

17 October 2024

ISCA Audit Bulletin 6

**AB 6:**  
Key Revisions to Group Audits – SSA 600  
(Revised)

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The terms of reference are executed through AASC with the support of three Sub-Committees, namely the Core Sub-Committee, the AGS 1 Sub-Committee and the Data Analytics Sub-Committee.

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## 1. Background

SSA 600 (Revised)<sup>1</sup> applies to an audit of group financial statements (a group audit) and deals with special considerations that apply to a group audit, including when component auditors are involved. SSA 600 (Revised) is effective for audits of group financial statements (group FS) for periods beginning on or after 15 December 2023.

Based on the definition added under paragraph 14(k), group FS are financial statements that include the financial information of more than one entity or business unit through a consolidation process. This consolidation process includes:

- (i) Consolidation, proportionate consolidation, or an equity method of accounting;
- (ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management;
- (iii) The aggregation of the financial information of entities or business units such as branches or divisions.

Hence, the scope of the revised standard is beyond consolidated financial statements prepared in accordance with an applicable financial reporting framework. For example, if an individual company that has a branch aggregates the financial information of the company and the branch, the aggregated financial information would constitute group FS and SSA 600 (Revised) would apply<sup>2</sup>.

## 2. Scope of this Audit Bulletin

This Audit Bulletin (AB) highlights the significant changes in SSA 600 (Revised) and provides guidance on the implementation of the revised standard.

## 3. Key Objectives and Revisions<sup>3</sup>

The revisions made to SSA 600 (Revised) are intended to achieve the following outcomes:

### (a) Risk-based approach to planning and performing a group audit

The revised standard establishes a framework that emphasises special considerations for establishing the overall group audit strategy and group audit plan and requires the group auditor to determine the nature, timing and extent of involvement of component auditors. It also highlights that component auditors can be, and often are, involved in all phases of the group audit<sup>4</sup>.

*Introducing a risk-based approach for planning and performing a group audit*

Old Approach	New Approach
Identified “significant components” of the group and performed an audit of the financial information of these components.	<b>Concept of “significant component” is removed and a new risk-based approach is introduced</b> , with greater

<sup>1</sup> SSA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>2</sup> From a scalability perspective, for such less complex groups, the group auditor may be able to perform audit procedures at the components without involving component auditors or may be able to perform audit procedures on certain classes of transactions or account balances centrally. As a result, certain requirements under the standard would not be relevant (for example, requirements relating to the involvement of component auditors).

<sup>3</sup> For information on the full list of revisions, refer to [IAASB’s Basis for Conclusions on ISA 600 \(Revised\)](#).

<sup>4</sup> See SSA 600 (Revised), para 5, 6, 7 and 22.

	<p>alignment with the requirements of SSA 315 (Revised 2021)<sup>5</sup> and SSA 330<sup>6</sup>.</p> <p>This focuses the group auditor’s attention on identifying, assessing and responding to risks of material misstatement (RoMM) of the group FS, and emphasises the importance of designing and performing procedures that are appropriate to respond to those assessed RoMM<sup>7</sup>.</p>
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See Section 4 for guidance on how to apply the risk-based approach.

**(b) Keeping the standard fit for purpose in a wide range of circumstances and in a developing environment**

The definition of a component has been revised<sup>8</sup>, clarifying the scope of the standard to **include business units such as branches, divisions, shared service centers and non-controlled entities**.

**(c) Encouraging proactive management of quality at the group and component level**

**(i) Managing and achieving quality in a group audit<sup>9</sup>**

The definition of an engagement team now includes all individuals who perform procedures on the group audit, **including component auditors, who are consequently subject to direction, supervision and review by the group auditor**. Therefore, the group engagement partner<sup>10</sup> and group auditor<sup>11</sup> will need to ensure that they are **sufficiently and appropriately involved in the component auditor’s work**.

See Section 6 for guidance on direction and supervision of component auditors and review of their work.

***Reinforcing the need for robust communication and interactions during the group audit***

The revised standard emphasises the importance of **two-way communications** between the group auditor and component auditors.

There are also new and enhanced requirements on various aspects of the group auditor’s interaction with component auditors<sup>12</sup>, including communicating relevant ethical requirements<sup>13</sup>, determining competence and capabilities of the component

<sup>5</sup> SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement*

<sup>6</sup> SSA 330, *The Auditor’s Responses to Assessed Risks*

<sup>7</sup> See SSA 600 (Revised), para 30, 33, 34, 37, 38–40 and 51–52.

<sup>8</sup> SSA 600 (Revised), para 14(b) defines a component as 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

<sup>9</sup> Refer to [EP100](#) and [ACRA Code](#) for updates to ethical requirements in relation to group audits.

<sup>10</sup> See SSA 600 (Revised), para 11, 16, 23, 25, 26 and 28.

<sup>11</sup> See SSA 600 (Revised), para 11, 24 and 27.

<sup>12</sup> See SSA 600 (Revised) para 23-29, 31-32, 34, 36, 41-48 and 50.

