.

⁶ Paragraph .12 of AU-C section 220.

⁷ See footnote 6.

A29–A31)

- i. Consolidation, proportionate consolidation, inclusion, or an equity method of accounting
- ii. The presentation in combined financial statements of the financial information of entities or business units that are under common control or common management
- iii. The aggregation of the financial information of entities or business units such as branches or divisions

group management. Management responsible for the preparation of the group financial statements.

group performance materiality. Performance materiality⁸ in relation to the group financial statements as a whole, as determined by the group auditor.

referred-to auditor. An auditor who performs an audit of the financial statements of a component to which the group engagement partner determines to make reference in the auditor's report on the group financial statements. A referred-to auditor is not a component auditor, and accordingly, is not a part of the engagement team for a group audit.

17. Reference in this SAS to *the applicable financial reporting framework* means the financial reporting framework that applies to the group financial statements. (Ref: par. A32)

Requirements

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

18. In applying AU-C section 220,⁹ the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner should do the following: (Ref: par. A33–A34)

- a. Take responsibility for creating an environment for the group audit engagement that emphasizes the expected behavior of engagement team members (Ref: par. A35)
- b. Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement

Acceptance and Continuance

⁸ Paragraphs .09 and .11 of AU-C section 320, *Materiality in Planning and Performing an Audit*.

⁹ Paragraph .13 of AU-C section 220.

19. Before accepting or continuing the group audit engagement, the group engagement partner should determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained (including through involving component auditors or through making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements) to provide a basis for forming an opinion on the group financial statements. (Ref: par. A36–A41, A43)

20. If after the acceptance or continuance of the group audit engagement the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner should consider the possible effects on the group audit. (Ref: par. A42)

Terms of Engagement

21. In applying AU-C section 210, *Terms of Engagement*,¹⁰ the group auditor should obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with the following: (Ref: par. A44)

- a. Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation, and other matters
- b. Additional information that the engagement team may request from group management or component management for the purpose of the group audit
- c. Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence

Restrictions on Access to Information or People Outside the Control of Group Management

22. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner should consider the possible effects on the group audit. (Ref: par. A45–A53)

Restrictions on Access to Information or People Imposed by Group Management

23. If the group engagement partner concludes that (Ref: par. A50–A53)

- a. it will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management, and
- b. the possible effect of this limitation will result in a disclaimer of opinion on the group financial statements, the group engagement partner should either
 - i. in the case of an initial engagement, not accept the engagement, or, in the case of a recurring engagement, withdraw from the engagement, when withdrawal is

¹⁰ Paragraphs .06b and .08b of AU-C section 210, *Terms of Engagement*.

possible under applicable law or regulation, or

- ii. when the entity is required by law or regulation to have an audit, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements.

Overall Group Audit Strategy and Group Audit Plan

24. In applying AU-C section 300,¹¹ the group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan. In doing so, the group auditor should determine the following: (Ref: par. A54–A58)

- a. The components at which audit work will be performed (Ref: par. A59–A60)
- b. The resources needed to perform the group audit engagement, including the nature, timing, and extent to which component auditors are to be involved (Ref: par. A61–A65)
- c. The components for which, if any, the auditor’s report on the group financial statements will make reference to the audit of a referred-to auditor (see paragraphs 51–65)
- d. For components that are accounted for by the equity method, whether to use audited financial statements as audit evidence regarding the noncontrolled entity’s financial results (see paragraph 66) (Ref: par. A66).

Considerations When Component Auditors Are Involved

25. In establishing the overall group audit strategy and group audit plan, the group engagement partner should evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor. (Ref: par. A67)

26. As part of the evaluation in paragraph 25, the group auditor should request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. (Ref: par. A68)

Relevant Ethical Requirements, Including Those Related to Independence

27. In applying AU-C section 220,¹² the group engagement partner should take responsibility for the following: (Ref: par. A69–A70, A97)

- a. Component auditors having been made aware of relevant ethical requirements that are

¹¹ Paragraphs .07–.10 of AU-C section 300, *Planning an Audit*.

¹² Paragraph .17 of AU-C section 220.

applicable given the nature and circumstances of the group audit engagement

- b.* Confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.

Engagement Resources

28. In applying AU-C section 220,¹³ the group engagement partner should do the following: (Ref: par. A71–A78)

- a.* Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component
- b.* If information about the results of the monitoring and remediation process or external inspections related to the component auditor has been provided by the group auditor's firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination in paragraph 28*a*

29. The group auditor should obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor if

- a.* the component auditor does not comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement,¹⁴ or (Ref: par. A79–A80)
- b.* the group engagement partner has serious concerns about the matters in paragraphs 25–28. (Ref: par. A81)

Engagement Performance

30. In applying AU-C section 220,¹⁵ the group engagement partner should take responsibility for the nature, timing, and extent of direction and supervision of component auditors and the review of their work, taking into account the following: (Ref: par. A82–A87)

- a.* Areas of higher assessed risks of material misstatement of the group financial statements or significant risks identified in accordance with AU-C section 315
- b.* Areas in the audit of the group financial statements that involve significant judgment

Communications With Component Auditors

¹³ Paragraphs .25–.26 of AU-C section 220.

¹⁴ Paragraphs .15–.16 of AU-C section 200.

¹⁵ Paragraph .29 of AU-C section 220.

31. The group auditor should communicate with component auditors about their respective responsibilities and the group auditor's expectations, including an expectation that communications between the group auditor and component auditors take place at appropriate times throughout the group audit. (Ref: par. A88–A97)

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework, and the Group's System of Internal Control

32. In applying AU-C section 315,¹⁶ the group auditor should take responsibility for obtaining an understanding of the following: (Ref: par. A98–A103)

- a. The group and its environment, including (Ref: par. A104–A106)
 - i. the group's organizational structure and its business model, including
 - (1) the locations in which the group has its operations or activities,
 - (2) the nature of the group's operations or activities and the extent to which they are similar across the group, and
 - (3) the extent to which the group's business model integrates the use of IT
 - ii. regulatory factors affecting the entities and business units in the group; and
 - iii. the measures used internally and externally to assess the financial performance of the entities or business units
- b. The applicable financial reporting framework and the consistency of accounting policies and practices across the group
- c. The group's system of internal control, including
 - i. the nature and extent of commonality of controls; (Ref: par. A107–A110, A113)
 - ii. whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: par. A111–A113)
 - iii. the consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - iv. how group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the group's system of internal control to management of entities or business units (Ref: par.

¹⁶ Paragraphs .19–.31 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

A114–A116)

Considerations When Component Auditors Are Involved

33. The group auditor should communicate the following to component auditors on a timely basis: (Ref: par. A117)

- a. Matters that the group auditor determines to be relevant to the component auditor's design or performance of risk assessment procedures for purposes of the group audit, including identified significant risks of the group financial statements
- b. In applying AU-C section 550, *Related Parties*,¹⁷ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor (Ref: par. A118–A119)
- c. In applying AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, events or conditions identified by group management or the group auditor that may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time that are relevant to the work of the component auditor

34. The group auditor should request component auditors to communicate the following on a timely basis:

- a. Matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error
- b. Related party relationships not previously identified by group management or the group auditor (Ref: par. A119)
- c. Any events or conditions identified by the component auditor that may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time

Identifying and Assessing the Risks of Material Misstatement

35. In applying AU-C section 315,¹⁸ based on the understanding obtained in paragraph 32, the group auditor should take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process. (Ref: par. A120–A125)

Considerations When Component Auditors Are Involved

¹⁷ Paragraph .19 of AU-C section 550, *Related Parties*.

¹⁸ Paragraphs .32–.38 of AU-C section 315.

36. In applying AU-C section 315,¹⁹ the group auditor should evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: par. A126–A127)

Materiality

37. In applying AU-C section 320, *Materiality in Planning and Performing an Audit*,²⁰ and AU-C section 450, *Evaluation of Misstatements Identified During the Audit*,²¹ when classes of transactions, account balances, or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, for those components on which the group auditor or component auditor will perform audit procedures, the group auditor should determine the following:

- a. *Component performance materiality.* To address aggregation risk, such amount should be lower than group performance materiality. (Ref: par. A128–A134)
- b. *The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor.* Such threshold should not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: par. A135)

Considerations When Component Auditors Are Involved

38. The group auditor should communicate to the component auditor the amounts determined in accordance with paragraph 37. (Ref: par. A136–A137)

Responding to the Assessed Risks of Material Misstatement

39. In applying AU-C section 330,²² the group auditor should take responsibility for the nature, timing, and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing, and extent of the work to be performed at those components. (Ref: par. A138–A154)

Consolidation Process

40. The group auditor should take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This should include the following: (Ref: par. A155)

¹⁹ Paragraph .39 of AU-C section 315.

²⁰ Paragraph .11 of AU-C section 320.

²¹ Paragraph .05 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit*.

²² Paragraphs .06–.07 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

- a. Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations
- b. Evaluating the appropriateness, completeness, and accuracy of consolidation adjustments and reclassifications (Ref: par. A156)
- c. Evaluating whether management's judgments made in the consolidation process give rise to indicators of possible management bias
- d. Responding to assessed risks of material misstatement due to fraud arising from the consolidation process

41. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor should evaluate whether the financial information has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework.

42. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor should take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.²³

Considerations When Component Auditors Are Involved

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

44. For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with AU-C section 315, for which a component auditor is determining the further audit procedures to be performed, the group auditor should evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: par. A157–A158)

45. When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group auditor should determine the nature and extent of direction and supervision of component auditors and the review of their work. (Ref: par. A158)

46. The group auditor should determine whether the financial information identified in the component auditor's communication (see paragraph 47a) is the financial information that is

²³ See, for example, FASB *Accounting Standards Codification* (ASC) 810, *Consolidation*.

incorporated in the group financial statements.

Evaluating the Component Auditor's Communications and the Adequacy of Their Work

47. The group auditor should request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication should include the following: (Ref: par. A159)

- a.* Identification of the financial information on which the component auditor has been requested to perform audit procedures
- b.* Whether the component auditor has performed the work requested by the group auditor
- c.* Whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement
- d.* Information about instances of noncompliance with laws or regulations
- e.* Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 38 (Ref: par. A160)
- f.* Indicators of possible management bias
- g.* Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed
- h.* Fraud or suspected fraud involving component management, employees at entities or business units who have significant roles in the group's system of internal control at the component, or others at entities or business units where the fraud resulted in a material misstatement of the component financial information
- i.* Other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component
- j.* Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in written representations that the component auditor requested from component management
- k.* The component auditor's overall findings or conclusions (Ref: par. A161)

48. The group auditor should

- a.* discuss significant matters arising from communications with the component auditor,

including those in accordance with paragraph 47, with the component auditor, component management, or group management, as appropriate, and

- b.* evaluate whether communications with the component auditor are adequate for the group auditor's purposes. If such communications are not adequate for the group auditor's purposes, the group auditor should consider the implications for the group audit. (Ref: par. A162)

49. The group auditor should determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation. In making this determination, the group auditor should consider (Ref: par. A163–A164)

- a.* the nature, timing, and extent of the work performed by the component auditor,
- b.* the competence and capabilities of the component auditor as determined in accordance with paragraph 28*a*, and
- c.* the direction and supervision of the component auditor and review of their work.

50. If the group auditor concludes that the work of the component auditor is not adequate for the group auditor's purposes, the group auditor should determine what additional audit procedures are to be performed and whether they are to be performed by a component auditor or the group auditor.

Considerations Regarding Making Reference to the Audit of a Referred-to Auditor in the Auditor's Report on the Group Financial Statements

Understanding the Referred-to Auditor

Relevant Ethical Requirements, Including Those Related to Independence, for Referred-to Auditors

- 51.** The group engagement partner should take responsibility for the following: (Ref: par. A166)
- a.* Referred-to auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement
 - b.* Confirming whether the referred-to auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence

Competence and Capabilities of Referred-to Auditors

52. The group engagement partner should determine that referred-to auditors have the appropriate competence and capabilities. (Ref: par. A167–A169)

53. The group auditor should obtain sufficient appropriate audit evidence relating to the work to

be performed at the component without making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements if (Ref: par. A170–A171)

- a.* the referred-to auditor does not comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement, or
- b.* the group engagement partner has serious concerns about the matters in paragraphs 51–52.

Consolidation Process Considerations for Referred-to Auditors

54. The group auditor should obtain an understanding of whether the group auditor will be able to obtain information affecting the consolidation process from group management or a referred-to auditor.

Determining Whether to Make Reference to the Audit of a Referred-to Auditor (Ref: par. A172–A180)

55. Having obtained an understanding of the referred-to auditor in paragraphs 51–54, the group engagement partner should determine whether to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements.

56. Reference to the audit of a referred-to auditor in the auditor's report on the group financial statements should not be made unless

- a.* the group engagement partner has determined that the referred-to auditor has performed an audit of the financial statements of the component in accordance with the relevant requirements of GAAS or the standards promulgated by the PCAOB (Ref: par. A176), and
- b.* the referred-to auditor has issued an auditor's report that is not restricted as to use.

57. If the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements, reference to the audit of a referred-to auditor in the auditor's report on the group financial statements should not be made unless both of the following occur:

- a.* The measurement, recognition, presentation, and disclosure criteria that are applicable to material items in the component's financial statements under the financial reporting framework used by the component are similar to the criteria that are applicable to material items in the group's financial statements under the financial reporting framework used by the group.
- b.* The group auditor has obtained sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to

be involved in the audit of the component financial statements. (Ref: par. A177–A180)

58. When the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements, the group auditor should obtain sufficient appropriate audit evidence with regard to such components by

- a. performing the procedures required by this SAS, as applicable (Ref: Exhibit A, “Relevancy of Requirements in Various Group Audit Scenarios”), and
- b. reading the component’s financial statements and the referred-to auditor’s report thereon to identify significant matters (see paragraph 64).

Making Reference to the Audit of a Referred-to Auditor (Ref: par. A181–A184)

59. When the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements, the report on the group financial statements should clearly indicate the following:

- a. The component was not audited by the group auditor but was audited by the referred-to auditor.
- b. The magnitude of the portion of the financial statements audited by the referred-to auditor.
- c. When the component’s financial statements are prepared using a different financial reporting framework from that used for the group financial statements
 - i. the financial reporting framework used by the component, and
 - ii. that the group auditor is taking responsibility for evaluating the appropriateness of the adjustments to convert the component’s financial statements to the financial reporting framework used by the group in accordance with paragraph 41. (Ref: par. A177)
- d. When
 - i. the referred-to auditor’s report on the component’s financial statements does not state that the audit of the component’s financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, and
 - ii. the group engagement partner has determined that the referred-to auditor performed additional audit procedures in order to meet the relevant requirements of GAAS
 - (1) the set of auditing standards used by the referred-to auditor and
 - (2) that additional audit procedures were performed by the referred-to auditor to meet the relevant requirements of GAAS.

60. If the group engagement partner determines to name a referred-to auditor in the auditor’s report on the group financial statements

- a. the referred-to auditor's express permission should be obtained, and
- b. the referred-to auditor's report should be presented together with that of the auditor's report on the group financial statements.

61. If the opinion of a referred-to auditor is modified or that audit report includes an emphasis-of-matter paragraph, an other-matter paragraph, or a going concern section, the group auditor should determine the effect that this may have on the auditor's report on the group financial statements. When deemed appropriate, the group auditor should modify the opinion on the group financial statements or include an emphasis-of-matter paragraph, an other-matter paragraph, or a going concern section in the auditor's report on the group financial statements. (Ref. par. A184)

Communications With the Referred-to Auditor (Ref: par. A185–A187)

62. The group auditor should communicate the following to a referred-to auditor on a timely basis:

- a. In accordance with paragraph 51, the ethical requirements that are relevant to the group audit engagement, including those related to independence
- b. Related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the referred-to auditor (Ref: par. A187)
- c. A request that the referred-to auditor communicate the following on a timely basis:
 - i. Confirmation that the referred-to auditor will cooperate with the group auditor
 - ii. Related party relationships not previously identified by group management or the group auditor
 - iii. If the group engagement partner decides to name a referred-to auditor in the auditor's report on the group financial statements, the referred-to auditor's express permission for the group engagement partner to name the referred-to auditor in the auditor's report on the group financial statements in accordance with paragraph 60a.

63. The group auditor should request a referred-to auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication should include the following:

- a. Identification of the financial information of the component on which the referred-to auditor is reporting
- b. Whether the referred-to auditor has complied with ethical requirements that are relevant to the group audit engagement, including independence
- c. The referred-to auditor's report

Evaluating a Referred-to Auditor's Communication

64. The group auditor should evaluate a referred-to auditor's communication (see paragraph 62c and 63). The group auditor should discuss matters arising from that evaluation, or significant matters identified in accordance with paragraph 58b, with the referred-to auditor, component management, or group management, as appropriate.

65. The group auditor should determine whether the financial information identified in the referred-to auditor's communication (see paragraph 63a) is the financial information that is incorporated in the group financial statements.

Considerations Regarding Using Audited Financial Statements of a Noncontrolled Entity That Is Accounted for by the Equity Method as Audit Evidence

66. The group may have a noncontrolling interest in an entity that is accounted for by the equity method and for which audited financial statements of the noncontrolled entity are available. If the group auditor intends to use the audited financial statements as audit evidence regarding the noncontrolled entity's financial results, the group auditor should (Ref: par. A188–A191)

- a. obtain and read the audited financial statements of the noncontrolled entity, including the accompanying audit report, and determine whether the audited financial statements are satisfactory for this purpose,
- b. if the difference between the financial statement period of the group and the noncontrolled entity has or could have a material effect on the group financial statements, determine whether group management has properly considered the lack of comparability and determine the effect, if any, on the group auditor's report in accordance with AU-C section 708, *Consistency of Financial Statements*, and
- c. if the carrying amount of the noncontrolled entity on the group financial statements is materially different from the underlying equity in net assets of the noncontrolled entity on the noncontrolled entity financial statements, obtain sufficient appropriate audit evidence for the material differences and determine that such differences are appropriate in accordance with the applicable financial reporting framework.

Subsequent Events

67. In applying AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*,²⁴ the group auditor should take responsibility for performing procedures, including, as appropriate, requesting component auditors or referred-to auditors to perform procedures designed to identify events that may require adjustment of, or disclosure in, the group financial statements. (Ref: par. A192–A194)

²⁴ Paragraphs .09–.10 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.

Considerations When Component Auditors Are Involved

68. The group auditor should request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements. (Ref: par. A194)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

69. In applying AU-C section 330,²⁵ the group auditor should evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed (including from the work performed by component auditors, or through making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements) on which to base the group audit opinion. (Ref: par. A195–A199)

70. The group engagement partner should evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances when there has been an inability to obtain sufficient appropriate audit evidence. (Ref: par. A200)

Auditor's Report

Considerations When Component Auditors Are Involved (Ref: par. A201–A202)

71. When component auditors are involved in the group audit, no reference should be made to the component auditor in the auditor's report on the group financial statements.

