



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

**Issued: March 2023, Effective date for group FS  
for periods ending on or after 12-15-26**

**Background: Convergence with IAASB**



- Common audit deficiency in Peer Review

**Outcome**

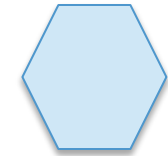
**New Definitions**

**Risk Based Approach**

*A risk lens, not a treasure hunt.*



## Component



- An entity, business unit, function, or business activity determined by the group auditor for purposes of planning and performing audit procedures in a group audit
  - The group auditor uses professional judgment in determining components at which audit work will be performed



- Group financial statements include financial information of more than one entity or business unit through a consolidation process
- A group may be organized in various ways
  - Parent / Sub
  - JVs
  - Equity method investments
  - Branches/Divisions
  - Functions/Business Activities



- The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed RMM of the group financial statements
- Use professional judgment in determining the components at which the audit work will be performed
- Based on the group auditor's understanding of the group and its environment, and other factors
  - i.e., the ability to perform audit procedures centrally, the presence of shared service centers, or the existence of common information systems and control



- The engagement partner is required to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner
  - May include component auditors, who are a part of the engagement team
- The group auditor may involve component auditors to provide information, or to perform audit work
- Component auditors may have greater experience with and a more in-depth knowledge of the components and their environments than the group auditor

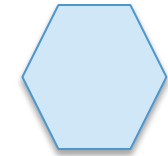


- Audit risk is a function of the RMM & detection risk
- Detection risk in a group audit includes the risk that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect the misstatement

*Two auditors, one opinion risk.*



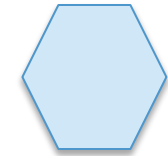
## Referred-To Auditor



- 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



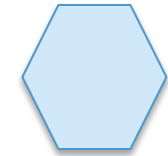
## Component Auditor



- 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 team for a group audit.



## Aggregation Risk



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



- Applies to all group audits, regardless of size or complexity
- Intended to be applied in the context of the nature and circumstances of each group audit

# Making Reference





- The group engagement partner may determine to make 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



- A referred-to auditor is not a component auditor, and is not part of the engagement team
- 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 the referred-to auditor or review their work



- Group engagement partner should take responsibility for:
  - Referred-to auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement
  - Confirming whether the referred-to auditors understand and comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence
  - Determining whether referred-to auditor has the appropriate competence and capabilities



- The group auditor should obtain sufficient and appropriate audit evidence relating to the work 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
  - 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
  - The group engagement partner has serious concerns about the relevant ethical requirements for referred-to auditors



- Consolidation process considerations for referred-to auditors
- 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
  - 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
- Reference should not be made unless
  - The group EP 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, and
  - The referred-to auditor has issued an auditor's report that is not restricted as to use

# Component Auditor





- Introduces a risk-based approach to planning and performing a group audit
- Requires use of professional judgment in determining the components for which procedures would be performed



- The group EP is required to take overall responsibility for managing and achieving quality on the group audit engagement
- The group EP should take responsibility for:
  - Creating an environment for the group audit engagement that emphasizes the expected behavior of engagement team members
  - Being sufficiently and appropriately involved throughout the group audit engagement, including the work of component auditors



- Group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan
- The group auditor should determine:
  - The components at which audit work will be performed
  - The resources needed to perform the group audit engagement, including the nature, timing, and extent to which component auditors are to be involved
  - The components for which, if any, the auditor's report on the group financial statements will reference the audit of a referred-to auditor
  - For components that are accounted for by the equity method, whether to use audited FS as audit evidence regarding the noncontrolled entity's financial results



- The engagement partner should take responsibility for the nature, extent, and timing of direction and supervision of component auditors and review of their work, taking into account the following
  - Areas of higher assessed RMM of the group financial statements or significant risks identified
  - Areas in the audit of the group financial statements that involve significant judgment communications with component auditors



- The group auditor should take responsibility for the identification and assessment of RMM of the group financial statements, including with respect to the consolidation process



- The group auditor should determine
  - Component performance materiality
  - The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor



- Group auditor should take responsibility for the nature, extent, and timing 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



- The group auditor should take responsibility for designing and performing further audit procedures to respond to the assessed RMM of the group FS arising from the consolidation process

# Equity Method Investments





- Identifies procedures the group auditor is required to perform to determine whether to use the audited financial statements
- Identifies matters that may cause the group auditor to conclude that additional audit procedures are necessary and additional procedures the group auditor may perform to obtain sufficient appropriate audit evidence



- If the group auditor intends to use the audited FS as audit evidence, the group auditor should
  - Obtain and read the audited FS of the noncontrolled entity, including the accompanying audit report, and determine whether the audited FS are satisfactory for this purpose
    - If the difference between the FS period of the group and the noncontrolled entity has or could have a material effect on the group FS, determine whether group management has properly considered the lack of comparability and determine the effect, if any, on the group auditor's report
    - If the carrying amount of 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 FRF



- 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:
  - 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
  - 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

# Single Audits





- Adds 2 paragraphs to AU-C 935 around the use of other auditors
- Makes AU-C 600 not applicable in its entirety to Single Audits