<sup>13</sup> Section 405.3 of the ACRA Code requires the group auditor to communicate relevant ethical requirements to the component auditor. Section 405.3 A1 provides examples of matters that may be communicated. Refer to the following sources for further guidance on auditor independence in a group audit:

- Two-part article: Auditor Independence In a Group Audit issued by ISCA Ethics Committee [\[Part 1\]](#) and [\[Part 2\]](#)
- IESBA’s Engagement Team – Group Audits Independence Webinar [\[Link\]](#)

auditor, and determining the appropriate nature, timing and extent of involvement by the group auditor in the work of the component auditor.

**(ii) Restrictions on access to information or people**

The revised standard clarifies the **types of restrictions** that may exist in a group audit and **ways to overcome such restrictions**<sup>14</sup>.

Under Section 207(6) of the Companies Act 1967, the group auditor of a Singapore incorporated parent company has a right of access to records and information of subsidiary corporations for the purposes of a group audit. Hence, where restrictions are imposed, the group auditor is advised to **work closely with the relevant parties, including but not limited to group management, those charged with governance of the group, component auditors and component management** to remove such restrictions.

The group auditor may also refer to AGS 12<sup>15</sup> for guidance on reliance on the work performed by the component auditor in situations where the group auditor has determined it to be necessary to review the component auditor's work papers but is unable to access the component auditor's work papers **due to the occurrence of an extraordinary event**.

Reminder to group auditor during client acceptance and continuance:

During this stage, the group auditor should consider whether restrictions exist that will prevent the group auditor from obtaining sufficient appropriate audit evidence to provide a basis for forming an opinion on the group FS. If such restrictions exist and the group auditor is unable to overcome them via alternative procedures or arrangements, the group auditor should consider whether or not to accept the engagement.

For example, if the group auditor is unable to overcome the restriction on access to the component auditor (including component auditor's audit documentation) of a component, the group auditor would not be able to comply with paragraph 17 of SSA 600 (Revised)<sup>16</sup>.

**(iii) Component performance materiality**

The revised standard clarifies how the concepts of materiality and aggregation risk apply in group audit. Definitions of aggregation risk<sup>17</sup> and component performance materiality<sup>18</sup> have been added.

See Section 5 for guidance on determining materiality.

<sup>14</sup> See SSA 600 (Revised), para 20–21 and A38–46, 57(c).

<sup>15</sup> AGS 12, *Group Audits – Inaccessibility of Component Auditors' Work Papers and Other Considerations*. It should be noted that an extraordinary event per AGS 12 is limited to situations that are beyond control of the group auditor which restricts travel for a period/duration such that it will impact the finalisation of the auditor's report. This is different from other forms of restrictions that may result in a limitation of scope.

<sup>16</sup> Before accepting or continuing the group audit engagement, SSA 600 (Revised) para 17 requires the group engagement partner to determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group FS.

<sup>17</sup> SSA 600 (Revised), para 14(a) defines aggregation risk as the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole **[New]**.

<sup>18</sup> SSA 600 (Revised), para 14(e) defines component performance materiality as 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. **[New]**

**(iv) Documentation**

The revised standard enhances documentation requirements and emphasises the linkage to SSA 230<sup>19</sup>.

See Section 7 for guidance on documentation.

**(v) Fostering an appropriately independent and challenging skeptical mindset of the auditor**

The revised standard emphasises the importance of exercising professional skepticism<sup>20</sup>, including as part of the group auditor’s direction, supervision and review of the work of component auditors and evaluation of whether sufficient appropriate audit evidence has been obtained (including from the work performed by component auditors) on which to base the group audit opinion.

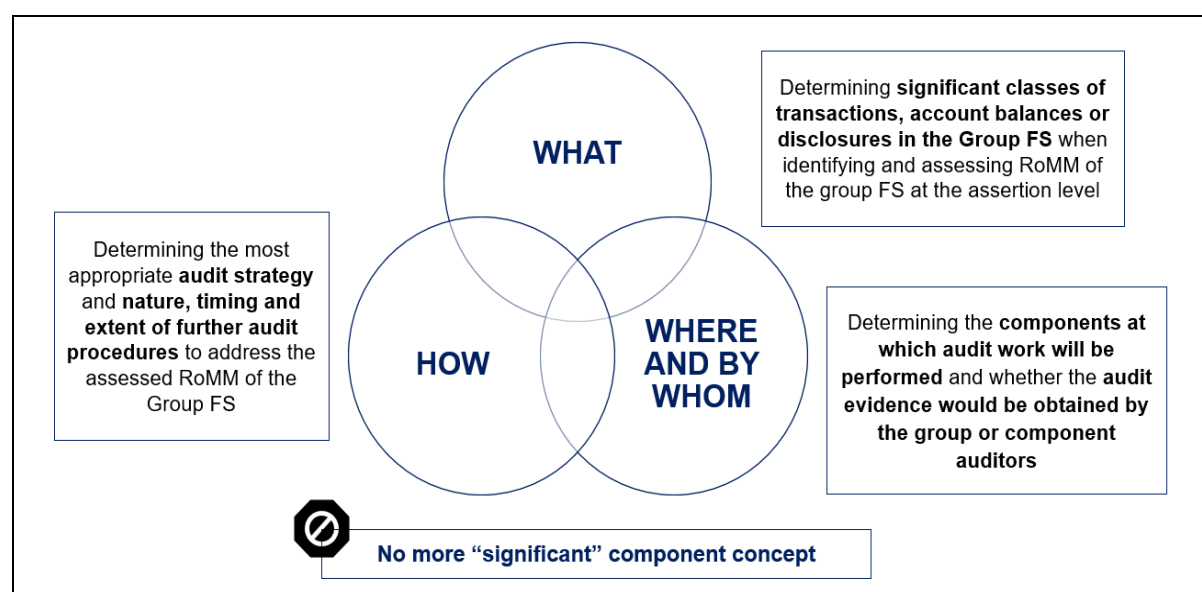
In view of the revisions, it is essential for the group auditor to evaluate their ability to perform the group audit engagement in accordance with the revised standard during the client acceptance and continuance stage.