Communication With Group Management and Those Charged With Governance of the Group

Communication With Group Management

72. The group auditor should communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group. (Ref: par. A203)

73. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 47*h*) or referred-to auditor, or information indicates that a fraud may exist, the group auditor should communicate this on a timely basis to the appropriate level of group management to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: par. A204)

74. When a component auditor or a referred-to auditor has been engaged to express an audit opinion on the financial statements of an entity or business unit that forms part of the group, the group auditor should request group management to inform management of the entity or business

²⁵ Paragraph .28 of AU-C section 330.

unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor should discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, should consider whether to advise the component auditor or referred-to auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved and whether to withdraw from the engagement. (Ref: par. A205–A206)

Communication With Those Charged With Governance of the Group

75. The group auditor should communicate the following matters with those charged with governance of the group, in addition to those required by AU-C section 260, *The Auditor's Communication With Those Charged With Governance* and other AU-C sections: (Ref: par. A207)

- a. An overview of the work to be performed at the components of the group, including the basis for the decision to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, and the nature of the group auditor's planned involvement in the work to be performed by component auditors (Ref: par. A208)
- b. Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work and how the group auditor addressed the concern
- c. Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information
- d. Fraud or suspected fraud involving group management, component management, employees at entities or business units who have significant roles in the group's system of internal control, or others at entities or business units in which a material misstatement of the group financial statements has or may have resulted from fraud

Communication of Identified Deficiencies in Internal Control

76. In applying AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*, the group auditor should determine whether any identified deficiencies in the group's system of internal control are required to be communicated to those charged with governance of the group or group management. In making this determination, the group auditor should consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 47g. (Ref: par. A209)

Documentation

77. In accordance with AU-C section 230,²⁶ the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing, and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying AU-C section 230,²⁷ the group auditor should include in the audit documentation the following: (Ref: par. A210–A212, A222–225)

- a. Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed
- b. The basis for the group auditor's determination of components for purposes of planning and performing the group audit (Ref: par. A213)
- c. The basis for the determination of component performance materiality and the threshold for communicating misstatements in the component financial information to the group auditor
- d. The basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components (Ref: par. A214)
- e. Key elements of the understanding of the group's system of internal control in accordance with paragraph 32c
- f. The nature, timing, and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph 49 (Ref: par. A215–A221)
- g. Matters related to communications with component auditors, including
 - i. matters, if any, related to fraud, related parties, or going concern communicated in accordance with paragraph 34 and
 - ii. matters relevant to the group auditor's conclusion with regard to the group audit, in accordance with paragraph 47, including how the group auditor has addressed significant matters discussed with component auditors, component management, or group management.
- h. Those components for which reference to the audit of referred-to auditors is made in the auditor's report on the group financial statements, including the following for such components:

²⁶ Paragraph .08 of AU-C section 230.

²⁷ Paragraphs .01–.03, .09–.12, .A8–.A9, and the exhibit in AU-C section 230.

- i. The financial statements of the component and the auditor's report of the referred-to auditor thereon
 - ii. When the referred-to auditor's report on the component's financial statements does not state that the audit of the component's financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, the basis for the group engagement partner's determination that the audit performed by the referred-to auditor met the relevant requirements of GAAS
 - iii. The basis for the group auditor's determination that referred-to auditors have the appropriate competence and capabilities
 - iv. Matters related to communications with referred-to auditors communicated in accordance with paragraphs 62c and 63, including how the group auditor has addressed significant matters discussed with referred-to auditors, component management, or group management
- i. Those components for which the group auditor uses audited financial statements of a noncontrolled entity that is accounted for by the equity method as sufficient appropriate audit evidence regarding the noncontrolled entity's financial results
 - j. The group auditor's evaluation of, and response to, findings or conclusions of the component auditors or referred-to auditors about matters that could have a material effect on the group financial statements

* * *

Application and Other Explanatory Material

Scope of This SAS (Ref: par. 1–2)

A1. This SAS also addresses the special considerations for the group engagement partner or group auditor, as applicable, in applying the requirements and guidance in AU-C section 220, including for the direction and supervision of component auditors and the review of their work.

A2. QM section 10, *A Firm's System of Quality Management*, addresses the engagements for which an engagement quality review is required to be performed. QM section 20, *Engagement Quality Reviews*, addresses the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.

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

opinions on both the group financial statements and the separate financial statements of the components presented in the group financial statements (for example, when auditing a governmental entity), the auditor is responsible for reporting on each audit engagement in accordance with AU-C sections.

A4. A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of *group financial statements* because they include the financial information of more than one entity or business unit through a consolidation process.

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

Groups and Components (Ref: par. 5–6)

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

A7. The group auditor may determine that the financial statements of an entity meet the definition of *group financial statements*; however, based on the understanding of the group's organizational structure and information system, the group auditor may determine it is appropriate to consider the financial information of certain entities or business units together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the group auditor may decide to treat these three legal entities as one component. Therefore, the audit is a group audit even when the group auditor identifies only one component. In this scenario, this SAS applies (for example, even if the group auditor has identified only one component, the requirements in paragraph 40 related to designing and performing further audit procedures to respond to the assessed risks of material misstatement arising from the consolidation process are relevant). (Ref: Exhibit A, "Relevancy of Requirements in Various Group Audit Scenarios.")

A8. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example, through the use of a shared service center. When

such centralized activities are relevant to the group's financial reporting process, the group auditor may determine that the shared service center is a component.

A9. Another consideration that may be relevant to the group auditor's determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework.²⁸

Involvement of Component Auditors (Ref: par. 8–9)

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

A11. In accordance with AU-C section 220,²⁹ the engagement partner is required to determine that the approach to direction, supervision, and review is responsive to the nature and circumstances of the audit engagement. Paragraph A86 provides examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work and may be helpful in circumstances when the group auditor plans to use the audit work from an audit of component financial statements that has already been completed.

A12. As explained in AU-C section 200,³⁰ detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. Detection risk is a function not only of the effectiveness of an audit procedure but also the application of that procedure by the auditor. Therefore, detection risk is influenced by matters such as adequate planning, the assignment of appropriate resources to the engagement, the maintenance of professional skepticism, and the supervision and review of the audit work performed.

A13. Detection risk is a broader concept than aggregation risk as described in paragraphs 16 and A20. In a group audit, there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole because audit procedures may be performed separately on the financial information of components across the group. Accordingly, component performance materiality is set by the group auditor to reduce aggregation risk to an appropriately low level.

Professional Skepticism (Ref: par. 11)

²⁸ See, for example, FASB ASC 280, *Segment Reporting*.

²⁹ Paragraph .30b of AU-C section 220.

³⁰ Paragraph .A47 of AU-C section 200.

A14. AU-C section 220³¹ provides examples of the impediments to the maintenance of professional skepticism at the engagement level, including unconscious auditor biases that may impede the maintenance of professional skepticism when designing and performing audit procedures and evaluating audit evidence. AU-C section 220 also provides possible actions that the engagement team may take to mitigate impediments to the maintenance of professional skepticism at the engagement level.

A15. Requirements and relevant application material in AU-C section 315,³² AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*,³³ and other AU-C sections address the maintenance of professional skepticism and include examples of how documentation may help provide evidence of the auditor's maintenance of professional skepticism.

A16. All members of the engagement team are required to maintain professional skepticism throughout the group audit. The group auditor's direction and supervision of engagement team members, including component auditors, and the review of their work, may inform the group auditor about whether the engagement team has appropriately maintained professional skepticism.

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

- Component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.
- The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex organizational structure may be a fraud risk factor in accordance with AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*,³⁴ and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units.
- The nature and extent of intragroup transactions (for example, transactions that involve multiple entities and business units within the group or multiple related parties), cash flows, or transfer pricing agreements may give rise to additional complexities. In some cases, such matters may also give rise to fraud risk factors.
- When the group audit is subject to tight reporting deadlines, this may put pressure on engagement team members when completing the work assigned. In these circumstances, the engagement team may need to take additional time to appropriately question management's assertions, make appropriate judgments, or appropriately review the audit work performed.

³¹ Paragraphs .A34–.A36 of AU-C section 220.

³² Paragraph .A268 of AU-C section 315.

³³ Paragraph .A11 of AU-C section 540, *Auditing Accounting Estimates and Related Disclosures*.

³⁴ Appendix A of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*.

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

Responsibilities of the Group Engagement Partner and Group Auditor (Ref: par. 13)

A19. Component auditors may perform work on the financial information of the components for the group audit, or reference may be made to the audit of a referred-to auditor in the auditor's report on the group financial statements and, as such, component auditors and referred-to auditors are responsible for their overall findings or conclusions. However, regardless of whether reference is made in the auditor's report on the group financial statements to the report of a referred-to auditor, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

Definitions

Aggregation Risk (Ref: par. 16)

A20. Aggregation risk exists in all audits of financial statements but is particularly important to understand and address in a group audit because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances, or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components at which audit procedures are performed separately increases, whether by component auditors or other members of the engagement team.

Component (Ref: par. 16)

A21. The group auditor uses professional judgment in determining components at which audit work will be performed considering, for example, the understanding of the group obtained in accordance with paragraph 32, including the understanding of the financial reporting framework and the consistency of accounting policies and practices across the group. Paragraph A7 explains that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. However, the group auditor's responsibility for the identification and assessment of the risks of material misstatement of the group financial statements encompasses all the entities and business units whose financial information is included in the group financial statements.

Considerations Specific to Governmental Entities (Ref: par. 16)

A22. In audits of state and local governments, a component may be a separate legal entity reported as a component unit or as part of the governmental entity, such as a business activity, department, or program.

Component Auditor (Ref: par. 16)

A23. References in this SAS to the *engagement team* include the group auditor and component

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

A24. An auditor who performs work on a component when the group auditor will not use that work to provide audit evidence for the group audit is not considered a component auditor.

A25. In some circumstances, the group auditor may perform centralized testing on classes of transactions, account balances, or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

A26. Paragraph 26 requires the group auditor to request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. Paragraph A68 provides guidance for circumstances in which the component auditor is unable to provide such a confirmation.

Component Management (Ref: par. 16)

A27. *Component management* refers to management responsible for the financial information or other activity (for example, processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group auditor considers the financial information of certain entities or business units together as a component or determines that a shared service center is a component (see paragraphs A7–A8), *component management* refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component. In some circumstances, there may not be separate component management, and group management may be directly responsible for the financial information or other activities of the component.

Group Engagement Partner (Ref: par. 16)

A28. When joint auditors conduct a group audit, the joint engagement partners and their engagement teams collectively constitute the *group engagement partner* and *engagement team* for the purposes of GAAS. This SAS does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor for purposes of the group audit.

Group Financial Statements (Ref: par. 2, 16)

A29. The requirements for the preparation and fair presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (for example, subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that are under common control or entities under common management.

A30. The term *consolidation process* as used in this SAS is not intended to have the same meaning as *consolidation* or *consolidated financial statements* as defined or described in financial reporting frameworks. Rather, consolidation process refers more broadly to the process used to prepare group financial statements.

A31. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intra-group transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Considerations Specific to Governmental Entities (Ref: par. 1, 17)

A32. In audits of state and local governments, the applicable financial reporting framework may be based on multiple reporting units. Therefore, the consolidation process may involve the inclusion, but separate presentation, of the financial statements of each reporting unit in the governmental entity.

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: par. 13, 18)

A33. It may not be possible or practical for the group engagement partner to solely deal with all requirements in AU-C section 220, particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, AU-C section 220³⁵ permits the engagement partner to assign the design or performance of procedures, tasks, or actions to other members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign procedures, tasks, or actions to other members of the engagement team, and these members may assign procedures, tasks, or actions further. In such circumstances, AU-C section 220 requires that the engagement partner should continue to take overall responsibility for managing and achieving quality on the audit engagement.

A34. Policies or procedures established by the firm, or that are common network requirements or network services,³⁶ may support the group engagement partner by facilitating communication between the group auditor and component auditors and supporting the group auditor's direction and supervision of those component auditors and the review of their work.

A35. AU-C section 220³⁷ explains that a culture that demonstrates a commitment to quality is shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement. In addressing the requirement in paragraph 18a, the group engagement partner may communicate directly to other members of the engagement team (including component auditors) and reinforce this communication through personal conduct and

³⁵ Paragraph .15 of AU-C section 220.

³⁶ Paragraphs .49–.53 of QM section 10, *Engagement Quality Reviews*.

³⁷ Paragraph .A28 of AU-C section 220.

actions (for example, leading by example).

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained (Ref: par. 19–20)

A36. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as the following:

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

A37. In the case of an initial group audit engagement, the group auditor's understanding of the matters in paragraph A36 may be obtained from

- information provided by group management,
- communication with group management,
- communication with those charged with governance of the group, and
- when applicable, communication with component management or the predecessor auditor.

A38. For a recurring engagement, the ability to obtain sufficient appropriate audit evidence may be affected by significant changes in, for example, the following:

- The group structure (for example, acquisitions, disposals, joint ventures,

reorganizations, or changes in how the group financial reporting system is organized)

- Components' activities that are significant to the group
- The composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed
- The group auditor's understanding of the integrity and competence of group or component management
- Changes in the applicable financial reporting framework

A39. There may be additional complexities with obtaining sufficient appropriate audit evidence in a group audit when components are located in jurisdictions other than the group auditor's jurisdiction because of cultural and language differences, and different laws or regulations. For example, law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction, or war, civil unrest, or outbreaks of disease may restrict the group auditor's access to relevant component auditor audit documentation. Paragraph A223 includes possible ways to address these situations.

A40. In addition to the work performed by the group auditor, the group engagement partner may obtain sufficient appropriate audit evidence regarding the financial information of one or more components through using the work of a component auditor or through making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements.

A41. There may be more complexities in determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained in a group audit where reference is made to the audit of referred-to auditors in the auditor's report on the group financial statements, including in group audits where no component auditors are also involved. The group engagement partner may consider the nature and extent of work to be performed by referred-to auditors, including matters such as the following:

- The risks of material misstatement to the group financial statements associated with the portion of the entity's financial statements for which the group auditor or component auditor performs audit procedures compared to the portion audited by referred-to auditors
- The importance to the group of the components audited by referred-to auditors, considering quantitative and qualitative factors

More complexity in determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained may indicate an area of significant judgment for which the group engagement partner is required to review the audit documentation related to the significant

judgment,³⁸ including the conclusions reached.³⁹ For example, the group engagement partner may identify as a significant judgment the determination that sufficient appropriate audit evidence can reasonably be expected to be obtained through making reference to the audit of referred-to auditors in the auditor's report on the group financial statements when the portion of the group financial statements audited by referred-to auditors is quantitatively or qualitatively significant.

A42. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting

- the group auditor's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group auditor) (see paragraphs 22 and 23), or
- the work to be performed on the financial information of components.

Paragraphs A52–A53 explain the possible effect of such restrictions on the auditor's report on the group financial statements.

Considerations Specific to Governmental Entities (Ref: par. 19)

A43. In audits of state and local governments, when reference is made to the audit of referred-to auditors in the auditor's report on the group financial statements, the following are additional factors to consider in determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained:

- Engagement by the primary government as the auditor of the financial reporting entity
- Responsibility for auditing the primary government's general fund (or other primary operating fund)

Agreeing the Terms of Audit Engagements (Ref: par. 21)

A44. AU-C section 210⁴⁰ requires the auditor to agree upon the terms of the audit engagement with management or those charged with governance, as appropriate. The terms of engagement identify the applicable financial reporting framework.⁴¹ Additional matters that may be included in the terms of a group audit engagement include whether reference will be made to the audit of a referred-to auditor in the auditor's report on the group financial statements, when relevant, or arrangements to facilitate the following:

- Unrestricted communications between the group auditor and component auditors, to

³⁸ Paragraph .31 and .A93 of AU-C section 220.

³⁹ Paragraph .08 of AU-C section 230.

⁴⁰ Paragraph .09 of AU-C section 210, *Terms of Engagement*.

⁴¹ Paragraph .10e of AU-C section 210.

the extent permitted by laws or regulations

- Communications to the group auditor of important communications between
 - component auditors and those charged with governance of the component or component management, including communications on significant deficiencies and material weaknesses in internal control and
 - regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit
- Permission for the group auditor to perform work, or request a component auditor to perform work, at the component

Restrictions on Access to Information or People (Ref: par. 22–23)

A45. Restrictions on access to information or people do not eliminate the requirement for the group auditor to obtain sufficient appropriate audit evidence.

A46. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations, or other conditions, for example, war, civil unrest, or outbreaks of disease. Paragraph A223 describes how the group auditor may be able to overcome restrictions on access to component auditor audit documentation.

A47. In some circumstances, the group auditor may be able to overcome restrictions on access to information or people. Examples follow:

- If access to component management or those charged with governance of the component is restricted, the group auditor may request group management or those charged with governance of the group to assist with removing the restriction or otherwise request information directly from group management or those charged with governance of the group.
- If the group has a noncontrolling interest in an entity that is accounted for by the equity method for which the group auditor is neither making reference to the audit of the noncontrolled entity's auditor in the auditor's report on the group financial statements (see paragraphs A66 and A175), nor using audited financial statements of the noncontrolled entity as sufficient appropriate audit evidence regarding the noncontrolled entity's financial results (see paragraphs 66, A66, and A188–A190), the group auditor may do the following:
 - Determine whether provisions exist (for example, in the terms of joint venture agreements or the terms of other investment agreements) regarding access by the group to the financial information of the entity and request group management to exercise such rights

- If the group has representatives who are on the executive board or are members of those charged with governance of the noncontrolled entity, inquire whether they can provide financial and other information available to them in these roles

A48. If the group has a noncontrolling interest in an entity that is accounted for by the equity method for which the group auditor is neither making reference to the audit of the noncontrolled entity's auditor in the auditor's report on the group financial statements (see paragraphs A166 and A175), nor using audited financial statements of the noncontrolled entity as sufficient appropriate audit evidence regarding the noncontrolled entity's financial results (see paragraphs 66, A66, and A188–A190), and the group auditor's access to information or people at the entity is restricted, the group auditor may be able to obtain information to be used as audit evidence regarding the entity's financial information, for example, from the following:

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

It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.⁴²

A49. If the group has a noncontrolling interest in an entity that is accounted for by the equity method and access to information or people at the entity is restricted, the group auditor may consider whether such restrictions are inconsistent with group management's assertions regarding the appropriateness of the use of the equity method of accounting.

A50. When the group auditor is unable to obtain sufficient appropriate audit evidence due to restrictions on access to information or people, the group auditor may

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

A51. Restrictions on access may have other implications for the group audit. For example, if

⁴² Paragraph .07b of AU-C section 330.

restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management's responses to the group auditor's inquiries and whether the restrictions call into question group management's integrity.

Effect of Restrictions on Access to Information or People on the Auditor's Report on Group Financial Statements (Ref: par. 22–23)

A52. AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, contains requirements and guidance about how to address situations when the group auditor is unable to obtain sufficient appropriate audit evidence. Illustration 1 in exhibit B, "Illustrative Auditor's Reports on Group Financial Statements," contains an example of an auditor's report containing a qualified group audit opinion based on the group auditor's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

Law or Regulation Prohibits the Group Engagement Partner From Declining or Withdrawing From an Engagement (Ref: par. 22–23)

A53. AU-C section 210 addresses circumstances when an entity is required by law or regulation to have an audit. In these circumstances, this SAS still applies to the group audit, and the effect of the group auditor's inability to obtain sufficient appropriate audit evidence is addressed in AU-C section 705.

Overall Group Audit Strategy and Group Audit Plan

The Continual and Iterative Nature of Planning and Performing a Group Audit (Ref: par. 24)

A54. As explained in AU-C section 300,⁴³ planning is not a discrete phase of an audit but, rather, a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. For example, due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and group audit plan, and the resulting planned nature, timing, and extent of further audit procedures, based on the revised consideration of assessed risks. The group auditor may also modify the determination of the components at which to perform audit work as well as the nature, timing, and extent of the component auditors' involvement. AU-C section 300⁴⁴ requires the auditor to update and change the overall audit strategy and audit plan as necessary during the course of the audit.

A55. The form of the group audit strategy and group audit plan may vary based on the nature and circumstances of each group audit engagement, including the extent to which engagement management is integrated into the audit tools used for the group audit. An electronic audit tool may be used to develop and update the group audit strategy and audit plan and facilitate the group engagement partner's review of the group audit plan and group audit strategy.

⁴³ Paragraph .A2 of AU-C section 300.