## 4. New Risk-Based Approach

### 4.1 Overview

The new risk-based approach requires the group auditor to **focus on how the assessed RoMM of the group FS are addressed**, beyond the current practice of “auditing” the financial information of significant components. This will necessitate a reconsideration of how scoping is performed by the group auditor, including identifying components where further audit procedures will be performed and the nature, extent and timing of those procedures.

The risk-based approach emphasises the need to think about what, how, where and by whom, work is to be performed, as illustrated below:



<sup>19</sup> SSA 230, *Audit Documentation*

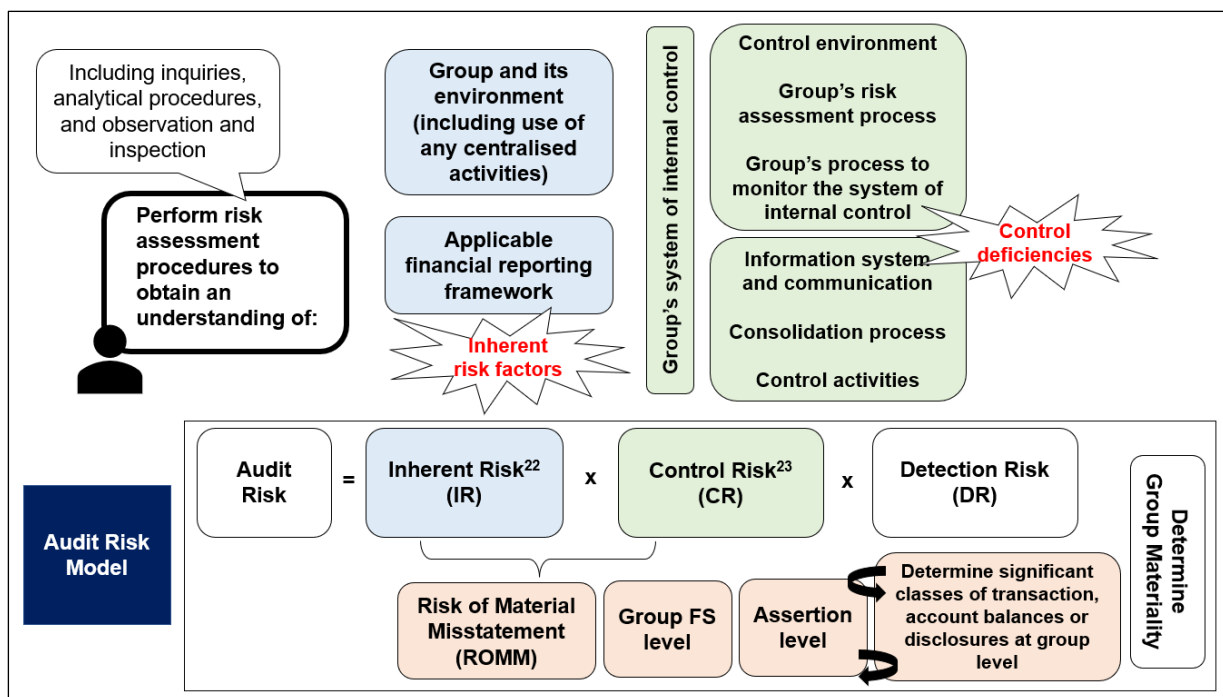
<sup>20</sup> See SSA 600 (Revised) para 9, 29 and 51.

## 4.2 Risk assessment process

### What has changed?

The revised standard emphasises that the group auditor takes responsibility for the risk assessment process. Instead of solely depending on the component auditor to surface issues during the execution phase of the audit, the group auditor is required to 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 RoMM of the group FS.

The group auditor applies the audit risk model to the group audit, as illustrated below:<sup>21</sup>



### Involving component auditor(s) in risk assessment process

Although the group auditor takes responsibility for the risk assessment process at the group FS level, component auditor(s) may be involved at this stage due to their direct knowledge and experience with the component(s). Factors to consider include whether the engagement is a first-year group audit and whether there are changes in operations, significant transactions or complex jurisdictional attributes at the component(s).

## 4.3 Identifying components and determining scope of work

### What has changed?

As mentioned above, the “significant component” concept has been removed. Instead, the group auditor’s starting point becomes the significant classes of transactions, account balances or disclosures in the group FS.