⁴⁴ Paragraph .10 of AU-C section 300.

Establishing the Overall Group Audit Strategy and Group Audit Plan (Ref: par. 24)

A56. In an initial group audit engagement, the group auditor may have a preliminary understanding of the group and its environment, the applicable financial reporting framework, and the entity's system of internal control based on information obtained from group management, those charged with governance of the group and, when applicable, communication with component management or the predecessor auditor. In a recurring group audit engagement, the group auditor's preliminary understanding may be obtained through prior period audits. This preliminary understanding may assist the group auditor in developing initial expectations about the classes of transactions, account balances, and disclosures that may be significant.

A57. The group auditor may also use information obtained during the engagement acceptance and continuance process in establishing the overall group audit strategy and group audit plan, for example, in relation to the resources needed to perform the group audit.

A58. The process of establishing the overall group audit strategy and group audit plan and initial expectations about the classes of transactions, account balances, and disclosures that may be significant at the group financial statement level may assist the group auditor in developing a preliminary determination of matters such as the following:

- Whether to perform audit work centrally, at components, or a combination thereof
- The nature, timing, and extent of audit work to be performed with respect to the financial information of components (for example, design and perform risk assessment procedures, further audit procedures, or a combination thereof) (see paragraph A146)
- The components for which, if any, the auditor's report on the group financial statements will make reference to the audit of a referred-to auditor

Components at Which to Perform Audit Work (Ref: par. 24a)

A59. The determination of components at which to perform audit work is a matter of professional judgment. The following are examples of matters that may influence the group auditor's determination:

- The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example
 - newly formed or acquired entities or business units,
 - entities or business units in which significant changes have taken place,
 - significant transactions with related parties,
 - significant unusual transactions, and

- abnormal fluctuations identified by analytical procedures performed at the group level, in accordance with AU-C section 315⁴⁵
- The disaggregation of significant classes of transactions, account balances, and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities, and transactions at the location or business unit relative to the group financial statements
- The assessed risks of material misstatement of the group financial statements that exist at a component, and whether such risks are higher or exist at more than one component
- Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances, and disclosures in the group financial statements from audit work planned on the financial information of identified components
- The nature and extent of misstatements or control deficiencies identified at a component in prior period audits
- The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralizes activities relevant to financial reporting

Considerations Specific to Governmental Entities (Ref: par. 24a)

A60. In audits of governmental entities, the following are examples of matters that may influence the group auditor's determination of components at which to perform audit work:

- The disaggregation of significant classes of transactions, account balances, and disclosures (for example, net costs or total budget) in the group financial statements across components, considering the size and nature of assets, liabilities, and transactions, at the component unit, business activity, department, or program relative to the group financial statements
- The materiality of the component relative to its related opinion unit as set forth in the AICPA Audit and Accounting Guide *State and Local Governments*
- Matters of heightened public sensitivity, such as national security issues, donor-funded projects, or reporting of tax revenue

Resources (Ref: par. 24b)

A61. Matters that influence the group auditor's determination of the resources needed to perform the group audit and the nature, timing, and extent to which component auditors are to be involved

⁴⁵ Paragraph .14b of AU-C section 315.

are a matter of professional judgment. The following are examples of such matters:

- The understanding of the group, the components within the group at which audit work is to be performed, and whether to perform work centrally, at components, or a combination thereof.
- The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language, and culture. In addition, the involvement of auditor's specialists may be needed on complex matters.
- The initial expectations about the potential risks of material misstatement.
- The amount or location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may affect the need to involve component auditors in specific locations.
- Access arrangements. For example, when the group auditor's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
- The nature of the components' activities, including their complexity or specialization of operations.
- The group's system of internal control, including the information system in place and its degree of centralization. For example, the involvement of component auditors may be more likely when the system of internal control is decentralized.
- Previous experience with the component auditor.

A62. Component auditors may be involved in different phases of an audit. For example, component auditors may design or perform

- risk assessment procedures, or
- procedures to respond to the assessed risks of material misstatement.

A63. The nature, timing, and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often, component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase. When the group auditor does not intend to involve component auditors in risk assessment procedures, the group auditor may still discuss with component auditors whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements.

A64. AU-C section 300⁴⁶ requires the engagement partner and other key members of the engagement team to be involved in planning the audit. When component auditors are involved, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the group audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. The group engagement partner uses professional judgment in determining which component auditors to involve in planning the audit relative to particular components. This may be affected by the nature, timing, and extent to which the component auditors are expected to be involved in designing and performing risk assessment or further audit procedures.

A65. As described in QM section 10,⁴⁷ there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal or regulatory requirements. The level of fees, including, when applicable, their allocation to component auditors, and the extent to which they relate to the resources required, may be a special consideration for group audit engagements. For example, in a group audit, the firm's financial and operational priorities may place constraints on the determination of the components at which audit work will be performed, as well as the resources needed, including the involvement of component auditors. In such circumstances, these constraints do not alleviate the group engagement partner's responsibility for achieving quality at the engagement level or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

A66. If the group has a noncontrolling interest in an entity that is accounted for by the equity method and audited financial statements of the noncontrolled entity are available, the group auditor may determine to use such audited financial statements as audit evidence regarding the noncontrolled entity's financial results, for example (Ref: par. 24d)

- in applying the requirements in paragraphs 51–65, the group engagement partner may determine to make reference to the audit of the noncontrolled entity's auditor in the auditor's report on the group financial statements, or
- in applying the guidance in paragraphs A188–A190, the group auditor may determine that the audited financial statements of the noncontrolled entity provide sufficient appropriate audit evidence regarding the noncontrolled entity's financial results. In this situation, the requirements in paragraph 66 regarding using audited financial statements of the noncontrolled entity as sufficient appropriate audit evidence regarding the noncontrolled entity's financial results are applicable.

If audited financial statements of the noncontrolled entity are not available, or, in applying the guidance in paragraphs A188–A190, the group auditor determines that the audited financial statements of the noncontrolled entity do not provide sufficient appropriate audit evidence

⁴⁶ Paragraph .05 of AU-C section 300.

⁴⁷ Paragraph .A78 of QM section 10.

regarding the noncontrolled entity's financial results, the requirements in this SAS regarding obtaining sufficient appropriate audit evidence regarding the noncontrolled entity's (that is, a component's) financial results, without making reference to the audit of the noncontrolled entity's auditor in the auditor's report on the group financial statements, are applicable (see paragraph A191).

Considerations When Component Auditors Are Involved

Sufficient and Appropriate Involvement in the Work of the Component Auditor (Ref: par. 25–26)

A67. In evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.

A68. If the component auditor is unable to cooperate with the group auditor, the group auditor may do the following:

- Request the component auditor to provide its rationale.
- Be able to take appropriate action to address the matter, including adjusting the nature of the work requested to be performed. Alternatively, in accordance with paragraph 29, the group auditor may need to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: par. 27)

A69. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit engagement. The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include due care. Due care requires the auditor to discharge professional responsibilities with competence and to have the appropriate capabilities to perform the audit.⁴⁸ Such requirements may be different from or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for legal, regulatory, or other reasons in the component auditor's jurisdiction. When the component auditor is not subject to the AICPA Code of Professional Conduct, compliance by the component auditor with the ethics and independence requirements, including those related to professional competence and due care, set forth in the International Federation of Accountants Code of Ethics for Professional Accountants is sufficient to fulfill the component auditor's ethical responsibilities in the group audit.

⁴⁸ Paragraph .A16 and .A19 of AU-C section 200.

A70. In making the component auditor aware of relevant ethical requirements, the group auditor may consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.

Engagement Resources (Ref: par. 28)

A71. AU-C section 220⁴⁹ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may discuss the matter with the component auditor, group management, or the group auditor's firm and may subsequently request the component auditor or the group auditor's firm to make sufficient and appropriate resources available.

Competence and Capabilities of the Component Auditor

A72. AU-C section 220⁵⁰ provides guidance regarding matters the engagement partner may take into consideration when determining the competence and capabilities of the engagement team. This determination is particularly important in a group audit when the engagement team includes component auditors. AU-C section 220⁵¹ indicates that the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether a component auditor from another firm has the appropriate competence and capabilities to perform the audit engagement.

A73. Determining whether component auditors have the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement. This determination influences the nature, timing, and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work.

A74. In determining whether component auditors have the appropriate competence and capabilities to perform the assigned audit procedures at the component, the group engagement partner may consider matters such as the following:

- Previous experience with or knowledge of the component auditor
- The component auditor's specialized skills (for example, industry-specific knowledge or knowledge of relevant financial reporting requirements for statements and schedules to be filed with regulatory agencies)
- The component auditor's understanding of the auditing and other standards applicable

⁴⁹ Paragraph .25 of AU-C section 220.

⁵⁰ Paragraph .A71 of AU-C section 220.

⁵¹ Paragraph .A24 of AU-C section 220.

to the group audit, such as GAAS, that is sufficient to fulfill the component auditor's responsibilities

- The degree to which the group auditor and component auditor are subject to a common system of quality management, for example, whether the group auditor and the component auditor
 - use common resources to perform the work (for example, audit methodologies or IT applications),
 - share common policies or procedures affecting engagement performance (for example, direction, supervision, and review of work or consultation),
 - are subject to common monitoring activities, or
 - have other commonalities, including common leadership or a common cultural environment
- The consistency or similarity of
 - laws or regulations or legal system;
 - language and culture;
 - education and training;
 - professional oversight, discipline, and external quality assurance; or
 - professional organizations and standards
- Information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors

A75. The procedures to determine the component auditor's competency and capability may include, for example, the following:

- An evaluation of the information communicated by the group auditor's firm to the group auditor, including
 - the firm's ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm⁵²
 - information from the network about the results of the monitoring activities

⁵² Paragraph .48 of QM section 10.

undertaken by the network across the network firms⁵³

— information obtained from professional bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties

- Discussing the assessed risks of material misstatement with the component auditor
- Requesting the component auditor to confirm its understanding of the matters referred to in paragraph 27 in writing
- Discussing the component auditor's competence and capabilities with colleagues in the group engagement partner's firm that have worked directly with the component auditor
- Obtaining published external inspection reports, peer review reports on the component auditor's firm, and other relevant publicly available information relating to the professional reputation and standing of a component auditor

A76. The group engagement partner's firm and the component auditor may be members of the same network and may be subject to common network requirements or use common network services.⁵⁴ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with QM section 10,⁵⁵ the firm is responsible for designing, implementing, and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management.

Using the Work of an Auditor's Specialist

A77. AU-C section 220⁵⁶ requires the engagement partner to determine that members of the engagement team, and any auditor's external specialists who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. If an auditor's specialist is used by a component auditor, the group engagement partner may need to obtain information from the component auditor. For example, the group auditor may discuss with the component auditor, the component auditor's evaluation of the competence and capabilities of the auditor's specialist.

Automated Tools and Techniques

⁵³ Paragraph .52b of QM section 10.

⁵⁴ Paragraphs .A20 and .A188 of QM section 10.

⁵⁵ Paragraphs .49–.50 of QM section 10.

⁵⁶ Paragraph .26 of AU-C section 220.

A78. When determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools and techniques. For example, as described in AU-C section 220,⁵⁷ when the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may communicate with component auditors that the use of such automated tools and techniques need to comply with the group auditor's instructions.

Application of the Group Auditor's Understanding of a Component Auditor (Ref: par. 29)

A79. AU-C section 220⁵⁸ requires the engagement partner to take responsibility for other members of the engagement team, having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. This includes the firm's policies or procedures that address circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches. The firm's policies or procedures also may address breaches of independence requirements by component auditors and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements. In addition, relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances when breaches of independence requirements have been identified.⁵⁹

A80. If there has been a breach by a component auditor of the relevant ethical requirements that apply to the group audit engagement, including those related to independence, and the breach has not been satisfactorily addressed in accordance with provisions of the relevant ethical requirements, the group auditor cannot use the work of that component auditor.

A81. Serious concerns are those concerns that in the group auditor's professional judgment cannot be overcome. The group engagement partner may be able to overcome less-than-serious concerns about the component auditor's professional competency (for example, lack of industry-specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by the group auditor being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: par. 30)

A82. AU-C section 220⁶⁰ requires the engagement partner to determine that the nature, timing, and extent of direction, supervision, and review is planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements and is responsive to the nature and circumstances of the audit engagement and the

⁵⁷ Paragraph .A65 of AU-C section 220.

⁵⁸ Paragraph .17 of AU-C section 220.

⁵⁹ Paragraph .A17 of AU-C section 260, *The Auditor's Communication With Those Charged With Governance*.

⁶⁰ Paragraph .30 of AU-C section 220.

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

A83. For a group audit, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations, the group engagement partner may assign the design or performance of procedures, tasks, or actions to other members of the engagement team to assist the group engagement partner in fulfilling the responsibility for the nature, timing, and extent of the direction and supervision of component auditors and the review of their work (see also paragraph 13).

A84. If component auditors are from a firm other than the group auditor's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing, and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network (for example, in relation to the form, content, and timing of communications with component auditors, including the use of group auditor instructions to component auditors). AU-C section 220 provides examples of actions that may need to be taken in such circumstances.⁶¹

A85. The nature, timing, and extent of direction and supervision of component auditors and review of their work may be tailored based on the nature and circumstances of the engagement and, for example, the following factors:

- The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, an increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's audit documentation may be appropriate.
- The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions, increase the frequency of discussions or other interactions with the component auditor, or assign more experienced individuals to oversee the component auditor as the work is performed.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including when service delivery centers are used.
- Access to component auditor audit documentation. For example, when law or regulation precludes component auditor audit documentation from being transferred out of the component auditor's jurisdiction, the group auditor may be able to review

⁶¹ Paragraphs .A24–.A25 of AU-C section 220.

the audit documentation at the component auditor's location or remotely through the use of technology, when not prohibited by law or regulation (see also paragraphs A222–A223).

A86. The following are examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work:

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

A87. In applying AU-C section 220,⁶² the group engagement partner is required to review audit documentation at appropriate points in time during the audit engagement, including audit documentation relevant to the group audit relating to

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

The group engagement partner's identification of areas of significant judgment made by component auditors⁶³ involves the exercise of professional judgment. Audit documentation related to communications with component auditors, such as those indicated in paragraphs 47–49 of this SAS, may assist with fulfilling the requirement in paragraph 31 of AU-C section 220. The review of such audit documentation by the group engagement partner often takes place during the course of the group audit, including the review of relevant component auditor audit documentation (also see paragraph A163). The group engagement partner exercises professional judgment in determining the nature and extent of the review of component auditor audit documentation.⁶⁴ Such review may constitute reviewing component auditor communications.

⁶² Paragraphs .31 and .A92–.A93 of the AU-C section 220.

⁶³ Paragraph .A93 of AU-C section 220.

⁶⁴ Paragraph .A91 of AU-C section 220.

Communications With Component Auditors (Ref: par. 31)

A88. Clear and timely communication between the group auditor and the component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing, and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors and facilitates the group auditor's direction and supervision of them and the review of their work. Such communication also provides an opportunity for the group engagement partner to reinforce the need for component auditors to maintain professional skepticism in the work performed for purposes of the group audit.

A89. The following are examples of other factors that may also contribute to effective two-way communication:

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

A90. The communications between the group auditor and component auditors depend on the facts and circumstances of the group audit engagement, including the nature and extent of involvement of the component auditors and the degree to which the group auditor and component auditors are subject to common systems of quality management or common network requirements or network services.

Form of Communications

A91. The form of the communications between the group auditor and component auditors may vary based on factors such as the nature of the audit work the component auditors have been

requested to perform and the extent to which communication capabilities are integrated into the audit tools used for the group audit.

A92. The form of communications also may be affected by such factors as the following:

- The significance, complexity, or urgency of the matter
- Whether the matter has been or is expected to be communicated to group management and those charged with governance of the group
- Whether the group auditor and component auditor are from the same firm or network firms

A93. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor's verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters. In addition, the group auditor may meet with the component auditor to discuss significant matters or to review relevant parts of the component auditor's audit documentation.

A94. Paragraph 47 requires the group auditor to request of the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. As explained in paragraph A161, the form and content of the component auditor's deliverables are influenced by the nature and extent of the audit work the component auditor has been requested to perform.

A95. Regardless of the form of communications between the group auditor and component auditors, the documentation requirements of this SAS and other AU-C sections apply.

Timing of Communications

A96. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing, and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial group audit, may be made as part of agreeing the terms of the engagement.

Noncompliance With Laws or Regulations (Ref: par. 27, 31)

A97. In applying AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, the group engagement partner may become aware of information about noncompliance or suspected noncompliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws, or

regulations to communicate the matter to the component auditor.⁶⁵

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework, and the Group's System of Internal Control (Ref: par. 32)

A98. AU-C section 315⁶⁶ contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control. Appendix A, "Understanding the Group's System of Internal Control," of this SAS provides examples of matters related to controls that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment and expands on how AU-C section 315 is to be applied to an audit of group financial statements.

A99. The group auditor's understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control with respect to the components for which a referred-to auditor performs an audit may vary as compared to the components for which a component auditor performs audit procedures.

A100. The understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with

- group management, component management, or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
- component auditors or referred-to auditors; or
- auditors that perform an audit for legal, regulatory, or other reasons of the financial statements of an entity or business unit that is part of the group.

A101. Obtaining an understanding of the group, identifying risks of material misstatement, and assessing inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when component auditors are involved in the design and performance of risk assessment procedures, the group auditor may communicate its preferred approach with component auditors or provide instructions.

Engagement Team Discussion (Ref: par. 32)

A102. In applying AU-C section 315,⁶⁷ the group engagement partner and other key engagement

⁶⁵ See, for example, paragraphs .22–.23 of the "Responding to Noncompliance With Laws and Regulations" interpretation of the AICPA Code of Professional Conduct.

⁶⁶ Paragraphs .19–.31 and .A58–.A212 of AU-C section 315.

⁶⁷ Paragraph .17 of AU-C section 315.

team members are required to discuss the application of the applicable financial reporting framework and the susceptibility of the group's financial statements to material misstatement. The group engagement partner's determination of which members of the engagement team to include in the discussion and the topics to be discussed is affected by matters such as initial expectations about the risks of material misstatement and the preliminary expectation of whether to involve component auditors.

A103. The discussion provides an opportunity to do the following:

- Share knowledge of the components and their environments, including which components' activities are centralized.
- Exchange information about the business risks of the components or the group and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances, and disclosures.
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. AU-C section 240⁶⁸ requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.
- Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.
- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk that group or component management may override controls.
- Discuss fraud that has been identified or information that indicates existence of fraud.
- Identify risks of material misstatement relevant to components in which there may be impediments to the maintenance of professional skepticism.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, if not, how differences in accounting policies are identified and adjusted (when required by the applicable financial reporting framework).

⁶⁸ Paragraph .15 of AU-C section 240.

- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate noncompliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Discuss events or conditions identified by group management, component management, or the engagement team that may raise substantial doubt about the group's ability to continue as a going concern for a reasonable period of time.
- Discuss related party relationships or transactions identified by group management or component management and any other related parties of which the engagement team is aware.

The Group and Its Environment (Ref: par. 32a)

A104. An understanding of the group's organizational structure and its business model may enable the group auditor to understand such matters as the following:

- *The complexity of the group's structure.* A group may be more complex than a single entity because a group may have several subsidiaries, divisions, or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures, or variable interest entities are accounted for appropriately and whether adequate disclosures have been made.
- *The geographic locations of the group's operations.* Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures, and business practices.
- *The structure and complexity of the group's IT environment.* A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- *Relevant regulatory factors, including the regulatory environment.* Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree

of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.

- *The ownership, and relationships between owners and other people or entities, including related parties.* Understanding the ownership and relationships can be more complex in a group that operates across multiple jurisdictions and when there are changes in ownership through formation, acquisition, disposal, or joint venture. These factors may give rise to increased susceptibility to material misstatements.