<sup>21</sup> See SSA 600 (Revised) para 30 and 33.

<sup>22</sup> See SSA 600 (Revised) Appendix 3 for examples of events or conditions that may give rise to RoMM of the group FS and SSA 315 (Revised 2021) Appendix 2 on inherent risk factors, to aid the group auditor in assessing inherent risk.

<sup>23</sup> See SSA 600 (Revised) Appendix 2 on understanding the group’s system of internal control, to aid the group auditor in assessing control risk.



After performing the risk assessment, the group auditor determines the components at which audit work will be performed and may consider matters such as:

- **Risk:** events or conditions present at an entity / business unit that may give rise to RoMM at the assertion level of the group FS<sup>24</sup>
- **Size:** financial significance of assets, liabilities and transactions at an entity / business unit relative to the group balances.

The group auditor also takes responsibility for the nature, timing and extent of further audit procedures to be performed at the components. The nature, timing and extent of further audit procedures increases as the RoMM present at the component increases.

Thereafter, the group auditor assesses whether **sufficient appropriate audit evidence is expected to be obtained** for all significant classes of transactions, account balances and disclosures in the group FS from the work performed on the components.

### **Practical considerations**

Other than considering the group's legal structure, identification of components can also be driven by how the group's information is organised or how management has determined operating segments<sup>25</sup>.

In determining the nature, timing and extent of further audit procedures to be performed, the group auditor can consider the characteristics of how the group's financial information and controls are organised. Further audit procedures may be designed and performed centrally. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally at a shared service center, the shared service center may be identified as a component, and the work over the group revenue balance could be performed centrally by the group or a component auditor<sup>26</sup>.

It is important to note that the processes under Section 4.2 and 4.3 are iterative in nature and the group auditor should consider the impact of any new information that comes to their attention and assess the impact on these processes.

At this stage, the group auditor also determines the **engagement resources** needed to perform the work (i.e. by the group auditor or component auditors (including shared service center auditor)) and assess whether the component auditors have the appropriate competence and capabilities to perform the assigned audit procedures.

Refer to **Illustrative Example 1(a)** under the Appendix for an example of applying the new risk-based approach in determining the scope of the group audit.

## **5. Materiality**

### **5.1 Addressing aggregation risk through component performance materiality**

✦ What has changed?

While the concept of aggregation risk has not changed, definitions of aggregation risk and component performance materiality have been added.

<sup>24</sup> See SSA 600 (Revised) para A51 for examples of such events or conditions.

<sup>25</sup> See SSA 600 (Revised) para A8 and A9

<sup>26</sup> See SSA 600 (Revised) para A124–A139 for further considerations.

SSA 600 (Revised) clarifies how aggregation risk affects the setting of component performance materiality. Aggregation risk is particularly important in a group audit because audit procedures are typically 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.

Component performance materiality is set by the group auditor to **reduce aggregation risk to an appropriately low level**. To address aggregation risk, **component performance materiality must be set lower than group performance materiality**<sup>27</sup>. SSA 600 (Revised) does not specify the amount of haircut to be applied to group performance materiality in determining component performance materiality. Factors to consider in setting component performance materiality include<sup>28</sup>:

- **Extent of disaggregation of the financial information across components** (e.g. as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate).
- **Expectations about the nature, frequency, and magnitude of misstatements** in the component financial information, for example:
  - Whether there are risks that are unique to the financial information of the component (e.g. industry-specific accounting matters, unusual or complex transactions).
  - Nature and extent of misstatements identified at the component in prior audits.

## 5.2 “Clearly Trivial” Threshold

✦ What has changed?

“Clearly trivial” threshold is the threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. SSA 600 (Revised) clarifies that such threshold should be set at an amount equal to or lower than the group’s clearly trivial threshold<sup>29</sup>.

### **Practical considerations**

#### *Considering effects of misstatements*

The group auditor should consider the effect of corrected and uncorrected misstatements in individual components on the group FS. If there are indications of a higher risk of undetected misstatements, the group auditor should evaluate if additional audit procedures are required to be performed at certain components and consider if any adjustment at group FS is needed for uncorrected misstatements.

<sup>27</sup> See SSA 600 (Revised) para 35(a)

<sup>28</sup> See SSA 600 (Revised) para A118

<sup>29</sup> See SSA 600 (Revised) para 35(b) and A121

## 6. Direction and Supervision of Component Auditors and Review of Their Work

### 6.1 Nature, timing and extent of direction, supervision and review

✦ What has changed?

Incorporating the requirements introduced in SSA 220 (Revised)<sup>30</sup>, which stipulates that component auditors are now part of the engagement team, the revised standard has enhanced the direction, supervision and review requirements on group auditors in managing a group audit. This includes requirements for the group engagement partner to take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account areas that are of higher risks and those that involve significant judgment<sup>31</sup>.

The nature, timing and extent of direction, supervision and review by the group auditor is affected by factors<sup>32</sup> such as:

Factors	Considerations
Competence and capabilities of component auditors	Such knowledge may be obtained from sources such as: <ul style="list-style-type: none"> <li>• prior experience with the component auditor and review of the previous work of the component auditor.</li> <li>• discussions with colleagues in the group engagement partner's firm that have worked directly with the component auditor.</li> <li>• component auditor firm's compliance with quality management policies and procedures, as evidenced by the results of:               <ul style="list-style-type: none"> <li>○ regulatory inspection;</li> <li>○ firm's internal monitoring activities (where the group auditor and component auditor are from the same network of firms); and</li> <li>○ audit quality indicators communicated to external parties.</li> </ul> </li> </ul>
Assessed RoMM	Extent of direction, supervision and review would increase with higher assessed RoMM, such as in areas involving key management judgements and estimates of the group FS, especially those estimates subjected to high degree of estimation uncertainty <sup>33</sup> .

Examples of ways in which the group engagement partner may demonstrate taking responsibility for directing and supervising component auditors and reviewing their work include but are not limited to:

- Issuance of group auditor instructions (GAI) to component auditors.
- Communications with component auditors throughout the course of the group audit. This includes creating avenues for component auditors to raise early warning reports or communicate any key findings as and when they arise during the component audit through regular communications.

<sup>30</sup> SSA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>31</sup> See SSA 600 (Revised) para 28

<sup>32</sup> See SSA 600 (Revised) para A75 and A149

<sup>33</sup> See SSA 540 para 2 and A1-A11 for further guidance on nature of accounting estimates

- Meetings or calls with component auditors to discuss identified and assessed risks, issues, findings and conclusions (for example, planning, update and closing meetings, which could be evidenced by relevant meeting agendas and minutes).
- Reviews of the component auditor's audit documentation in person or remotely (such as through the use of technology) when permitted by law and regulation.
- Participating in the closing or other key meetings between the component auditors and component management.
- Sharing of resources / information (for example, sharing of local inspection findings with component auditor to highlight common audit pitfalls).

It is expected that the group auditor carries out a mix of such activities in an iterative manner in order to comply with the requirements of direction, supervision and review. The group auditor is also expected to carry out direction, supervision and review activities at appropriate times throughout audit, instead of only at finalisation stage of the audit.

### **Practical considerations**

#### *Directing component auditor in risk assessment*

With the introduction of the risk-based approach to group audits, the risk assessment procedures are expected to be more granular. The group auditor may find it useful to involve the component auditor early at the risk assessment stage to identify RoMM at the component level for purposes of the group audit. For components contributing to areas of significant judgements or higher assessed RoMM of the group FS, the group auditor should consider a higher level of involvement through increased communication (for example, increased touchpoints throughout the audit through calls and meetings).

#### *Reviewing component auditor's communications*

In reviewing the component auditor's communications<sup>34</sup>, below are some examples of procedures that may be carried out by the group auditor:

- The group auditor should check the financial information communicated by the component auditor per SSA 600 (Revised) paragraph 45(a) against the financial information incorporated into the group FS.
- When reviewing whether the component auditor has performed the work requested by the group auditor per paragraph 45(b), the group auditor checks whether the areas of focus covered in the group auditor's instructions are adequately addressed by the component auditor's work. These may include:
  - Areas where higher risks have been identified and involving significant management judgements / estimation uncertainty (for example, impairment of non-financial assets).
  - Work performed by auditor's and management's experts on complex areas.
  - Findings on control deficiencies from previous year's audit or internal audit reports and whether these deficiencies have been adequately addressed and resolved in the current audit.
- When reviewing the description of deficiencies in the system of internal controls per paragraph 45(g), the group auditor evaluates how these deficiencies impact the audit strategy, particularly if a controls reliance strategy is adopted.
- When reviewing the component auditor's overall findings and conclusions per paragraph 45(k), the group auditor reviews the resolution of significant auditing and financial reporting matters, including documentation of any technical consultations.

<sup>34</sup> SSA 600 (Revised) para 45 sets out the matters the component auditor's communication requirements.

After reviewing the component auditor's communications and discussing any significant matters with the component auditor, the group auditor determines if it is necessary to review additional component auditor's audit documentation<sup>35</sup>.

## **6.2 Determining if sufficient appropriate audit evidence has been obtained**

The group auditor should consider whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work of the component auditors, on which to base the group audit opinion. In evaluating this, the group auditor needs to take into account:

- Communications from the component auditor as required by SSA 600 (Revised) paragraph 45;
- Other communications from the component auditors throughout the group audit, including those required by SSA 600 (Revised) paragraph 32; and
- Group auditor's direction and supervision of the component auditors, and review of their work, including the review of additional component auditor audit documentation in accordance with SSA 600 (Revised) paragraph 47, as applicable.

When performing this evaluation, the group auditor is reminded that substantive procedures are required to be performed for each material class of transactions, account balance and disclosure, irrespective of the assessed risks of material misstatement<sup>36</sup>.

### **Practical considerations**

When evaluating whether sufficient appropriate audit evidence will be obtained to reduce audit risk to an acceptably low level, the group auditor takes into consideration the untested balances that are not covered from the scoping process and whether to scope in additional components at which audit work will be performed.