A105. Obtaining an understanding of the degree to which the group's operations or activities are similar may help to identify similar risks of material misstatement across components and design an appropriate response.

A106. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The understanding of such performance measures may help to identify

- areas where there is increased susceptibility to material misstatements (for example, due to pressures on component management to meet certain performance measures).
- controls over the group's financial reporting process.

The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: par. 32c(i))

A107. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (that is, common controls). For example, group management may design common controls for inventory management, which operate using the same IT system and are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (for example, at the level of the consolidated group as a whole or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. *Direct controls* are controls that are precise enough to address risks of material misstatement at the assertion level. *Indirect controls* are controls that support direct controls.⁶⁹

A108. Understanding the components of the group's system of internal control includes understanding the commonality of tasks and actions, structures, processes, or controls within those components across the group. In understanding the commonality of a control across the group, considerations that may be relevant include whether

⁶⁹ Paragraph .A5 of AU-C section 315.

- the control is designed centrally and is required to be implemented as designed (that is, without modification) at some or all components;
- the control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
- if a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or
- if the control is automated, it is configured in the same way in each IT application across the components.

A109. Judgment may often be needed to determine whether a control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that is generated from a specific IT application. When the aging reports are generated from different IT applications or the implementation of the IT application differs across entities or business units, there may be a need to consider whether the control can be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT applications (for example, whether the IT application is configured in the same manner across components and whether there are effective general IT controls across different IT applications).

A110. Consideration of the level at which controls are performed within the group (for example, at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (for example, performed only at a single entity or business unit) but may have a pervasive effect on other entities or business units (for example, a shared service center that processes transactions on behalf of other entities or business units within the group). The processing of transactions and related controls at a shared service center may operate in the same way for those transactions being processed by the shared service center, regardless of the entity or business unit (for example, the processes, risks of material misstatement, and controls may be the same, regardless of the source of the transaction). In such cases, it may be appropriate to identify the controls and evaluate the design and determine the implementation of the controls, and, if applicable, test operating effectiveness, as a single population.

Centralized Activities (Ref: par. 32c(i)–(ii))

A111. Group management may centralize some of its activities. For example, financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (for example, when the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).

A112. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (for example, sales transactions may be initiated and authorized at an entity or business unit, but the processing may occur at the shared service center).

A113. The group auditor may involve component auditors in testing the operating effectiveness of common controls or controls related to centralized activities. In such circumstances, effective collaboration between the group auditor and component auditors is important because the audit evidence obtained through testing the operating effectiveness of common controls or controls related to centralized activities supports the determination of the nature, timing, and extent of substantive procedures to be performed across the group.

Communications About Significant Matters That Support the Preparation of the Group Financial Statements (Ref: par. 32c(iv))

A114. Entities or business units may use a financial reporting framework for legal, regulatory, or other reasons that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, when relevant, financial reporting period-ends that differ from that of the group, enables the group auditor to understand how adjustments, reconciliations, and reclassifications are made and whether they are made centrally by group management or by the entity or business unit.

Instructions by Group Management to Entities or Business Units

A115. In applying AU-C section 315,⁷⁰ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (for example, communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the identification and assessment of the risks of material misstatement of the group financial statements. For example, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly or inconsistently applied.

A116. The group auditor's understanding of the instructions or policies may include the following:

- The clarity and practicality of the instructions for completing the reporting package

⁷⁰ Paragraph .25b of AU-C section 315.

- Whether the instructions
 - adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
 - address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
 - address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and
 - include a reporting timetable.

Considerations When Component Auditors Are Involved in Understanding the Group and Its Environment, the Applicable Financial Reporting Framework, and the Group's System of Internal Control (Ref: par. 3334)

A117. During the course of the group audit, the group auditor may communicate the matters in paragraph 33 to other component auditors, if these matters are relevant to the work of those component auditors. Paragraph A159 includes examples of other matters that may need to be communicated timely in the course of the component auditor's work.

A118. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁷¹ In a group audit, there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when

- the group structure is complex;
- the group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- there are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional skepticism, as required by AU-C section 200,⁷² is therefore particularly important when these circumstances exist.

A119. A component auditor may identify related party relationships or transactions that were not previously identified by group management or the group auditor. The group auditor is required by

⁷¹ Paragraph .03 of AU-C section 550.

⁷² Paragraph .17 of AU-C section 200.

paragraph 33*b* to communicate to any other component auditors those related party relationships or transactions if they are relevant to the work of the other component auditors.

Identifying and Assessing the Risks of Material Misstatement (Ref: par. 35)

A120. The process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic, and may be challenging, particularly when the component's activities are complex or specialized or when there are many components across multiple locations. In applying AU-C section 315,⁷³ the auditor develops initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances, and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control.

A121. The initial expectations about the potential risks of material misstatement take into account the auditor's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures because they may have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

A122. For identified risks of material misstatement at the assertion level, the group auditor is required to take responsibility for assessing inherent risk. Such assessment involves assessing the likelihood and magnitude of misstatement, which takes into account how, and the degree to which⁷⁴

- inherent risk factors affect the susceptibility of relevant assertions to misstatement.
- the risks of material misstatement at the group financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.

A123. Based on the risk assessment procedures performed, the group auditor may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction or in entities or business units that have similar operations or activities.

A124. Appendix B, "Examples of Events or Conditions That May Give Rise to Risks of Material Misstatement of the Group Financial Statements," of this SAS sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process.

⁷³ Paragraph .A143 of AU-C section 315.

⁷⁴ Paragraph .35 of AU-C section 315.

Fraud

A125. In applying AU-C section 240,⁷⁵ the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud and to design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify and assess the risks of material misstatement of the group financial statements due to fraud may include the following:

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

Considerations When Component Auditors Are Involved (Ref: par. 36)

A126. Regardless of whether component auditors are involved in the design and performance of risk assessment procedures, paragraph 39 of AU-C section 315 is applicable. When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control to have a sufficient basis for the identification and assessment of the risks of material misstatement of the group financial statements in accordance with paragraph 35.

⁷⁵ Paragraphs .26 and .31 of AU-C section 240.

A127. When the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement, AU-C section 315⁷⁶ requires the auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

Materiality

Component Performance Materiality (Ref: par. 37a)

A128. Paragraph 37a requires the group auditor to determine component performance materiality for each of the components where the group auditor or component auditor will perform audit procedures on financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

A129. This SAS does not require component performance materiality to be determined for components that are audited by referred-to auditors and for which the group auditor plans to make reference to the audit of the referred-to auditor in the auditor's report on the group financial statements.

A130. This SAS does not require component performance materiality to be determined for each class of transactions, account balance, or disclosure for components at which audit procedures are performed. However, if in the specific circumstances of the group, there is one or more particular classes of transactions, account balances, or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, AU-C section 320⁷⁷ requires a determination of the materiality level or levels to be applied to those particular classes of transactions, account balances, or disclosures. In these circumstances, the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances, or disclosures.⁷⁸

A131. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the group auditor may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (for example, as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address

⁷⁶ Paragraph .39 of AU-C section 315.

⁷⁷ Paragraphs .10 and .A13–.A14 of AU-C section 320.

⁷⁸ Paragraph .A15 of AU-C section 320.

aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (for example, if a single component represents a large portion of the group, there likely may be less disaggregation across components).

- Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example
 - whether there are risks that are unique to the financial information of the component (for example, industry-specific accounting matters, or unusual or complex transactions)
 - the nature and extent of misstatements identified at the component in prior audits

A132. To address aggregation risk, paragraph 37a requires component performance materiality to be lower than group performance materiality. As explained in paragraph A131, as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements. When determining component performance materiality for a noncontrolling interest in an entity that is accounted for by the equity method and for which the group auditor or component auditor will perform audit procedures, the group auditor may take into account the group's ownership percentage and the share of the investee's profits and losses.

A133. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (that is, not disaggregated across components). In such cases, group performance materiality often will be used for purposes of performing these procedures.

A134. When the component is subject to an audit required by law or regulation or performed for another reason, the performance materiality used by the component auditor for purposes of such audit ordinarily can be expected to be less than the group performance materiality and, accordingly, the lower component performance materiality would be acceptable for purposes of the group audit.

"Clearly Trivial" Threshold (Ref: par: 37b)

A135. The threshold for communicating misstatements to the group auditor is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with AU-C section 450,⁷⁹ this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Considerations When Component Auditors Are Involved

⁷⁹ Paragraph .A3 of AU-C section 450.

Communicating Component Performance Materiality (Ref: par. 38)

A136. In some cases, it may be appropriate for the group auditor to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor's knowledge of the component and potential sources of misstatement of the component financial information. In this regard, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.

A137. Component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial information. Therefore, ongoing communication between the component auditor and the group auditor is important, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.

Responding to the Assessed Risks of Material Misstatement (Ref: par. 39)

Performing Further Audit Procedures

Performing Further Audit Procedures Centrally

A138. Further audit procedures may be designed and performed centrally if the audit evidence to be obtained from performing further audit procedures on one or more significant classes of transactions, account balances, or disclosures in the aggregate will respond to the assessed risks of material misstatement, for example, if the accounting records for the revenue transactions of the entire group are maintained centrally (for example, at a shared service center). Factors that may be relevant to the auditor's determination of whether to perform further audit procedures centrally include

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

A139. The group auditor may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures (for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way).

A140. When further audit procedures are performed centrally, component auditors may still be involved. For example, when the group has multiple shared service centers, the group auditor may involve component auditors in the performance of further audit procedures for these shared service

centers.

Performing Further Audit Procedures at the Component Level

A141. In other circumstances, procedures to respond to the risks of material misstatement of the group financial statements that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has

- different revenue streams,
- multiple lines of business,
- operations across multiple locations, or
- decentralized systems of internal control.

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

A142. A group may comprise a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. Circumstances such as these in which the significant classes of transactions, account balances, or disclosures in the group financial statements are disaggregated over a large number of components may present additional challenges for the group auditor in planning and performing further audit procedures.

A143. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances, or disclosures (for example, if they are homogeneous, subject to common controls, and access to appropriate information can be obtained). Further audit procedures may also include substantive analytical procedures in accordance with AU-C section 520, *Analytical Procedures*. Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures. The use of automated tools and techniques may be helpful in these circumstances.

A144. In other cases, it may be necessary to perform further audit procedures at selected components to address the risks of material misstatement of the group financial statements. The determination of the components at which audit procedures are to be performed, and the nature, timing, and extent of further audit procedures to be performed at the selected components, are matters of professional judgment. In these circumstances, introducing an element of unpredictability in the components selected for testing also may be helpful in relation to the risks of material misstatement of the group financial statements due to fraud (also see paragraph A151).

The Nature and Extent of Further Audit Procedures

A145. In applying AU-C section 330,⁸⁰ the nature, timing, and extent of further audit procedures performed on the financial information of components is based on, and is responsive to, the assessed risks of material misstatement of the group financial statements. In response to the assessed risks of material misstatement, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):

- Design and perform further audit procedures on the entire financial information of the component (for example, when a component auditor is requested to perform an audit, adapted as necessary, of the component financial information for purposes of the group audit)
- Design and perform further audit procedures on one or more classes of transactions, account balances, or disclosures
- Perform specific further audit procedures (for example, procedures designed by the group auditor)

A146. Although the group auditor takes responsibility for the nature, timing, and extent of further audit procedures to be performed, component auditors can be and often are involved in all phases of the group audit, including in the design and performance of further audit procedures.

A147. The group auditor may determine that obtaining the audit report of a referred-to auditor with respect to one or more components may be appropriate audit evidence. In that case, the group auditor follows the requirements in this SAS when making reference to the audit of the referred-to auditor in the auditor's report on the group financial statements.

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

A148. The group auditor may determine that designing and performing further audit procedures on the entire financial information of a component is an appropriate approach, including when

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

⁸⁰ Paragraph .06 of AU-C section 330.

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

A149. The group auditor may determine that designing and performing further audit procedures on one or more particular classes of transactions, account balances, or disclosures of the financial information of a component is an appropriate approach to address assessed risks of material misstatement of the group financial statements. For example, a component may have limited operations but hold a significant portion of the land and buildings of the group or have significant tax balances.

Perform Specific Further Audit Procedures

A150. The group auditor may determine that designing and performing specific further audit procedures on the financial information of a component is an appropriate approach, such as when audit evidence needs to be obtained for one or more relevant assertions only. For example, the group auditor may do the following:

- Centrally test the class of transaction, account balance, or disclosure and may require the component auditor to perform specific further audit procedures at the component (for example, specific further audit procedures related to the valuation of claims or litigation in the component's jurisdiction or the existence of an asset)
- Design specific further audit procedures and request the component auditor to perform those specific further audit procedures at the component (for example, perform substantive procedures to address risks of material misstatement related to revenue), including specifying the sample sizes to be used
- Request one or more component auditors to perform tests of controls related to certain significant classes of transactions, account balances, and disclosures
- Request a component auditor to perform procedures to obtain audit evidence related to one or more relevant assertions

Element of Unpredictability

A151. Incorporating an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed, and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁸¹

Operating Effectiveness of Controls

A152. The group auditor may rely on the operating effectiveness of controls that operate

⁸¹ Paragraph .29c of AU-C section 240.

throughout the group in determining the nature, timing, and extent of substantive procedures to be performed at either the group level or at the components. AU-C section 330⁸² requires the auditor to design and perform tests of controls to obtain sufficient appropriate audit evidence regarding the operating effectiveness of those controls. Component auditors may be involved in designing and performing such tests of controls.

A153. If deviations from controls upon which the auditor intends to rely are detected, AU-C section 330⁸³ requires the auditor to make specific inquiries to understand these matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include the following:

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

A154. When the operating effectiveness of controls is tested centrally (for example, controls at a shared service center or testing of common controls), the group auditor may need to communicate information about the audit work performed to the component auditors. For example, when a component auditor is requested to design and perform substantive procedures on the entire financial information of the component, or design and perform substantive procedures on one or more classes of transactions, account balances, or disclosures, the component auditor may discuss with the group auditor about the control testing performed centrally to determine the nature, timing, and extent of the substantive procedures.

Consolidation Process

Consolidation Procedures (Ref: par. 40)

A155. Further audit procedures on the consolidation process, including sub-consolidations, may include

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

Consolidation Adjustments and Reclassifications (Ref: par. 40b)

⁸² Paragraph .08 of AU-C section 330.

⁸³ Paragraph .17 of AU-C section 330.

A156. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements⁸⁴ that do not pass through the usual IT applications and may not be subject to the same controls to which other financial information is subject. The group auditor's evaluation of the appropriateness, completeness, and accuracy of the adjustments and reclassifications may include the following:

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

Considerations When Component Auditors Are Involved (Ref: par. 44–45)

A157. When the group auditor involves component auditors in the design or performance of further audit procedures, the component auditor may determine that the use of the work of an auditor's specialist is appropriate and communicate this to the group auditor. In such circumstances, when determining whether the component auditor's design and performance of further audit procedures is appropriate, the group auditor may, for example, discuss the following with the component auditor:

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

A158. The appropriate level of the group auditor's involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor's previous experience with the component auditors, and the circumstances of the group audit engagement (for example, if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements). The group auditor's evaluation in accordance with paragraph 44 may be undertaken in a number of ways (for example, through communications with component auditors or review of selected component auditor audit

⁸⁴ Paragraph .21b of AU-C section 330.

documentation) (see paragraphs A163 and A164).

Evaluating the Component Auditor's Communications and the Adequacy of Their Work

Communication About Matters Relevant to the Group Auditor's Conclusion With Regard to the Group Audit (Ref: par. 47)

A159. Although the matters required to be communicated in accordance with paragraph 47 are relevant to the group auditor's conclusion with regard to the group audit, certain matters may be communicated during the course of the component auditor's procedures. In addition to the matters in paragraphs 34 and 68, such matters may include, for example

- information about breaches of relevant ethical requirements, including identified breaches of independence provisions;
- information about instances of noncompliance with laws or regulations;
- newly arising significant risks of material misstatement, including risks of fraud;
- actual, suspected, or alleged fraud involving component management or employees that could have a material effect on the group financial statements;
- significant or unusual transactions;
- differences of opinion that arise within the component auditor or between the component auditor and the component engagement quality reviewer; or
- the nature and scope of, and conclusions resulting from, consultations undertaken by the component auditor and how such conclusions were implemented.

Communication of Misstatements of Component Financial Information (Ref: par. 47e)

A160. Knowledge about corrected and uncorrected misstatements across components may alert the group auditor to potential pervasive control deficiencies, when considered along with the communication of deficiencies in accordance with paragraph 47g. In addition, a higher-than-expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit procedures need to be performed at certain components.

Component Auditor's Overall Findings or Conclusions (Ref: par. 47k)

A161. The form and content of the deliverables from the component auditor are influenced by the nature and extent of the audit work the component auditor has been requested to perform. The group auditor's firm policies or procedures may address the form or specific wording of an overall conclusion from the component auditor on the audit work performed for purposes of the group

audit.

Evaluating Whether Communications With the Component Auditor Are Adequate for the Group Auditor's Purposes (Ref: par. 48b)

A162. If the group auditor determines that the component auditor's communications are not adequate for the group auditor's purposes, the group auditor may consider whether, for example

- further information can be obtained from the component auditor (for example, through further discussions or meetings).
- it is necessary to review additional component auditor audit documentation in accordance with paragraph 49.
- additional audit procedures may need to be performed in accordance with paragraph 50.
- there are any concerns about the component auditor's competence or capabilities.

Reviewing Additional Component Auditor Audit Documentation (Ref: par. 49)

A163. Paragraph A85 provides guidance for the group auditor in tailoring the nature, timing, and extent of the direction and supervision of the component auditor, and the review of their work, based on the facts and circumstances of the group audit and other matters (for example, the assessed risks of material misstatement of the group financial statements). The group auditor's consideration in accordance with paragraph 49c also may be affected by the following matters relevant to the group auditor's ongoing involvement in the work of the component auditor:

- Communications from the component auditor, including those in accordance with paragraph 47 of this SAS
- The review of component auditor audit documentation by the group auditor during the course of the group audit (for example, to fulfill the requirements of paragraphs 36, 44, and 45) or by the group engagement partner in accordance with paragraph 31 of AU-C section 220

A164. Other factors that may affect the group auditor's determination about whether, and the extent to which, it is necessary to review additional component auditor audit documentation in the circumstances include the following:

- The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements
- The significant judgments made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements

- The competence and capabilities of more experienced engagement team members from the component auditor responsible for reviewing the work of less experienced individuals
- Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation

Considerations Regarding Making Reference to the Audit of a Referred-to Auditor in the Auditor's Report on the Group Financial Statements

A165. The requirements in paragraphs 51–65 and the related application material in paragraphs A166–A187 apply only when the group engagement partner plans to obtain audit evidence through making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements. (Ref: Exhibit A, "Relevancy of Requirements in Various Group Audit Scenarios" and par. 10)

Understanding the Referred-to Auditor

Relevant Ethical Requirements, Including Those Related to Independence, for Referred-to Auditors (Ref: par. 51)

A166. When the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, the referred-to auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit. Such requirements may be different or in addition to those applying to a referred-to auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for legal, regulatory, or other reasons in the referred-to auditor's jurisdiction. When the referred-to auditor is not subject to the AICPA Code of Professional Conduct, compliance by the referred-to auditor with the ethics and independence requirements set forth in the International Federation of Accountants Code of Ethics for Professional Accountants is sufficient to fulfill the referred-to auditor's ethical responsibilities in the group audit.

Competence and Capabilities of Referred-to Auditors (Ref: par. 5253)

A167. Determining whether referred-to auditors have the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement.

A168. In determining whether referred-to auditors have the appropriate competence and capabilities, the group engagement partner may consider matters such as the following:

- Previous experience with or knowledge of the referred-to auditor
- The referred-to auditor's specialized skills (for example, industry-specific knowledge or knowledge of relevant financial reporting requirements for statements and schedules)

to be filed with regulatory agencies)

- The referred-to auditor's understanding of the auditing and other standards applicable to the group audit that is sufficient to fulfill the referred-to auditor's responsibilities
- Whether a referred-to auditor operates in a regulatory environment that actively oversees auditors

A169. The procedures to determine the referred-to auditor's competency and capability may include, for example, the following:

- Requesting the referred-to auditor to confirm the matter referred to in paragraph 52 in writing
- Obtaining published external inspection reports, peer review reports on the referred-to auditor's firm, and other relevant publicly available information relating to the professional reputation and standing of a referred-to auditor

A170. If there has been a breach by a referred-to auditor of the relevant ethical requirements that apply to the group audit engagement, including those related to independence, and the breach has not been satisfactorily addressed in accordance with provisions of the relevant ethical requirements, the group auditor cannot make reference in the auditor's report on the group financial statements to the audit of the referred-to auditor. The group auditor also cannot use the work of that auditor in the capacity of a component auditor as described by this SAS.

A171. Serious concerns are those concerns that in the group engagement partner's professional judgment cannot be overcome. The group engagement partner may be able to overcome less-than-serious concerns about the referred-to auditor's professional competency or the fact that the referred-to auditor does not operate in an environment that actively oversees auditors, by, for example, the group auditor directly performing further audit procedures on the financial information of the component.

Determining Whether to Make Reference to the Audit of a Referred-to Auditor (Ref: par. 55–56)

A172. The group engagement partner determines, individually for each component, whether to

- be involved in the work of the component auditor, insofar as that work relates to the expression of an audit opinion on the group financial statements, or
- make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements.

A173. In group audits with two or more components, the decision to make reference is made individually for each potential referred-to auditor. The group auditor may make reference to any, all, or none of the potential referred-to auditors. For example, if one component is audited by an auditor from a network firm and another component is audited by a non-network firm, the group

engagement partner may decide to be involved in the work of the auditor from the network firm and to make reference to the work of the auditor from the non-network firm.

A174. The determination of whether to be involved in the work of the component auditor or make reference to the audit of a referred-to auditor may include factors related to the group being audited or factors related to the performance of audit procedures for the group audit. Factors that may affect the group engagement partner's determination of whether to make reference to the audit of a potential referred-to auditor in the auditor's report on the group financial statements include the following:

- The group auditor's understanding of the group and its environment and the group's system of internal control
- Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements
- Whether the audit of the financial statements of the component will be completed in time to meet the group reporting timetable
- Differences in the auditing and other standards applied by the potential referred-to auditor and those applied in the audit of the group financial statements
- Whether it is impracticable for the group auditor to be involved in the audit of the component financial statements

A175. If the group has a noncontrolling interest in an entity that is accounted for by the equity method and audited financial statements of the noncontrolled entity are available, in applying the requirements in paragraphs 51–65, the group engagement partner may determine to make reference to the audit of the noncontrolled entity's auditor in the auditor's report on the group financial statements. Alternatively, in applying the guidance in paragraphs A188–A190, the group auditor may determine the audited financial statements of the noncontrolled entity provide sufficient appropriate audit evidence regarding the noncontrolled entity's financial results. In this situation, the requirements in paragraph 66 are applicable and the group engagement partner does not make reference to the audit of the noncontrolled entity's auditor in the auditor's report on the group financial statements.

Determining Whether the Audit of the Referred-to Auditor Was Conducted in Accordance With GAAS (Ref: par. 56a)

A176. An auditor's report stating that the audit was conducted in accordance with GAAS or, if applicable, the auditing standards promulgated by the PCAOB, is sufficient to make the determination required by paragraph 56a.⁸⁵ When the auditor has performed an audit of the component financial statements in accordance with auditing standards other than GAAS or, if

⁸⁵ Paragraphs .44–.46 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*.

applicable, the auditing standards promulgated by the PCAOB, the group engagement partner may evaluate, exercising professional judgment, whether the audit performed by the auditor meets the relevant requirements of GAAS. For the purposes of complying with paragraph 56a, relevant requirements of GAAS are those that pertain to planning and performing the audit of the component financial statements and do not include those related to the form of the auditor's report. Audits performed in accordance with International Standards on Auditing (ISAs) promulgated by the International Auditing and Assurance Standards Board (IAASB) are more likely to meet the relevant requirements of GAAS than audits performed in accordance with auditing standards promulgated by bodies other than the IAASB. The group auditor may provide the referred-to auditor with AU-C Appendix B, "Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards," that identifies substantive requirements of GAAS that are not requirements in the ISAs. The referred-to auditor may perform additional procedures in order to meet the relevant requirements of GAAS. The communication requested of the referred-to auditor required by paragraphs 62–63 may address whether the audit met the relevant requirements of GAAS. The group engagement partner, having determined that all relevant requirements of GAAS have been met by the referred-to auditor, may decide to make reference to the audit of that referred-to auditor in the auditor's report on the group financial statements.

Determining Whether to Make Reference to the Audit of a Referred-to Auditor When the Financial Reporting Framework Is Not the Same (Ref: par. 57)

A177. When the component's financial statements are prepared using a financial reporting framework that differs from the financial reporting framework used to prepare the group financial statements, the group auditor is required by this SAS to evaluate whether the financial information of the component has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework. Evaluating whether the financial statements of the component have been appropriately adjusted to conform with the financial reporting framework used by the group is based on a depth of understanding of the component's financial statements that ordinarily is not obtained unless the group auditor is involved in the audit of the component financial statements. In rare circumstances, however, the group engagement partner may conclude that the group auditor can reasonably expect to obtain sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to be involved in the audit of the component financial statements.

A178. The greater the number of differences or the greater the significance of the differences between the criteria used for measurement, recognition, presentation, and disclosure of material items in the component's financial statements under the financial reporting framework used by the component and the financial reporting framework used by the group, the less similar they are. Financial statements prepared and presented in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Standards for Small and Medium-Sized Entities, as issued by the International Accounting Standards Board, are generally viewed as more similar to financial statements prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) than financial statements prepared

and presented in accordance with jurisdiction-specific reporting frameworks or adaptations of IFRSs. In most cases, special purpose frameworks set forth in AU-C section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, are not similar to GAAP.⁸⁶

A179. When the component prepares financial statements using a different financial reporting framework than that used by the group, additional considerations in determining whether it may be appropriate to make reference to the audit of a potential referred-to auditor in the auditor's report on the group financial statements include the following:

- The effectiveness of controls related to financial reporting and the adequacy of the consolidation process specifically related to the adjustments to convert the component's financial statements to the financial reporting framework used by the group, including the financial reporting competencies of personnel involved in the adjustments
- The depth of the group auditor's understanding of the component and its environment, including the complexity of the events and transactions subject to the differing financial reporting requirements and the assessed risk of material misstatement related to the adjustments
- The extent of the group auditor's knowledge of the financial reporting framework used to prepare the component financial statements
- The group auditor's ability to obtain information from group or component management that is relevant to the adjustments
- The need and ability to seek, as necessary, the assistance of professionals possessing specialized skills or knowledge related to the adjustments

Considerations for Governmental Entities

A180. When the applicable financial reporting framework used by the group provides for the inclusion of component financial statements that are prepared in accordance with a different financial reporting framework, the component financial statements are deemed to be in accordance with the applicable financial reporting framework used for the group financial statements. For example, both the financial reporting framework established by GASB and the financial reporting framework established by the Federal Accounting Standards Advisory Board have such provisions. Accordingly, when the provisions established by the applicable financial reporting framework for inclusion of those component financial statements have been followed, the requirements in paragraphs 0 and 59c are not relevant.

Making Reference to the Audit of a Referred-to Auditor (Ref: par. 59–61)

⁸⁶ Paragraph .06 of AU-C section 700.

A181. Reference in the auditor's report on the group financial statements to the fact that part of the audit was conducted by a referred-to auditor is not to be construed as a qualification of the opinion but, rather, is intended to communicate (a) that the group auditor was not involved in the work of the referred-to auditor, and (b) the source of the audit evidence with respect to those components for which reference to the audit of referred-to auditors is made.

A182. The disclosure of the magnitude of the portion of the financial statements audited by a referred-to auditor may be achieved by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly describes the portion of the financial statements audited by a referred-to auditor. When two or more referred-to auditors are referred to, the dollar amounts or percentages covered by the referred-to auditors may be stated in the aggregate.

A183. Exhibit B contains examples of appropriate reporting in the auditor's report on the group financial statements when reference is made to the audit of a referred-to auditor in the auditor's report on the group financial statements.

A184. If there is a modified opinion, emphasis-of-matter paragraph, other-matter paragraph, or going concern section in the referred-to auditor's report, but it does not affect the report on the group financial statements and the referred-to auditor's report is not presented, the group auditor need not make reference to those paragraphs or that section in the auditor's report on the group financial statements. If the referred-to auditor's report is presented, the group auditor may make reference to those paragraphs or that section and their disposition.

Communications With the Referred-to Auditor (Ref: par. 62–65)

A185. The communications between the group auditor and referred-to auditor regarding the matters in paragraphs 62–63 support the group engagement partner taking overall responsibility for managing and achieving quality on the group audit engagement without the group auditor being involved in the work of the referred-to auditor. Therefore, for this purpose, when a referred-to auditor's audit is not yet completed, the referred-to auditor may request the group auditor to communicate, or the group auditor may otherwise communicate, additional information that may be relevant to the referred-to auditor's work (for example, identified significant risks of the group financial statements).

A186. The form of the communications between the group auditor and referred-to auditors may vary and may not necessarily be in writing. However, verbal communications between the group auditor and referred-to auditors may be supplemented by written communication, such as the group auditor obtaining written representations from the referred-to auditor confirming that the referred-to auditor has complied with the ethical requirements that are relevant to the group audit engagement, including independence, or communicating matters related to the referred-to auditor's competence and capabilities.

A187. The referred-to auditor may identify related party relationships or transactions that were not previously identified by group management or the group auditor. The group auditor is required by paragraph 62b to communicate to any other referred-to auditors those related party relationships

or transactions if they are relevant to the work of the other referred-to auditors.

Considerations Regarding Using Audited Financial Statements of a Noncontrolled Entity That Is Accounted for by the Equity Method as Audit Evidence (Ref: par. 66)

A188. It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements, whether audited financial statements of the noncontrolled entity, including the accompanying audit report, are satisfactory to be used as audit evidence regarding the noncontrolled entity's financial results. Obtaining and reading the audited financial statements may be sufficient for the purpose of obtaining sufficient appropriate audit evidence regarding the noncontrolled entity's financial results. In making this determination, the group auditor may consider the following:

- The professional competence and independence of the noncontrolled entity's auditor (investee's auditor)
- The adequacy of the standards under which the investee's auditor's report was issued
- Whether there is a difference between the financial statement periods of the group and the noncontrolled entity, and if so, whether such a difference has or could have a material effect on the group financial statements (for example, due to a change in the fiscal year-end lag period between the financial statement period-ends of the group and the noncontrolled entity, the prior period comparative statements are no longer consistent, or a significant transaction occurring during the time period between the financial statement period-ends of the group and the noncontrolled entity has a material effect on the group financial statements).

A189. After obtaining and reading the audited financial statements of the noncontrolled entity, the group auditor may conclude that additional audit procedures (see paragraph A190) are necessary to obtain sufficient appropriate audit evidence regarding the noncontrolled entity's financial results, for example, due to the significance of the investment to the group financial statements or when

- there are concerns about the professional competence or independence of the investee's auditor.
- there are significant differences in fiscal year-ends between the group financial statements and the noncontrolled entity financial statements (for example, there is a fiscal year-end lag period, a change in the fiscal year-end lag period, or a significant transaction occurs during the time period between the financial statement period-ends of the group and the noncontrolled entity).
- there are significant differences in the auditor's report dates between the group auditor's report and the investee's auditor's report (for example, there are subsequent events between the investee's auditor's report date and the group auditor's report date).
- there are significant differences in accounting principles between the group financial

statements and the noncontrolled entity financial statements.

- there are significant differences between the carrying amount of the noncontrolled entity on the group financial statements and the underlying equity in net assets of the noncontrolled entity on the noncontrolled entity financial statements.
- there are changes in ownership of the noncontrolled entity.
- there are changes in conditions affecting the use of the equity method.
- there are material transactions between the group and the noncontrolled entity.

A190. To obtain sufficient appropriate audit evidence regarding the noncontrolled entity's financial results through using the audited financial statements, the group auditor may perform additional procedures such as the following:

- Evaluating information regarding the professional reputation and standing of the investee's auditor
- Interacting with the investee's auditor
- Discussing the audit procedures performed by the investee's auditor and the results thereof
- Reviewing the audit plan and audit documentation of the investee's auditor
- Reviewing information in group management's files that relates to the noncontrolled entity such as minutes, budgets, cash flow information, and information regarding the time period between the date of the noncontrolled entity financial statements and the date of the group financial statement, if different
- Making inquiries of group management about the noncontrolled entity's financial results
- Reading available interim financial statements of the noncontrolled entity and making inquiries of management of the noncontrolled entity regarding subsequent events or transactions of the noncontrolled entity
- Obtaining audit evidence regarding significant differences between the carrying amount of the noncontrolled entity on the group financial statements and the underlying equity in net assets of the noncontrolled entity on the noncontrolled entity financial statements, if applicable

A191. If in applying the guidance in paragraphs A188–A190 the group auditor determines that the audited financial statements of the noncontrolled entity, including the accompanying audit report, are not satisfactory or do not provide sufficient appropriate audit evidence regarding the noncontrolled entity's financial results, the requirements in this SAS regarding obtaining sufficient appropriate audit evidence regarding the noncontrolled entity's (that is, a component's) financial results, without making reference to the audit of the noncontrolled entity's auditor in the auditor's

report on the group financial statements, are applicable. Furthermore, if the group auditor involves the noncontrolled entity's auditor in the group audit (that is, in the capacity of a component auditor), the requirements related to being involved in the work of the noncontrolled entity's auditor are applicable. In this situation, the noncontrolled entity's auditor is considered a component auditor and is a part of the engagement team for a group audit.

Subsequent Events (Ref: par. 67–68)

A192. When component auditors are involved, the group auditor may

- request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements, if applicable.

A193. When the group engagement partner determines to make reference to the audit of a referred-to auditor in the auditor's report on the group financial statements, procedures designed to identify subsequent events between the date of the referred-to auditor's report and the date of the auditor's report on the group financial statements may include the following:

- Obtaining an understanding of any procedures that group management has established to ensure that such subsequent events are identified
- Requesting the referred-to auditor to update subsequent events procedures to the date of the auditor's report on the group financial statements
- Requesting specific written representations from component management regarding subsequent events
- Reading available interim financial information of the component and making inquiries of group management
- Reading minutes of meetings of the governing board, or any other administrative board with management oversight, held since the financial statement date
- Reading the subsequent year's capital and operating budgets
- Inquiring of group management regarding currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations for items that represent subsequent events

A194. In applying AU-C section 330, if the group auditor is unable to obtain sufficient appropriate audit evidence, including with regard to subsequent events that require adjustment of, or disclosure in, the group financial statements, the auditor is required to express a qualified opinion or disclaim an opinion on the financial statements.⁸⁷

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: par. 69)

A195. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing, or extent of other planned audit procedures because information may come to the group auditor's attention that differs significantly from the information on which the risk assessment was based, for example

- the misstatements identified at a component may need to be considered in relation to other components, or
- the group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (for example, war, civil unrest, or outbreaks of disease).

In such circumstances, the group auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the significant classes of transactions, account balances, or disclosures and related relevant assertions.

A196. The evaluation required by paragraph 69 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in AU-C section 330⁸⁸ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each relevant assertion of each significant class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

A197. The group auditor may consider the engagement team's maintenance of professional skepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, the group auditor may consider whether matters such as those described in paragraph A17 have inappropriately led the engagement team to

- obtain audit evidence that is easier to access without giving appropriate consideration to its relevance and reliability,

⁸⁷ Paragraphs .08–.10 of AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, address qualified, adverse, and disclaimer of opinions.

⁸⁸ Paragraph .18 of AU-C section 330.

- obtain less persuasive evidence than is necessary in the circumstances, or
- design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory.

A198. AU-C section 220⁸⁹ requires the engagement partner to determine, on or before the date of the auditor's report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. Information that may be relevant to the group auditor's evaluation of the audit evidence obtained from the work performed by component auditors or through making reference to the audit of referred-to auditors in the auditor's report on the group financial statements depends on the facts and circumstances of the group audit and may include the following:

- Communications from the component auditors required by paragraph 47, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit
- Other communications from the component auditors throughout the group audit, including those required by paragraph 34
- The group auditor's direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph 49
- The referred-to auditor's report on the component's financial statements, including, as applicable, if the opinion of a referred-to auditor is modified or if that report includes an emphasis-of-matter paragraph, an other-matter paragraph, or a going concern section
- Communications from the referred-to auditors required by this SAS

A199. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.

Evaluating the Effect on the Group Audit Opinion (Ref: par. 70)

A200. The group engagement partner's evaluation may include a consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (for example, regarding transactions subject to common accounting policies or

⁸⁹ Paragraph .32 of AU-C section 220.

common controls) that may affect other components.

Auditor's Report

Considerations When Component Auditors Are Involved (Ref: par. 71)

A201. When component auditors are involved in the group audit, no reference is made to the component auditor in the auditor's report on the group financial statements because to do so may cause a reader to misinterpret the degree of responsibility of the group auditor.

A202. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the "Basis for Qualified Opinion" or "Basis for Disclaimer of Opinion" section in the auditor's report on the group financial statements describes the reasons for that inability. In some circumstances, the group auditor may decide a reference to a component auditor or referred-to auditor is necessary to adequately describe the reasons for the modified opinion, for example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management.

Communication With Group Management and Those Charged With Governance of the Group

Communication With Group Management (Ref: par. 72–74)

A203. The group audit may be complex due to the number and nature of the entities and business units comprising the group. In addition, as explained in paragraph A7, the group auditor may determine that certain entities or business units may be considered together as a component for purposes of planning and performing the group audit. Therefore, discussing with group management an overview of the planned scope and timing may help in coordinating the work performed at components, including when component auditors are involved or reference is made to the audit of referred-to auditors in the auditor's report on the group financial statements, and in identifying component management (see paragraph A27).

A204. AU-C section 240⁹⁰ contains requirements and guidance on the communication of fraud to management and, when management may be involved in the fraud, to those charged with governance.

A205. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation
- Plans for abandonment of material operating assets

⁹⁰ Paragraphs .40–.42 of AU-C section 240.

- Subsequent events
- Significant legal agreements

A206. Group management may inform the group auditor about noncompliance or suspected noncompliance with laws or regulations in entities or business units within the group. Paragraph A97 provides guidance for the group engagement partner in these circumstances.

Communication With Those Charged With Governance of the Group (Ref: par. 75)

A207. The matters the group auditor communicates to those charged with governance of the group may include those brought to the attention of the group auditor by component auditors or referred-to auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 75a may be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 75b may be communicated at the end of the audit, and the matters referred to in paragraph 75c–d may be communicated when they occur.

A208. AU-C section 260⁹¹ requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. For a group audit, this communication helps those charged with governance understand the group auditor’s determination of the components at which audit work will be performed, including whether certain of the group’s entities or business units will be considered together as a component, the planned involvement of component auditors, and the basis for the decision to make reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements. This communication also helps to enable a mutual understanding of and discussion about the group and its environment (see paragraph 32) and areas, if any, in which those charged with governance may request the group auditor to undertake additional procedures.