In making this assessment, the group auditor may take into consideration the existence of common controls (including direct entity level controls) that have already been tested as part of the group auditor's procedures, centralised activities carried out by group and results of risk assessment procedures.

<sup>35</sup> See SSA 600 (Revised) para 47 and A148–A149.

<sup>36</sup> SSA 330 para 18.

## 7. Documentation and Retention of Audit Evidence

### ✦ What has changed?

While the principles over documentation have not changed, incremental documentation would be expected arising from enhanced documentation requirements<sup>37</sup>, in particular, to demonstrate the scoping decisions arising from the revisions mentioned under Section 4.3 and the group auditor's direction, supervision and review of the component auditor's work arising from the revisions mentioned under Section 6.1.

In terms of documentation, the guiding principle is that documentation must 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<sup>38</sup>.

Even though audit documentation for the group audit also includes the separate documentation in the respective component auditor's files relating to the work performed by the component auditors for purposes of the group audit, the documentation in the group auditor's files would still need to meet the documentation requirements of SSA 230. The group auditor should:

- Fulfil the documentation requirements under SSA 600 (Revised) paragraph 59 in the group auditor's file, including documentation on:
  - Communications from component auditors in accordance with SSA 600 (Revised) paragraph 45.
  - Review of additional component auditor work papers in accordance with SSA 600 (Revised) paragraph 47.
- Consider the need to summarise, replicate or retain copies of certain component auditor documentation to supplement the description of a particular matter in communications from the component auditor with reference to SSA 600 (Revised) paragraph A176.

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<sup>37</sup> Documentation requirements under SSA 600 (Revised) para 59 have been enhanced to include more explicit requirements as compared with [SSA 600 para 50](#):

- SSA 600 (Revised) para 59(a), (c), (d), (e) and (h) are newly added paragraphs that contain documentation requirements that may not have been explicit under SSA 600.
- SSA 600 (Revised) para 59(b) explicitly requires documentation on the group auditor's "basis for the group auditor's determination of components", focusing on the group auditor's "thought process" in identifying components, as compared to SSA 600 para 50(a).
- SSA 600 (Revised) para 59(f) includes application material A172–A178 to guide group auditors on the direction and supervision of component auditors and the review of their work, as compared to SSA 600 para 50(b). SSA 600 (Revised) para A174 includes some examples of incremental documentation in this area.
- In relation to communications with component auditors, SSA 600 (Revised) para 59(g) explicitly requires documentation on fraud, related parties, going concern and matters relevant to the group auditor's conclusion, as compared to SSA 600 para 50(c).

<sup>38</sup> See SSA 600 (Revised) A166–A169 for further guidance. The group auditor should ensure that the audit documentation includes all items stipulated under para 59.

## Appendix

### Illustrative Example 1(a): Determining the Scope of the Group Audit Using the Risk-based Approach

#### Background

The nature of the activities performed by the entities within the group is as follows:

- Parent Co A is an investment holding company that holds 100% ownership of Subsidiaries X, Y and Z.
- Subsidiary X is a trading entity, historically focusing on selling Product A in Jurisdiction X.
- Subsidiary Y manufactures and sells Product A and B in Jurisdiction Y.
- Subsidiary Z manufactures and sells Product A in Jurisdiction Z.

#### *Other considerations*

In this example, there are no restrictions on access to people or information. If there are significant matters related to such restrictions that were considered, the group auditor is required to include the related documentation as part of the group audit documentation per SSA 600 (Revised) paragraph 59(a).

#### Group financial statements

*(For purposes of illustration, assume consolidation adjustments have been taken up within the numbers relating to individual subsidiaries below.)*

#### *Group profit and loss*

	<i>Investment holding</i>	<i>Trading</i>	<i>Manufacturing</i>	<i>Manufacturing</i>	
	<b>Parent Co A</b>	<b>Subsidiary X</b>	<b>Subsidiary Y</b>	<b>Subsidiary Z</b>	<b>Group Total</b>
<b>Continuing operations</b>					
Sale of Product A	-	3,000	230,000	175,000	408,000
Sale of Product B	-	-	50,000	-	50,000
Sale of Product C	-	8,500	-	-	8,500
<b>Total Revenue</b>	-	11,500	280,000	175,000	466,500
Cost of sales	-	(3,000)	(50,000)	(30,000)	(83,000)
<b>Gross profit</b>	-	8,500	230,000	145,000	383,500
Selling and distribution expenses	-	(1,500)	(25,000)	(7,500)	(34,000)
Administrative and other expenses	(3,000)	(2,000)	(30,000)	(12,000)	(47,000)
Finance costs	(1,000)	-	-	-	(1,000)
<b>Profit before tax</b>	(4,000)	5,000	175,000	125,500	301,500

*Group statement of financial position*

	<i>Investment holding</i>	<i>Manufacturing</i>	<i>Manufacturing</i>	<i>Manufacturing</i>	
	<b>Parent Co A</b>	<b>Subsidiary X</b>	<b>Subsidiary Y</b>	<b>Subsidiary Z</b>	<b>Group Total</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	20,000	90,000	500,000	300,000	910,000
<b>Total non-current assets</b>	<b>20,000</b>	<b>90,000</b>	<b>500,000</b>	<b>300,000</b>	<b>910,000</b>
<b>Current assets</b>					
Inventories	-	3,000	25,000	18,000	46,000
Trade receivables	-	5,000	40,000	20,000	65,000
Cash and cash equivalents	45,000	7,000	20,000	13,500	85,500
<b>Total current assets</b>	<b>45,000</b>	<b>15,000</b>	<b>85,000</b>	<b>51,500</b>	<b>196,500</b>
<b>Total assets</b>	<b>65,000</b>	<b>105,000</b>	<b>585,000</b>	<b>351,500</b>	<b>1,106,500</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	50,000	-	-	-	50,000
Other payables	1,000	100	500	200	1,800
<b>Total non-current liabilities</b>	<b>51,000</b>	<b>100</b>	<b>500</b>	<b>200</b>	<b>51,800</b>
<b>Current liabilities</b>					
Trade and other payables	-	3,500	18,500	16,500	38,500
Borrowings	10,000	-	-	-	10,000
Provisions	100	200	500	200	1,000
<b>Total current liabilities</b>	<b>10,100</b>	<b>3,700</b>	<b>19,000</b>	<b>16,700</b>	<b>49,500</b>
<b>Total liabilities</b>	<b>61,100</b>	<b>3,800</b>	<b>19,500</b>	<b>16,900</b>	<b>101,300</b>
<b>Net assets</b>	<b>3,900</b>	<b>101,200</b>	<b>565,500</b>	<b>334,600</b>	<b>1,005,200</b>
<b>EQUITY</b>					
Share capital	1,000	-	-	-	1,000
Retained earnings	2,900	101,200	565,500	334,600	1,004,200
<b>Total equity</b>	<b>3,900</b>	<b>101,200</b>	<b>565,500</b>	<b>334,600</b>	<b>1,005,200</b>



### Setting of materiality at group level

The group auditor applies profit before tax as the chosen benchmark in determining group materiality.

Description	Amount	Basis
Group PBT	301,500	
Group materiality	15,000	5% of Group PBT
Group clearly trivial threshold	700	5% of Group materiality
Group performance materiality	11,000	75% of Group materiality <sup>39</sup>

#### Other considerations

While this example does not cover the setting of component performance materiality and threshold for communicating misstatements in the component financial information to the group auditor, the group auditor is required to document the basis as required by SSA 600 (Revised) paragraph 59(c).

### Determining the scope of the group audit

#### **How was this done under SSA 600?**

*(For purposes of illustration, assume risk of material misstatements arising from qualitative factors have been considered in the identification of significant components.)*

Previously, the group auditor identified “significant components” of the group (typically by financial significance based on a selected benchmark) and performed an audit of the financial information of these components.

For example, the group auditor may have applied a 15% threshold<sup>40</sup> to profit before tax (\$45,225) in identifying significant components.

	Parent Co A	Subsidiary X	Subsidiary Y	Subsidiary Z	Group Total
Profit before tax	(4,000)	5,000	175,000	125,500	301,500

As a result, the group auditor may have:

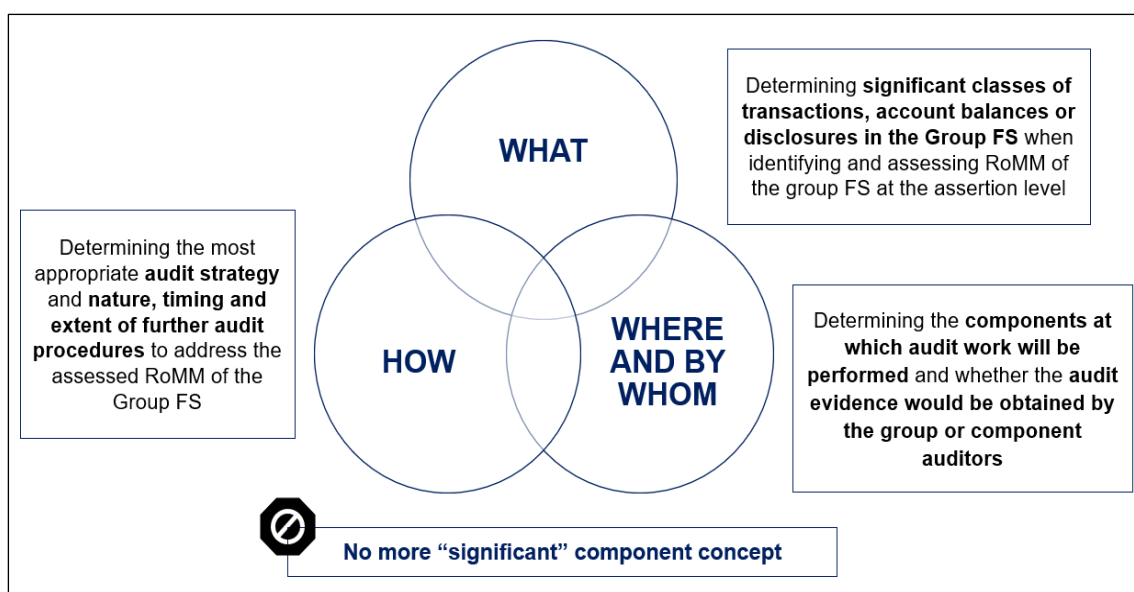
- Designated Subsidiaries Y and Z as significant components and instructed the component auditor to perform a “full scope” audit of the subsidiaries. Component auditors may be left to perform the risk assessment at component level themselves.
- Scoped Parent Co A and Subsidiary X as insignificant components, where no further audit procedures would be performed.