Communication of Identified Deficiencies in Internal Control (Ref: par. 76)

A209. The group auditor is responsible for determining, on the basis of the audit work performed, whether one or more identified deficiencies, individually or in combination, constitute significant deficiencies or material weaknesses.⁹² The group auditor may request input from the component auditor about whether an identified deficiency or combination of deficiencies at the component is a significant deficiency or material weakness in internal control.

Documentation (Ref: par. 77)

A210. Other AU-C sections contain specific documentation requirements that are intended to clarify the application of AU-C section 230 in the particular circumstances of those other AU-C

⁹¹ Paragraph .11 of AU-C section 260.

⁹² Paragraph .09 of AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

sections. The exhibit to AU-C section 230 lists other AU-C sections that contain specific documentation requirements and guidance.

A211. The audit documentation for the group audit supports the group auditor's evaluation in accordance with paragraph 69 about whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion. Also see paragraph A198.

A212. The final assembly and retention of the audit documentation for a group audit is subject to the policies or procedures of the group auditor's firm in accordance with QM section 10.⁹³ The group auditor may provide specific instructions to component auditors regarding the assembly and retention of the documentation of work performed by them for purposes of the group audit.

Basis for the Group Auditor's Determination of Components (Ref: par: 77b)

A213. The basis for the group auditor's determination of components may be documented in various ways, including, for example, documentation related to the fulfillment of the requirements in paragraphs 24, 35, and 75a of this SAS.

Basis for the Group Auditor's Determination of the Competence and Capabilities of Component Auditors (Ref: par: 77d)

A214. QM section 10⁹⁴ provides guidance on matters that the firm's policies or procedures may address regarding the competence and capabilities of the engagement team members. Such policies or procedures may describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors. For example, the confirmation obtained from the component auditor in accordance with paragraph 26 may include information about the component auditor's relevant industry experience. The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures.

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work (Ref: Par. 77f)

A215. As described in paragraph A85, the approach to direction, supervision, and review in a group audit will be tailored by the group auditor based on the facts and circumstances of the engagement and will generally include a combination of addressing the group auditor's firm policies or procedures and responses specific to the group audit. Such policies or procedures may also describe or provide guidance about the documentation of the group auditor's direction and supervision of the engagement team and the review of their work.

A216. AU-C section 300⁹⁵ requires the auditor to develop an audit plan that includes a description of the nature, timing, and extent of the planned direction and supervision of engagement team

⁹³ Paragraphs .32f and .A87–.A89 of QM section 10.

⁹⁴ Paragraph .A100 of QM section 10.

⁹⁵ Paragraph .09 of AU-C section 300.

members and the review of their work. When component auditors are involved, the extent of such descriptions will often vary by component, recognizing that the planned nature, timing, and extent of direction and supervision of component auditors, and review of their work, may be influenced by the matters described in paragraph A59.

A217. The group auditor's documentation of the direction and supervision of component auditors and the review of their work may include, for example, the following:

- Required communications with component auditors, including any instructions issued and other confirmations required by this SAS.
- The rationale for the selection of visits to component auditor sites, attendees at meetings, and the nature of the matters discussed.
- Matters discussed in meetings with component auditors or component management.
- The rationale for the group auditor's determination of component auditor audit documentation selected for review.
- Changes in the planned nature and extent of involvement with component auditors and the reasons why. This may include circumstances in which the group auditor modified the nature, timing, or extent of the direction and supervision of the component auditors, and the review of their work, in areas of the audit that are more complex or subjective than initially anticipated.

A218. Paragraph 49 requires the group auditor to determine whether, and the extent to which it is necessary, to review additional component auditor audit documentation. Paragraphs A163–A164 provide guidance for the group auditor in making this determination.

A219. Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. However, the group auditor may decide to summarize, replicate, or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this SAS. Examples of such component auditor documentation may include

- a summary of the significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit,
- matters that may need to be communicated to those charged with governance of the group, or
- matters that may be determined to be key audit matters to be communicated in the auditor's report on the group financial statements, when engaged to do so.

A220. When required by law or regulation, certain component auditor documentation may need

to be included in the group auditor's audit file, for example, to respond to the request of a regulatory authority to review documentation related to work performed by a component auditor.

A221. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors. The electronic audit tool also may be used for audit documentation, including providing information about the reviewers and the dates and extent of their review.

Additional Considerations When Access to Component Auditor Audit Documentation Is Restricted
(Ref: par. 77)

A222. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation restrict the component auditor from providing documentation outside of its jurisdiction, or when war, civil unrest, or outbreaks of disease restrict access to relevant component auditor audit documentation.

A223. The group auditor may be able to overcome such restrictions by, for example

- visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation;
- reviewing the relevant audit documentation remotely through the use of technology, when not prohibited by law or regulation;
- requesting the component auditor to prepare and provide a memorandum that addresses the relevant information and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum; or
- discussing with the component auditor the procedures performed, the evidence obtained, and the conclusions reached by the component auditor

It is a matter of professional judgment whether one or more of the preceding actions may be sufficient to overcome the restrictions, depending on the facts and circumstances of the group audit.

A224. When access to component auditor audit documentation is restricted, the group auditor's documentation nonetheless needs to comply with the requirements of GAAS, including those relating to the documentation of the nature, timing, and extent of the group auditor's direction and supervision of component auditors and the review of their work. The guidance in paragraphs A163–A164 may be helpful in determining the extent of the group auditor's review of the component auditor audit documentation in these circumstances. Paragraphs A219 and A220

provide examples of circumstances in which certain component auditor audit documentation may be included in the group auditor's audit file.

A225. If the group auditor is unable to overcome restrictions on access to the component auditor audit documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A52.

Exhibit A — Relevancy of Requirements in Various Group Audit Scenarios (Ref: par. 10, 12, 58a, A7, and A165)

The requirements of this Statement on Auditing Standards (SAS) are intended to be applied in the context of the nature and circumstances of each group audit. The following are various scenarios related to how a group audit may be carried out. Depending on the involvement of component auditors or whether reference is made to the audit of a referred-to auditor in the auditor's report on the group financial statements, certain requirements in this SAS may not be relevant due to their conditionality. The following table provides examples of the requirements in this SAS that are relevant for various group audit scenarios.

Regardless of the scenario, as required by paragraph .21 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, the group auditor is required to have an understanding of the entire text of this SAS, including its application and other explanatory material, to understand its objectives and apply its requirements properly. Paragraphs 1–17 of this SAS, which include the introduction, objectives, and definitions, are applicable for all the following scenarios.

Group Audit Scenario	Relevant Requirements
<p>Scenario 1 – Group Auditor</p> <p><i>The group audit is carried out entirely by the group auditor, including when only one component has been identified.</i></p>	<ul style="list-style-type: none"> • Paragraphs 18–24 • Paragraph 32 • Paragraph 35 • Paragraph 37 • Paragraphs 39–42 • Paragraphs 66–67 • Paragraphs 69–70 • Paragraphs 72–73 • Paragraphs 75–77
<p>Scenario 2 – Group Auditor and Component Auditors</p> <p><i>Component auditors are involved in the group audit.</i></p>	<ul style="list-style-type: none"> • Paragraphs 18–50 • Paragraphs 66–77
<p>Scenario 3 – Group Auditor and Referred-to Auditors</p> <p><i>The group auditor makes reference to the audit of a referred-to auditor in the auditor's report on the group financial statements (component auditors are not involved).</i></p>	<ul style="list-style-type: none"> • Paragraphs 18–24 • Paragraph 32 • Paragraph 35 • Paragraph 37 • Paragraphs 39–42 • Paragraphs 51–67

Group Audit Scenario	Relevant Requirements
	<ul style="list-style-type: none"> • Paragraphs 69–70 • Paragraphs 72–77
<p>Scenario 4 – Group Auditor, Component Auditors, and Referred-to Auditor</p> <p><i>Component auditors are involved in the group audit, and the group auditor makes reference to the audit of a referred-to auditor in the auditor’s report on the group financial statements.</i></p>	<ul style="list-style-type: none"> • Paragraphs 18–77

A227.

Exhibit B — Illustrative Auditor’s Reports on Group Financial Statements (Ref: par. A52)

Illustration 1: Independent Auditor’s Report With a Qualified Opinion When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Auditor’s Opinion

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements.
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by FASB.
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in AU-C section 210, *Terms of Engagement*.
- The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method because the group auditor was unable to obtain the audited financial statements of the component as of December 31, 20X1 and 20X0, including the auditor’s report thereon. In this example, the auditor of the group financial statements is not making reference to the report of a referred-to auditor. In the auditor’s professional judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive. Accordingly, the auditor’s report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events considered in the aggregate that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- The auditor has not been engaged to communicate key audit matters in accordance with AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.
- The auditor has obtained all the other information prior to the date of the auditor’s report, and the qualified opinion on the consolidated financial statements also affects the other information included in the annual report.

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements¹

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Company or ABC Company), which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$_____ and \$__ at December 31, 20X1 and 20X0, respectively, or its equity in earnings of that affiliate of \$___ and \$__, which is included in net income for the years then ended as described in Note X to the consolidated financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it

¹ The subtitle, "Report on the Audit of the Consolidated Financial Statements," is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports, for when there is a qualified opinion due to limitation of scope.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Illustration 2: A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Referred-to Auditor in Accordance With Generally Accepted Auditing Standards

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (comparative).
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by FASB.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the same financial reporting framework as that used for the group financial statements and performed by a referred-to auditor in accordance with generally accepted auditing standards (GAAS).
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report and has not identified an uncorrected material misstatement of the other information included in the annual report.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Company or ABC Company), which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the

¹ The subtitle, "Report on the Consolidated Financial Statements," is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, whose statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the

audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 3: A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using a Different Financial Reporting Framework From That Used for the Group Financial Statements and Performed by a Referred-to Auditor in Accordance With GAAS

Circumstances are the same as in illustration 2, except in this example, the auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using a different financial reporting framework than that used for the group financial statements and performed by a referred-to auditor in accordance with GAAS.

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Company or ABC Company), which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, whose statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of B Company, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for B Company, prior to these conversion adjustments, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

¹ The subtitle, "Report on the Consolidated Financial Statements," is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 4: A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Referred-to Auditor in Accordance With Auditing Standards Other Than GAAS

Circumstances are the same as in illustration 2, except in this example, the auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the same financial reporting framework as that used for the group financial statements and performed by a referred-to auditor in accordance with auditing standards other than GAAS or standards promulgated by the PCAOB. The group engagement partner has determined that the referred-to auditor performed additional audit procedures to meet the relevant requirements of GAAS. If additional procedures were not necessary for the audit of the referred-to auditor to meet the relevant requirements of GAAS, illustration 2 is applicable.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Company or ABC Company), which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the report of and additional audit procedures performed by the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

¹ The subtitle, "Report on the Consolidated Financial Statements," is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

We did not audit the financial statements of B Company, a wholly owned subsidiary, whose statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors in accordance with [*describe the set of auditing standards*], whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [*insert the time period set by the applicable financial reporting framework*].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

A228.

Appendix A — Understanding the Group’s System of Internal Control (Ref: par. A98)

1. This appendix provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment and expands on how AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*,¹ is to be applied in relation to an audit of group financial statements. The examples may not be relevant to every group audit engagement, and the list of examples is not necessarily complete.

Control Environment

2. The group auditor’s understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management’s oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group
 - How oversight over the group’s system of internal control by those charged with governance is structured and organized
 - How ethical and behavioral standards are communicated and reinforced in practice across the group (for example, group-wide programs, such as codes of conduct and fraud prevention programs)
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual

The Group’s Risk Assessment Process

3. The group auditor’s understanding of the group’s risk assessment process may include matters such as group management’s risk assessment process, that is, the process for identifying, analyzing, and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group’s risk assessment process is and the involvement of entities and business units in this process.

The Group’s Process to Monitor the System of Internal Control

4. The group auditor’s understanding of the group’s process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, when relevant, activities of the internal audit function across the group, including its nature, responsibilities, and activities in respect of monitoring of controls at entities or business units in the group. AU-C section 610, *Using the Work of Internal*

¹ Appendix C of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

Auditors,² requires the auditor to evaluate the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

The Information System and Communication

5. The group auditor's understanding of the group's information system and communication may include matters such as the following:
 - The extent of centralization in the group's IT environment and the commonality of IT applications, IT processes, and IT infrastructure
 - Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets and to take appropriate action
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at the group level
 - A process for monitoring the timeliness and evaluating the accuracy and completeness of financial information received from entities or business units in the group

Consolidation Process

6. The group auditor's understanding of the consolidation process may include matters such as the following:

Matters Relating to the Applicable Financial Reporting Framework:

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end

Matters Relating to the Consolidation Process:

² Paragraph .13 of AU-C section 610, *Using the Work of Internal Auditors*.

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, when applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified and adjusted when required in terms of the applicable financial reporting framework. *Uniform accounting policies* are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.
- Group management's process for ensuring complete, accurate, and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group's IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters Relating to Consolidation Adjustments and Reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization, and processing of related journal entries, and the experience of personnel responsible for the consolidation
- The consolidation adjustments required by the applicable financial reporting framework
- The business rationale for the events and transactions that gave rise to the consolidation adjustments
- Frequency, nature, and size of transactions between entities or business units in the group
- The procedures for monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (when applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (for example, an obligation of the minority interest to make good such losses)

Control Activities

7. The group auditor's understanding of the control activities component may include matters such as the following:

- The commonality of information-processing controls and general IT controls for all or part of the group
- The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level
- The extent to which commonly designed controls have been implemented consistently for all or part of the group

A229.

Appendix B — Examples of Events or Conditions That May Give Rise to Risks of Material Misstatement of the Group Financial Statements (Ref: par. A124)

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to or affected by other inherent risk factors to varying degrees. Also see appendix B, “Understanding Inherent Risk Factors,” of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

Inherent Risk Factor	Examples of Events or Conditions That May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none">• The existence of complex transactions that are accounted for in more than one entity or business unit in the group• The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements• Accounting measurements or disclosures that involve complex processes used by entities or business units in the group, such as accounting for complex financial instruments• Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation
Subjectivity	<ul style="list-style-type: none">• Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any variable interest entities or non-trading entities exist and require incorporation• Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group

Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals, or reorganizations
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unexpected government intervention in areas such as trade and fiscal policy, restrictions on currency and dividend movements, and fluctuations in exchange rates
Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk	<ul style="list-style-type: none"> • Unusual related party relationships and transactions • Entities or business units in the group with different financial year-ends, which may be used to manipulate the timing of transactions • Prior occurrences of unauthorized or incomplete consolidation adjustments • Aggressive tax planning within the group or large cash transactions with entities in tax havens • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation • Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk

Indicators that the control environment, the group's risk assessment process, or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include the following:

- Poor corporate governance structures, including decision-making processes that are not transparent
- Nonexistent or ineffective controls over the group's financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group

A230.

Appendix C — Amendments to Various Statements on Auditing Standards (SASs), as Amended, and to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended

(*Boldface italics* denotes new language. Deleted text is shown in ~~strike through~~.)

Amendment to SAS No. 117, *Compliance Audits*, as Amended (AU-C sec. 935)

1. The amendment to AU-C section 935 is effective for compliance audits for fiscal periods ending on or after December 15, 2026.

AU-C Section 935, *Compliance Audits*

[No amendment to paragraphs .01–.14.]

Using the Work of Another Auditor

.15 When the auditor expects to use the work of another auditor, the auditor should (Ref: par. .A12–.A13)

- a. *confirm whether the other auditor understands and will comply with the relevant ethical requirements, including those related to independence, that apply to the engagement.*
- b. *determine that the other auditor has appropriate professional competence and capabilities.*
- c. *determine whether to make reference to the compliance audit of the other auditor in the auditor's report.*
- d. *when the auditor involves another auditor to perform audit work to fulfill the requirements of this section*
 - i. *communicate clearly with the other auditor about the other auditor's respective responsibilities and the auditor's expectations, including the scope and timing of the other auditor's work and the matters expected to be communicated by the other auditor that are relevant to the auditor's conclusions with regard to the compliance audit;*
 - ii. *determine that the other auditor has sufficient time to perform assigned audit procedures; and*
 - iii. *be sufficiently and appropriately involved in the work of the other auditor.*
- e. *evaluate whether the other auditor's work is adequate for the auditor's purposes.*

[Subsequent paragraphs renumbered. No amendment to renumbered paragraphs .16–.49. No

amendment to paragraphs .A1–.A11.]

Using the Work of Another Auditor (Ref: par. .15)

A12. Section 220, Quality Management in an Engagement Conducted in Accordance With Generally Accepted Auditing Standards,¹⁵ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. Accordingly, the auditor may involve another auditor to perform audit work to fulfill the requirements of this section. The engagement partner may also determine to use work completed by another auditor or to make reference to the compliance audit of another auditor in the auditor's report.

^{fn 15} Paragraph .25 of section 220, Quality Management in an Engagement Conducted in Accordance With Generally Accepted Auditing Standards.

.A13 Regardless of whether the auditor uses the work of another auditor (including making reference to the compliance audit of another auditor in the auditor's report) as a basis for forming an opinion at the level specified by the governmental audit requirement, the engagement partner remains ultimately responsible and therefore accountable for compliance with the requirements of this section. SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors), adapted as necessary in the circumstances, may be useful in fulfilling the requirements in paragraph .15 of this section when using the work of another auditor.

[Subsequent paragraphs and footnotes renumbered. No amendment to renumbered paragraphs .A14–.A46.]

Appendix — AU-C Sections That Are Not Applicable to Compliance Audits^[fn 1]

.A4547 The following AU-C sections and individually enumerated requirement paragraphs of specific AU-C sections are not applicable to a compliance audit performed under this section either because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in this section. Where the table in this appendix specifies individual requirement paragraphs rather than an entire AU-C section, the application and other explanatory material paragraphs related to such requirement paragraphs also do not apply. However, an auditor may apply these AU-C sections and paragraphs if the auditor believes doing so will provide appropriate audit evidence in the specific circumstances to support the auditor's opinion on compliance.

^[fn 1] [Footnote omitted for purposes of this SAS.]

<i>AU-C Section</i>	<i>Paragraphs Not Applicable to Compliance Audits</i>
...	
600, <i>Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to</i>	Paragraphs .26, .39, .41e, .41d, .55, and .56e-All

<i>AU-C Section</i>	<i>Paragraphs Not Applicable to Compliance Audits</i>
Auditors)	
...	

[No further amendment to AU-C section 935.]

Amendments to Various Sections in SAS No. 122, as Amended (AU-C secs. 230, 260, 300, 320, 402, 450, 501, 510, 550, 805, 920, and 930)

AU-C Section 230, *Audit Documentation*

2. The amendment to AU-C section 230 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A29.]

Exhibit — Audit Documentation Requirements in Other AU-C Sections

.A30 The following lists the main paragraphs in other AU-C sections that contain specific documentation requirements. This list is not a substitute for knowledge of the AU-C sections:

...

- q.* Paragraphs ~~77.49 and .64 of section 600,~~ **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***

...

[No further amendment to AU-C section 230.]

AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*

3. The amendment to AU-C section 260 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A8.]

Those Charged With Governance

...

.A9 ~~Section 600, SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)~~, includes specific matters to be communicated by *the* group auditors with those charged with governance *of the group*.^{fn 3} *The matters communicated may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Component auditors also may communicate matters to those charged with governance of the component.*^{fn 4} When the entity being audited is a component of a group, the appropriate person(s) with whom to communicate is dependent on the nature of the matter to be communicated and the terms of the engagement.

^{fn 3} Paragraphs ~~75 .46 .49~~ of ~~section 600~~ **SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.

^{fn 4} **Paragraph 47i of SAS No. 149.**

[Subsequent footnotes renumbered. No amendment to paragraphs .A10–.A57.]

Exhibit — Requirements to Communicate With Those Charged With Governance in Other AU-C Sections

.A58 Requirements for the auditor to communicate with those charged with governance are included in other AU-C sections. This section does not change the requirements in

...

- i. paragraphs ~~.46 .49~~ **75** of ~~section 600, SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)~~

...

[No further amendment to AU-C section 260.]

AU-C Section 300, Planning an Audit

4. The amendment to AU-C section 300 is effective for audits of financial statements for periods ending on or after December 15, 2026.

Scope of This Section

.01 This section addresses the auditor’s responsibility to plan an audit of financial statements. This section is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified in this section. Matters related to planning audits of group financial statements are addressed in ~~section 600, SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)~~. (Ref: par. .A1–.A4)

[No amendment to paragraphs .02–.A9.]

Planning Activities

The Overall Audit Strategy (Ref: par. .07–.08)

.A10 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 following:

- 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 specialists 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 ***nature and extent of direction and supervision of component auditors and the review of their component 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 cut-off dates
- How such resources are directed, supervised, or used, for example, when team briefing and debriefing meetings are expected to be held, how the engagement partner and manager reviews are expected to take place (for example, on-site or off-site)
- ***The components for which, if any, the auditor's report on the group financial statements will make reference to the audit of a referred-to auditor***

[No amendment to paragraphs .A11–.A29.]

Appendix — Considerations in Managing Quality at the Engagement Level (Ref: par. .07–.08, .A9–.A12)

.A30 This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. Although some of the following matters may be required by other AU-C sections, not all matters are relevant to every audit engagement, and the list is not necessarily complete.

Characteristics of the Engagement

...

- The expected audit ~~coverage~~ ***scope***, including the ~~number and locations of components~~ ***at which audit work is expected to be performed for purposes of a group audit, the extent to which component auditors will be involved, and the components that are audited by referred-to auditors for which the group auditor plans to make reference to the audit of the referred-to auditor in the auditor's report on the group financial statements to be included***

- The nature of the control relationships between a parent and its *entities or business units* ~~components~~ that determine how the group is to be consolidated
- ~~The extent to which components are audited by other auditors~~
- The nature of the *entities or business units* ~~divisions~~ to be audited, including the need for specialized *skills or* knowledge
- The reporting currency to be used, including any need for currency translation for the audited financial information
- The *requirement* ~~need~~ for *an audit of financial statements for legal, statutory or regulatory, or other reasons* ~~audit requirements~~ (for example, *Title 2 U.S. Code of Federal Regulations [CFR] Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards [Uniform Guidance]* ~~the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations~~)

...

Reporting Objectives, Timing of the Audit, and Nature of Communications

...

- Communication with *component* ~~auditors of components~~ regarding the expected types and timing of ~~reports to be issued and other communications in connection with the audit~~ *work performed for purposes of the group audit* ~~of components~~
- *Communication with referred-to auditors regarding the expected types and timing of communications in connection with making reference to the audit of a referred-to auditor in the auditor's report on the group financial statements*
- 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 *audit* work performed

...

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

The following examples illustrate significant factors, preliminary engagement activities, and knowledge gained on other engagements:

- The determination of materiality, in accordance with section 320, *Materiality in Planning and Performing an Audit*, and, when applicable, the following:
 - The determination of *component performance* ~~materiality for components and~~ *the threshold above which misstatements identified in the component financial information are to be communicated to the group auditor and* communication thereof

to component auditors in accordance with ~~section 600,~~ *SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*

- The *initial expectations about the* ~~preliminary identification of significant components and material~~ classes of transactions, account balances, and disclosures *that may be significant*

...

[No further amendment to AU-C section 300.]

AU-C Section 320, *Materiality in Planning and Performing an Audit*

5. The amendment to AU-C section 320 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.08.]

Definitions

.09 For purposes of generally accepted auditing standards (GAAS), the following ~~term has terms~~ *have* the ~~meaning-meanings~~ attributed as follows:

Aggregation risk. The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality. The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce *aggregation risk* to an appropriately low level ~~the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.~~ If applicable, *performance materiality* also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances, or disclosures. Performance materiality is to be distinguished from tolerable misstatement. (Ref: par. .A3)

[No amendment to paragraphs .10–.A14.]

Determining Materiality and Performance Materiality When Planning the Audit

...

Performance Materiality (Ref: par. .11)

.A15 Planning the audit solely to detect individual material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and leaves no margin for possible undetected misstatements. *Performance materiality* (which, as defined, is one or more amounts) is set *at less than materiality for the financial statements as a whole* to reduce *aggregation risk* to an appropriately low level ~~the probability that the aggregate of uncorrected and undetected misstatements in the financial~~

~~statements exceeds materiality for the financial statements as a whole.~~ Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance, or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance, or disclosure exceeds the materiality level for that particular class of transactions, account balance, or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures, and the nature and extent of misstatements identified in previous audits and, thereby, the auditor's expectations regarding misstatements in the current period.

[No further amendment to AU-C section 320.]

AU-C Section 402, *Audit Considerations Relating to an Entity Using a Service Organization*

6. The amendment to AU-C section 402 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A18.]

Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control

...

Further Procedures When a Sufficient Understanding Cannot Be Obtained From the User Entity (Ref: par. .12)

...

.A19 Another auditor may be used to perform procedures that will provide the necessary information about the controls at the service organization related to services provided to the user entity. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find the guidance in section **220, Quality Management for Engagements Conducted in Accordance With Generally Accepted Auditing Standards** ~~600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~, useful as it relates to **determining the competence and capabilities of the other** ~~understanding another~~ auditor (including that auditor's independence and professional competence); **the direction and supervision involvement in the work of the other** ~~another~~ auditor; **in planning the nature, timing, and extent, and timing of such the work assigned to the other auditor**; and ~~in evaluating the sufficiency and appropriateness of the audit evidence obtained.~~^{fn 9}

^{fn 9} See section 220, **Quality Management for Engagements Conducted in Accordance With Generally Accepted Auditing Standards**. Paragraphs .02 and .22 of section 600, ~~*Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~.

[No further amendment to AU-C section 402.]

AU-C Section 450, *Evaluation of Misstatements Identified During the Audit*

7. The amendment to AU-C section 450 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A24.]

Evaluating the Effect of Uncorrected Misstatements (Ref: par. .10–.11)

...

.A25 The auditor is required by ~~section 600,~~ **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***, to evaluate the effect on the group audit opinion of any uncorrected misstatement identified by the group **auditor engagement team** or communicated by the component auditors. ^{fn 18}

^{fn18} Paragraph 7044 of ~~section 600,~~ **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No further amendment to AU-C section 450.]

AU-C Section 501, *Audit Evidence — Specific Considerations for Selected Items*

8. The amendment to AU-C section 501 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A4.]

Investments in Securities and Derivative Instruments (Ref: par. .05–.06)

...

Investments in Securities When Valuations Are Based on the Investee's Financial Results (Excluding Investments Accounted for Using the Equity Method of Accounting) (Ref: par. .05–.06)

~~.A5–Section 600,~~ **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***, addresses auditing investments accounted for using the equity method of accounting.

[No amendment to paragraphs .A6–.A22.]

Inventory

Attendance at Physical Inventory Counting (Ref: par. .12a)

...

.A23 Matters relevant in planning attendance at physical inventory counting (or in designing and

performing audit procedures pursuant to paragraphs .12–.16) include, for example, the following:

...

- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate. ~~Section 600 addresses the involvement of component auditors and, accordingly, may be relevant if such involvement is with regard to attendance of physical inventory counting at a remote location.~~

...

[No further amendment to AU-C section 501.]

AU-C Section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*

9. The amendment to AU-C section 510 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A7.]

Audit Procedures (Ref: par. .07)

...

.A8 If the predecessor auditor permits access to the audit documentation, the auditor may review the predecessor auditor’s audit documentation for information relevant to planning and performing the audit. The auditor’s determination whether to use information resulting from such review as part of the auditor’s risk assessment procedures or as evidence regarding the opening balances is influenced by the auditor’s assessment of the professional competence and independence of the predecessor auditor. Although the predecessor auditor is not a component auditor ***or referred-to auditor***, as defined in ~~section 600~~, **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***, the auditor may ***perform procedures*** ~~make inquiries~~ similar to those ***included*** ~~listed~~ in ~~section 600~~ **SAS No. 149** concerning the professional competence ***and capabilities*** and independence of the predecessor auditor.^{fn1} (Ref: par. .07 and .08c)

^{fn1} Paragraphs ~~227, 28, 51, and 52~~ of ~~section 600~~, **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No further amendment to AU-C section 510.]

AU-C Section 550, *Related Parties*

10. The amendment to AU-C section 550 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A10.]

Risk Assessment Procedures and Related Activities

Understanding the Entity's Related Party Relationships and Transactions

...

The Identity of the Entity's Related Parties (Ref: par. .14a)

...

.A11 In the context of a group audit, ~~section 600~~ **SAS No. 149**, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, requires the group **auditor** engagement team to **request component auditors and referred-to auditors to communicate related party relationships not previously identified by group management or the group auditor on a timely basis** provide each component auditor with information about related parties prepared by group management and any other related parties of which the group engagement team is aware, including the nature of the entity's relationships and transactions with those related parties. ^{fn 24} When the entity is a component within a group, this **Such** information provides a useful basis for the **group** auditor's inquiries of management regarding the identity of the entity's related parties.

^{fn 24} Paragraphs ~~34b, 41e and 62c(ii)~~ of ~~section 600~~ **SAS No. 149**, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

[No amendment to paragraphs .A12–.A30.]

Sharing Related Party Information With the Engagement Team (Ref: par. .19 and .25a)

...

.A31 ~~Section 600~~ **SAS No. 149** addresses the communications that apply to group audits, particularly those that involve component auditors **or when reference is made to referred-to auditors.** ^{fn 30}

^{fn 30} Paragraphs 33b, 34b, 62b, and 62c(ii) of SAS No. 149.

[Subsequent footnotes renumbered. No amendment to paragraphs .A32–.A41.]

Responses to the Risks of Material Misstatement Associated With Related Party Relationships and Transactions (Ref: par. .22)

...

Identified Related Party Transactions Required to Be Disclosed or Determined to Be a Significant Risk

Evaluating the Business Purpose (Ref: par. .26a(i))

.A42 In evaluating the business purpose of a related party transaction that is required to be disclosed in the financial statements or determined to be a significant risk, the auditor may consider the following:

- Whether the transaction
 - is overly complex (for example, it may involve multiple related parties within a

~~consolidated group)~~

...

[No further amendment to AU-C section 550.]

AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*

11. The amendment to AU-C section 805 is effective for audits of single financial statements or specific elements, accounts, or items of a financial statement as of or for periods ending on or after December 15, 2026.

Scope of This Section

[No amendment to paragraph .01.]

.02 This section does not apply to *circumstances in which the report-audit procedures are performed by* ~~of a component auditor issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see section 600, SAS No. 149, *Special Considerations — Audits of Group Financial Statements [Including the Work of Component Auditors and Audits of Referred-to Auditors]*).~~

[No further amendment to AU-C section 805.]

AU-C Section 920, *Letters for Underwriters and Certain Other Requesting Parties*

12. The amendment to AU-C section 920 is effective for comfort letters issued on or after December 15, 2026.

[No amendment to paragraphs .01–.20.]

Agreeing Upon the Scope of Services

...

.21 Situations may exist in which one or more component auditor's *or referred-to auditor's* report is included in the securities offering. When comfort letters are issued to requesting parties by those component auditors *or referred-to auditors*, the auditor of the group financial statements should read those comfort letters. The auditor of the group financial statements should state in the comfort letter that the procedures relating to those components consisted solely of reading the component auditors' *or referred-to auditors'* comfort letters.

[No amendment to paragraphs .22–.A18.]

Agreeing Upon the Scope of Services (Ref: par. .15–.23)

...

.A19 Comfort letters are requested occasionally from more than one auditor, for example, in connection with securities offerings to be used in the subsequent sale of shares issued in recently effected mergers and from predecessor auditors. In such circumstances, it is the entity's responsibility, at the earliest practicable date, to inform any other auditors who may be involved about any letter that may be requested of them and arrange for them to receive a draft of the underwriting agreement so that they may make arrangements at an early date for the preparation of a draft of their letter and for the performance of their procedures. The entity or requesting party is also responsible for arranging for a copy of the comfort letters of component auditors *or referred-to auditors* in draft and final form to be provided to the auditor of the group financial statements.

[No amendment to paragraphs .A20–.A26.]

Format and Contents of Comfort Letters

...

Addressee (Ref: par. .26)

.A27 An example of an appropriate form of address for this purpose is "The Blank Company and XYZ & Company, as Representative of the Several Underwriters." Copies of a comfort letter addressed in accordance with the requirements in paragraph .26 may be provided to the auditor of the group financial statements when a comfort letter related to a component included in group financial statements is issued by a component auditor *or referred-to auditor*.

[No amendment to paragraphs .A28–.A69.]

Commenting in a Comfort Letter on Information Other Than Audited Financial Statements

...

Subsequent Changes (Ref: par. .58–.64)

...

.A70 When more than one auditor is involved, the auditor of the group financial statements may comment that there were no decreases in the consolidated financial statement items, when appropriate, despite the possibility that decreases have been mentioned in a comfort letter issued by a component auditor *or referred-to auditor*. Exhibit B, example J, "Alternate Wording When Component Auditors Are Involved *or When Making Reference to the Audit of a Referred-to Auditor*," contains an illustration of wording when more than one auditor is involved.

[No amendment to paragraphs .A71–.A92.]

Exhibit B — Examples of Comfort Letters

.A93

...

Example J — Alternate Wording When Component Auditors Are Involved *or When Making*

Reference to the Audit of a Referred-to Auditor

...

...

Example J — Alternate Wording When Component Auditors Are Involved *or When Making Reference to the Audit of a Referred-to Auditor*

.A93-14 Example J applies when one or more component auditors are involved in the audit of group financial statements *or when reference is made to the audit of a referred-to auditor in the auditor's report on group financial statements*, and the group engagement team has obtained a copy of the comfort letter of the component auditors *or referred-to auditors* (see paragraph .21). Example J consists of an addition to paragraph 4, a substitution for the applicable part of paragraph 5, and an addition to paragraph 6 of example A-1 and corresponding changes to paragraphs 3, 4, and 5 of example A-2, respectively.

...

[No further amendment to AU-C section 920.]

AU-C Section 930, *Interim Financial Information*

13. The amendment to AU-C section 930 is effective for reviews of interim financial information for interim periods of fiscal years beginning on or after December 15, 2025.

[No amendment to paragraphs .01–.13.]

Procedures for a Review of Interim Financial Information

...

Analytical Procedures, Inquiries, and Other Review Procedures

...

Inquiries and Other Review Procedures

.14 The auditor should make the following inquiries and perform the following other review procedures when conducting a review of interim financial information (***Ref: par. .A17***):

- a.* Read the available minutes of meetings of stockholders, directors, and appropriate committees and inquire about matters dealt with at meetings for which minutes are not available to identify matters that may affect the interim financial information. (Ref: par. .A16)
- ~~*b.* Obtain reports from component auditors, if any, related to reviews performed of the interim financial information of significant components of the reporting entity, including its investees, or inquire of those auditors if reports have not been issued. (Ref: par. .A17)~~

...

[Subsequent subparagraphs re-lettered. No amendment to paragraphs .15–.A16.]

Procedures for a Review of Interim Financial Information

...

Analytical Procedures, Inquiries, and Other Review Procedures

...

Inquiries and Other Review Procedures (Ref: par. .14)

...

.A17 *When conducting a review of interim financial information, the auditor may decide to involve another auditor to provide information or to perform review procedures. For example, the auditor may involve component auditors in performing inquiries of management of a component. Additionally, the auditor may obtain from management reports of reviews of interim financial information of components of the reporting entity, including its investees.* The auditor may find the guidance in ~~section 600~~**SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Referred-to Auditors)**, useful in conducting a review of interim financial information for an entity that prepares group financial statements *when component auditors are involved or when the group auditor makes reference to the review of a referred-to auditor.*

[No amendment to paragraphs .A18–.A54.]

Relevant Ethical Requirements (Ref: par. .31d(v))

...

.A55 Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA code, when applicable; the rule or applicable regulation; or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ~~Section 600~~**SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**,^{fn11} provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations in which the component auditor *or referred-to auditor* does not meet the independence requirements that are relevant to the group audit.

^{fn 11} Paragraphs ~~.22–.23~~ **27, 29, 47c, 51, 53, 62a and 63b** of ~~section 600~~**SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.

[No amendment to paragraphs .A56–.A78.]

Exhibit B — Illustrations of Auditor’s Review Reports on Interim Financial Information (Ref: par. .A44)

.A79

...

Illustration 3 — A Review Report That Refers to a *Referred-to Component* Auditor's Review Report on the Interim Financial Information of a ~~Significant~~ Component of a Reporting Entity

...

...

Illustration 3 — A Review Report That Refers to a *Referred-to Component* Auditor's Review Report on the Interim Financial Information of a ~~Significant~~ Component of a Reporting Entity

Circumstances include the following:

- A review of interim financial information presented as a complete set of financial statements, including disclosures.
- The auditor is making reference to a *referred-to* another auditor's review report on the interim financial information of a ~~significant~~ component of a reporting entity.

...

[No further amendment to AU-C section 930.]

Amendment to SAS No. 128, *Using the Work of Internal Auditors*, as Amended (AU-C sec. 610)

14. The amendment to AU-C section 610 is effective for audits of financial statements for periods ending on or after December 15, 2026.

AU-C Section 610, *Using the Work of Internal Auditors*

[No amendment to paragraphs .01–.A19.]

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used in Obtaining Audit Evidence

...

Determining the Nature and Extent of Work of the Internal Audit Function That Can Be Used in Obtaining Audit Evidence

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function That Can Be Used (Ref: par. .15–.18)

...

.A20

...

The internal audit function's plan may also include procedures related to financial information of components of a group. The external auditor may coordinate work with the internal auditors (in accordance with paragraph .20 of this section) ***in determining the components at which audit work will be performed*** and ~~reduce the number of the entity's components at which the external auditor would otherwise need to perform audit procedures~~ in accordance with the requirements of ***SAS No. 149, section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No further amendment to AU-C section 610.]

Amendment to SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, as Amended (AU-C sec. 940)

15. The amendment to AU-C section 940 is effective for integrated audits for periods ending on or after December 15, 2026.

AU-C Section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*

[No amendment to paragraphs .01–.66.]

Report Modifications

- .67** The auditor should modify the report on ICFR if any of the following conditions exist:
- a. One or more material weaknesses exist.
 - b. Elements of management's report are incomplete or improperly presented.
 - c. There is a limitation on the scope of the engagement. (Ref: par. .A119)
 - d. The auditor decides to refer to the report of a ***referred-to component*** auditor as the basis, in part, for the auditor's own opinion.
 - e. There is other information contained in management's report.

[No amendment to paragraphs .68–.77.]

...

~~*Making Reference to a Referred-to Component Auditor and Involving Assuming Responsibility for the Work of a Component Auditors in the Group Audit*~~

.78 ~~*In a group audit*~~ When an entity includes one or more components, the group engagement partner should ***determine*** ~~evaluate whether the group engagement team will be able to obtain sufficient appropriate audit evidence~~ ***can reasonably be expected to be obtained (including through involving component auditors or through making reference to the audit of a referred-to***

auditor in the auditor's report on the ICFR over the group financial statements) through the group engagement team's work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or making reference to the audit of ICFR of a component auditor in the auditor's report) to **provide a basis for forming an opinion on** act as the auditor of the ICFR over the group financial statements and report as such on the ICFR over the group financial statements, as required by ~~section 600,~~ **SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.^{fn 9} (Ref: par. .A128)

^{fn 9} Paragraph ~~1944~~ of **SAS No. 149, section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.

.79 As required by ~~section 600,~~ **SAS No. 149**, the group engagement partner should determine whether to make reference to *the audit of a referred-to component auditor* in the **auditor's** report on the ICFR over the group financial statements.^{fn 10} Reference to the audit of a **referred-to component auditor** in the auditor's report on the ICFR over the group financial statements should not be made unless

- a. the **group** engagement partner has determined that the **referred-to component auditor** has performed an audit of the component's ICFR in accordance with the relevant requirements of GAAS (or, if applicable, the standards promulgated by the PCAOB) and
- b. the **referred-to component auditor** has issued an auditor's report on ICFR that is not restricted as to use. (Ref: par. .A129–.A130)^{fn 11}

^{fn 10} Paragraph ~~2455~~ of ~~section 600,~~ **SAS No. 149**.

^{fn 11} **Paragraph 56 of SAS No. 149.**

[Subsequent footnotes renumbered. No amendment to paragraph .80.]

Special Topics

Entities With Multiple Components

.81 In determining the components at which to perform tests of controls, the group **auditor engagement team** should **take responsibility for the identification and assessment of** the risk of material misstatement to the **group** financial statements associated with the component and correlate the amount of attention devoted to the component with the degree of risk. (Ref: par. .A133–.A135)

.82 In assessing and responding to risk, the group **auditor engagement team** should **take responsibility for testing**, or have a component auditor test on the group engagement team's behalf, controls over specific risks that present a reasonable possibility of material misstatement to the group financial statements. (Ref: par. .A136)

.83 In applying the requirement in paragraph .42 regarding special considerations for subsequent years' audits, the group **auditor engagement team** should vary the nature, timing, and extent of tests of controls at components from year to year.

[No amendment to paragraphs .84–.A127.]

Report Modifications (Ref: par. .67)

...

Making Reference to a Referred-to ~~Component~~ Auditor and Involving ~~Assuming Responsibility for the Work of a Component~~ Auditors in the Group Audit (Ref: par. .78–.79)

.A128 ~~Section 600~~**SAS No. 149** addresses special considerations that apply to group audits, in particular those that involve component auditors ***or when reference is made to referred-to auditors***. ~~Section 600~~**SAS No. 149** is applicable, adapted as necessary, to the audit of ICFR, considering the requirements and guidance related to multiple components discussed beginning in paragraphs .28 and .81.

.A129 The group engagement partner may ***determine*** ~~decide to involve~~ assume responsibility for ~~the work of the component auditors or to make reference to the~~ ***audit of a referred-to component auditor*** in the report on the ICFR over the group financial statements. The decision about whether to make reference to ***the audit of a referred-to component auditor*** in the report on the audit of ICFR might differ from the corresponding decision as it relates to the audit of the financial statements. For example, the audit report on the group financial statements may make reference to the audit of a significant equity investment performed by a ***referred-to component auditor***, but the report on the ICFR over the group financial statements might not make a similar reference because management's assessment about ICFR ordinarily would not extend to controls at the equity method investee. See paragraph .84 for further discussion of the evaluation of the controls for an equity method investment.

.A130 ~~Section 600~~ **SAS No. 149** establishes requirements and provides guidance when ***involving assuming responsibility for the work of a component auditors in a group audit*** and when making reference to ***the audit of a referred-to component auditor*** in the auditor's report on the ***group*** financial statements that are adapted and applied, as necessary, to the audit of ICFR. Exhibit A of this section includes an illustration of the application of the reporting requirements in ~~section 600~~**SAS No. 149**.^{fn 32}

^{fn 32} Illustration 4, "Unmodified Opinion on ICFR Making Reference to ***the Audit of a Referred-to Component Auditor***," of exhibit A.

[No amendment to paragraphs .A131–.A132.]

Special Topics

Entities With Multiple Components (Ref: par. .81–.83)

.A133 As indicated in paragraph .A128 of this section, ~~section~~**SAS No. 149** is applicable, adapted as necessary, to the audit of ICFR, considering the requirements and guidance related to components discussed in this section.

.A134 In determining the components at which to ~~perform~~ tests of controls ***will be performed***, the group ***auditor engagement team*** may also take into account work performed by the internal audit

function or others on behalf of management. For example, if the internal audit function's planned procedures include relevant audit work at various components, the **group** auditor may ***decide to use that work in accordance with section 610***~~coordinate work with the internal auditors and reduce the number of components at which the group engagement team, or a component auditor on the group engagement team's behalf, would otherwise need to perform audit procedures.~~

~~.A135 The group engagement team may eliminate from further consideration components that, individually or when aggregated with others, do not present a reasonable possibility of material misstatement to the group financial statements.~~ ***In the context of a group audit, the phrase “the group auditor should take responsibility for...” is used for those requirements when the group auditor is permitted to assign the design or performance of procedures, tasks, or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors.***

~~.A136 In lower risk components, Tthe group-auditor engagement team first might~~ ***may*** evaluate whether testing entity-level controls, including controls in place to provide assurance that appropriate controls exist throughout the organization, provides sufficient appropriate audit evidence ***for one or more relevant assertions for a significant class of transactions, account balance, or disclosure.*** ~~The group engagement team or a component auditor on the group engagement team's behalf may test the operating effectiveness of controls over specific risks or group-wide controls.~~

[No amendment to paragraphs .A137–.A155.]

Exhibit A — Illustrative Reports

~~.A156~~ The following illustrate the report elements described in this section. The illustrations assume that the audit of internal control over financial reporting (ICFR) and the audit of the financial statements were performed by the same auditor. Report modifications are discussed beginning in paragraph .67 of this section.

Illustration 1 — Unmodified Opinion on ICFR
Illustration 2 — Adverse Opinion on ICFR
Illustration 3 — Disclaimer of Opinion on ICFR
Illustration 4 — Unmodified Opinion on ICFR Making Reference to ***the Audit of a Referred-to a-Component Auditor***
Illustration 5 — Combined Report Expressing an Unmodified Opinion on ICFR and an Unmodified Opinion on the Financial Statements

...

Illustration 4 — Unmodified Opinion on ICFR Making Reference to *the Audit of a Referred-to a-Component Auditor*

The following is an illustrative report expressing an unmodified opinion on ICFR when the engagement partner decides to make reference to the ***audit report of a referred-to-component auditor.***

...

[No further amendment to AU-C section 940.]

Amendment to Various Sections in SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as Amended (AU-C secs. 700, 701, and 705)

16. The amendment to AU-C section 700 is effective for audits of financial statements for periods ending on or after December 15, 2026.

AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements*

[No amendment to paragraphs .01–.A38.]

Auditor’s Report (Ref: par. .21)

...

Auditor’s Report for Audits Conducted in Accordance With GAAS

...

Basis for Opinion (Ref: par. .28)

...

.A39 Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA Code of Professional Conduct, when applicable; the rule or applicable regulation; or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those relating to independence, in a group audit situation may be complex. ~~Section 600, SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*~~,^{fn 21} provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations in which the component auditor ***or referred-to auditor*** does not meet the independence requirements that are relevant to the group audit.

^{fn 21} Paragraphs ~~22–23~~ 27, 29, 47c, 51, 53, 62a and 63b of ~~section 600~~ SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

[No amendment to paragraphs .A40–.A80.]

Exhibit — Illustrations of Auditor’s Reports on Financial Statements (Ref: par. .A24, .A32, .A65, and .A71)

.A81

...

Illustration 4 — An Auditor's Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is a group audit. The auditor is not making reference to *the audit of a referred-to component* auditor in the auditor's report.

...

[No further amendment to AU-C section 700.]

AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

17. The amendment to AU-C section 701 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A12.]

Determining Key Audit Matters (Ref: par. .08–.09)

...

Matters That Required Significant Auditor Attention (Ref: par. .08)

...

.A13 Certain AU-C sections, such as the following, require specific communications with those charged with governance and others that may relate to areas of significant auditor attention:

- a. Section 260, *The Auditor's Communication With Those Charged With Governance*, requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.^{fn 7} For example, there may be potential difficulties relating to the following:
 - i. *Related party transactions*. In particular, there may be limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's-length transaction.^{fn 8}
 - ii. *Limitations on the group audit*. For example, ~~the group engagement team's~~ access to information **or people** may be restricted.^{fn 9}

^{fns 7–8} [Footnotes omitted for purposes of this SAS.]

^{fn 9} Paragraph ~~49d 75c~~ of ~~section 600~~, **SAS No. 149**, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*.

...

[No further amendment to AU-C section 701.]

AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report*

18. The amendment to AU-C section 705 is effective for audits of financial statements for periods ending on or after December 15, 2026.

[No amendment to paragraphs .01–.A10.]

Circumstances in Which a Modification to the Auditor's Opinion Is Required

...

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: par. .07b)

...

.A11 Examples of circumstances beyond the control of the entity include the following:

- The entity's accounting records have been destroyed.
- The accounting records of a ~~significant~~ component ***for which further audit procedures are determined to be necessary for purposes of the group audit*** have been seized indefinitely by governmental authorities.

[No amendment to paragraphs .A12–.A37.]

Exhibit — Illustrations of Auditor's Reports With Modifications to the Opinion

.A38

...

Illustration 3 — An Auditor's Report Containing an Adverse Opinion Due to a Material Misstatement of the Financial Statements

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (single year). The audit is a group audit. The auditor is not making reference to ***the audit of a referred-to component*** auditor in the auditor's report.

...

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements^{fn 5}

Adverse Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (*the Company or ABC Company*), which comprise the consolidated balance sheet as of December 31, 20X1, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the *consolidated* financial statements.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not present fairly the financial position of ~~the ABC Company and its subsidiaries~~ as of December 31, 20X1, or the results of their operations or their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

...

Auditor's Responsibilities for the Audit of the Financial Statements

...

In performing an audit in accordance with GAAS, we:

...

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the *consolidated* financial statements.

...

^{fn 5} [Footnote omitted for purposes of this SAS.]

[No further amendment to AU-C section 705.]

Amendment to SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as Amended (AU-C sec. 720)

19. The amendment to AU-C section 720 is effective for audits of financial statements for periods ending on or after December 15, 2026.

AU-C Section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*

[No amendment to paragraphs .01–.A1.]

Scope of This Section (Ref: par. .02 and .09)

...

.A2 Other AU-C sections provide requirements and guidance with respect to information in certain documents other than annual reports. For example, section 925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933*; section 945, *Auditor Involvement With Exempt Offering Documents*; and ~~Statement on Auditing Standards No. 136~~ **section 703**, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* ~~(sec. 703)~~.^{fn 3}

^{fn 3} ~~Statement on Auditing Standards (SAS) No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (sec. 703), is effective for audits of financial statements for periods ending on or after December 15, 2021.~~

[No amendment to paragraphs .A3–.A35.]

...

Reading and Considering the Other Information (Ref: par. .16–.17)

...

.A36 In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with ~~section 600~~, **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***, the group auditor decides to make reference to ***the audit of a referred-to component*** auditor in the auditor's report on the group financial statements,^{fn 10} the group auditor's knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.

^{fn 10} ~~Paragraph 2455 of section 600~~, **SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)***.

[No amendment to paragraphs .A37–.A38.]

.A39 The manner in which an auditor resolves a concern regarding whether other information is materially inconsistent with the auditor's knowledge obtained in the audit, is a matter of professional judgment. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team, ***including*** ~~or~~ relevant component auditors, is appropriate as a basis for the auditor's consideration of whether a material misstatement exists. Whether, and if so, the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team, ***including*** ~~or~~ relevant component auditors, is a matter of professional judgment.

.A40 It may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team, ***including*** ~~or~~ relevant component auditors, about any matter included in the other information. This may be the case, for example, when the group auditor decides to make reference to ***the audit of a referred-to component*** auditor in the auditor's report in accordance with ~~section 600~~ **SAS No. 149**,^{fn 11} and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in the other information relating to the ~~significant~~ component with respect to which the ***referred-to component*** auditor has performed an audit of the financial statements.

^{fn 11} Paragraph .2455 of section 600 ~~SAS No. 149~~.

[No further amendment to AU-C section 720.]

Amendment to SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C sec. 315)

20. The amendment to SAS No. 145 is effective for audits of financial statements for periods ending on or after December 15, 2026.

AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*

[No amendment to paragraphs .01–.A16.]

Risk Assessment Procedures and Related Activities (Ref: par. .13–.18)

.A17 The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this section. However, the significance of fraud is such that further requirements and guidance are included in section 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.^{fn 19} In addition, the following AU-C sections provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

- Section 540, *Auditing Accounting Estimates and Related Disclosures*, with regard to accounting estimates
- Section 550, *Related Parties*, with regard to related party relationships and transactions
- Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, with regard to going concern
- ~~Section 600, SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors*~~ **and Audits of Referred-to Auditors**), with regard to group financial statements

^{fn 19} [Footnote omitted for purposes of this SAS.]

[No amendment to paragraphs .A18–.A52.]

Engagement Team Discussion (Ref: par. .17–.18)

...

Scalability

...

.A53 When an engagement is carried out by a large engagement team, such as for an audit of group financial statements, it is not always necessary or practical for the discussion to include all members in a single discussion (for example, in a multi-location audit), nor is it necessary for all the members of the engagement team to be informed of all the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team, including, if considered appropriate, those with specific skills or knowledge and those ~~responsible for the performing work at audits of~~ components, while delegating discussion with others, taking into account the extent of communication considered necessary throughout the engagement team. A communications plan, agreed to by the engagement partner, may be useful.

[No amendment to paragraphs .A54–.A246.]

Identifying and Assessing the Risks of Material Misstatement (Ref: par. .32–.41)

...

Assessing Risks of Material Misstatement at the Assertion Level

...

Significant Risks (Ref: par. .36)

Why Significant Risks Are Determined and the Implications for the Audit

.A247 The determination of significant risks allows for the auditor to focus more attention on those risks that are close to the upper end of the spectrum of inherent risk, through the performance of certain required responses, including the following:

...

- ~~Section 600~~**SAS No. 149** requires *the group auditor to evaluate the appropriateness of the design and performance of further audit procedures for areas of higher assessed risks of material misstatement of the group financial statements, or significant risks, on which a component auditor is determining the further audit procedures to be performed* ~~more involvement by the group engagement partner if the significant risk relates to a component in a group audit and for the group engagement team to direct the work required at the component by the component auditor.~~ ^{fn 65}

^{fn 65} Paragraph ~~.57–.58~~ **44** of ~~AU-C section 600~~, **SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)**.

[No further amendment to AU-C section 315.]

Amendment to SAS No. 146, *Quality Management for Engagements Conducted in Accordance With Generally Accepted Auditing Standards* (AU-C sec. 220)

21. The amendment to AU-C section 220 is effective for engagements conducted in accordance with generally accepted auditing standards for periods beginning on or after December 15, 2025.

AU-C Section 220, *Quality Management for Engagements Conducted in Accordance With Generally Accepted Auditing Standards*

[No amendment to paragraphs .01–.41.]

Scope of This Section (Ref: par. .01)

.A1 This section applies to all audits of financial statements, including audits of group financial statements. ~~AU-C section 600, SAS No. 149, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, addresses deals with~~ special considerations that apply to an audit of group financial statements, including when component auditors are involved **or when the group auditor makes reference to the audit of a referred-to auditor.** ~~AU-C section 600 SAS No. 149~~ also provides guidance on how to adapt and apply the requirements of this section in an audit of group financial statements involving component auditors. ~~AU-C section 600 SAS No. 149~~, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ~~AU-C section 600 SAS No. 149~~ may be useful when involving such an individual to attend a physical inventory count; inspect property, plant, and equipment; or perform audit procedures at a shared service center at a remote location.

[No amendment to paragraphs .A2–.A21.]

Definitions

Engagement Team (Ref: par. 12)

...

.A22 *When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for purposes of GAAS. This section does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.*

.A23 *Referred-to auditors are not members of the engagement team. Referred-to auditors are not component auditors.* ^{fn 25}

^{fn 25} *Paragraph 16 of SAS No. 149, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors).*

[Subsequent paragraphs and footnotes renumbered. No amendment to renumbered paragraphs .A24–.A25.]

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. .08 and .17)

...

~~.A24.~~**A26** In particular, the firm’s policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm

- has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes, and therefore, the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or oversight body. Paragraphs .22 and A47–A48 of AU-C section 600-SAS No. 149^{fn 26} contains guidance on obtaining an understanding of the competence and capabilities of component auditors.

^{fn 26} Paragraphs 28 and A72–A76 of SAS No. 149.

...

[Subsequent footnotes further renumbered.]

~~A25~~ .A27 When firm policies or procedures require specific activities to be undertaken in certain circumstances (for example, consultation on a particular matter), it may be necessary to communicate with individuals who are not personnel about what is expected of them to enable the engagement partner to comply with the firm's policies or procedures. For example, in a group audit engagement, communicating the group auditor's policies and procedures about matters subject to consultation to a component auditor enables the component auditor to determine which identified difficult or contentious matters that are relevant to the group financial statements to bring to the attention of the group *auditor engagement team*.

[No amendment to renumbered paragraphs .A28–.A54.]

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: par. .22–.24)

...

~~A53~~ .A55 Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this section and making informed decisions about appropriate courses of action. Such information may include the following:

- Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework
- The entity's timetable for reporting, such as at interim and final stages
- In relation to group audits, the nature of the control relationships between the parent and its *entities or business units* ~~components~~
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that 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

~~A54~~ .A56 Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other sections, as well as this section, for example, with

respect to the following:

- Establishing an understanding of the terms of the audit engagement, as required by section 210, *Terms of Engagement*²⁹³¹
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with section 315 and section 240, *Consideration of Fraud in a Financial Statement Audit*
- Understanding the group, ~~its components, and its~~ their environments, in the case of an audit of group financial statements in accordance with ~~AU-C section 600~~ **SAS No. 149**, and directing, supervising, and reviewing the work of component auditors
- Determining whether, and how, to involve an auditor's specialist in accordance with section 620
- The entity's governance structure in accordance with section 260, *The Auditor's Communication With Those Charged With Governance*, and section 265, *Communicating Internal Control Related Matters Identified in an Audit*

²⁹³¹ [Footnote omitted for purposes of this SAS.]

[No amendment to renumbered paragraphs .A57–.A61.]

Engagement Resources (Ref: par. .25–.28)

...

~~A60~~ **.A62** Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances in which the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation, or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group **auditor engagement team**.³⁰³² In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

³⁰³² See paragraph ~~03 A10~~ of ~~AU-C section 600~~, **SAS No. 149**.

[No amendment to renumbered paragraphs .A63–.A78.]

Insufficient or Inappropriate Resources (Ref: par. .27)

...

~~A77~~ **.A79** In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the

engagement partner may discuss the matter with the component auditor, management, or the firm to make sufficient and appropriate resources available.

[No amendment to renumbered paragraphs .A80–.A93.]

Engagement Performance

...

The Engagement Partner's Review (Ref: par. .30–.34)

...

~~.A93.~~**A95** The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team. Examples follow:

...

- In group audit situations,
 - the overall group audit strategy and group audit plan;
 - decisions about the involvement of component auditors, including how to direct and supervise them and review their work, ~~including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component;~~ and
 - the evaluation of work performed by component auditors and the conclusions drawn therefrom

...

[No further amendment to renumbered paragraphs .A96–.A100.]

...

Review of Communications to Management, Those Charged With Governance, or Regulatory Authorities (Ref: par. 34)

~~A99~~**A101**. The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example:

- It may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.
- ***In group audit situations, the engagement partner may determine to review formal written communications to group management, those charged with governance of the group, or regulatory authorities relevant to the group.***

[No further amendment to AU-C section 220.]