<sup>39</sup> No specific guidance is provided in the ISAs. Per IFAC’s guidance, percentages range from 60% (of overall or specific materiality), where there is a higher risk of material misstatement, up to 85%, where the assessed risk of material misstatement is less.

<sup>40</sup> See superseded SSA 600 para A5.

## How should this be done under SSA 600 (Revised) using the risk-based approach?

Recall the **risk-based approach** described in Section 4:



Under the revised standard, the concept of “significant component” has been removed. Instead, the group auditor’s identification and assessment of RoMM of the group FS, along with the determination of the significant classes of transactions, account balances or disclosures in the group FS, becomes the starting point.

### 1) Perform **risk assessment** procedures and determine **significant group accounts (WHAT)**

#### (a) Perform risk assessment procedures

The group auditor performs risk assessment procedures as required by SSA 600 (Revised) (see Section 4.2). As part of the risk assessment, the group auditor inquires with group management on any updates to the business and its operating environment. Of note, group management highlighted increased regulatory activities in relation to environment protection in Jurisdiction Y in which Subsidiary Y is located. Consequently, the group auditor **decides to involve Component Auditor Y in the risk assessment process**.

In the discussion with Component Auditor Y, it was highlighted that:

- Jurisdiction Y recently enacted strict environmental protection regulations encompassing land pollution control and contamination remediation. The government of Jurisdiction Y has also been scrutinising companies in pollution intensive industries, which includes manufacturing companies. As a result, the group auditor **identifies a higher inherent risk of understatement of provision for environmental and legal liabilities** of group FS attributed to Subsidiary Y arising from risk of non-compliance with laws and regulations.
- Product B is loss-making during the year, hence impairment risk indicators were identified on property, plant and equipment (PPE) used in the manufacture of Product B. As a result, the group auditor **identifies a higher inherent risk of overstatement of PPE** of group FS attributed to Subsidiary Y.

The group auditor also performs analytical procedures at the group level to identify unusual transactions, amounts and trends that indicate matters that may have audit implications. Of note, the group auditor observes that:

- Profit before tax of Subsidiary X has increased significantly from prior year. Upon further inquiry with group management, the group auditor learned that Subsidiary X ventured into a new business line (trading of Product C) with complex revenue terms. Consequently, the group auditor **identifies higher inherent risk on revenue recognition in connection with sale of Product C.**
- Provision for environmental and legal liabilities amount recorded under Subsidiary Y is low, which **may not be commensurate with the conditions observed** at the subsidiary and may be indicative of under-provision.

(b) Determine significant group accounts and RoMM

The group auditor identified the significant group accounts and RoMM as follows:

*Significant group accounts*

Group profit and loss	Group statement of financial position
<ul style="list-style-type: none"> <li>• Revenue</li> <li>• Cost of sales</li> <li>• Selling and distribution expenses</li> <li>• Administrative and other expenses</li> </ul>	<ul style="list-style-type: none"> <li>• PPE</li> <li>• Inventories</li> <li>• Trade receivables</li> <li>• Cash and cash equivalents</li> <li>• Borrowings</li> <li>• Trade and other payables</li> </ul>

*Identified RoMM*

Risk description	Financial statements accounts affected	Assertions affected	Inherent risk classification (Low/Medium/High)	Control risk classification (Low/Medium/High)	RoMM classification (Low/Medium/High)
Improper revenue recognition	Revenue (sale of products A and B)	Occurrence, Accuracy and Cutoff	Medium	Low	Medium
	Revenue (sale of product C)		High	Low	High
Understatement of provision for environmental and legal liabilities	Provisions	Valuation, Completeness	High	Medium	High
(...)					
<p><i>In this example, we will not be fully illustrating the process by which the group auditor determines RoMM (including the control risk assessment). The group accounts for which the group auditor has identified RoMM are revenue, cost of sales, PPE, inventories, trade receivables and provisions.</i></p>					

*Other considerations*

While this example does not cover aspects of internal control, the group auditor is required to document key elements of the understanding of the group's system of internal control in accordance with SSA 600 (Revised) paragraph 30(c) as required by paragraph 59(e).

**2) Determine components at which work will be performed (WHERE):**

For the purpose of planning and performing audit procedures in this group audit, the group auditor has identified components based on the group's organisational and legal structure: Parent Company A, Subsidiary X, Subsidiary Y, and Subsidiary Z are identified as four individual components.

	<b>Parent Co A</b>	<b>Subsidiary X</b>	<b>Subsidiary Y</b>	<b>Subsidiary Z</b>
By size	<ul style="list-style-type: none"> <li>• Cash and cash equivalent</li> <li>• Borrowings</li> </ul>		<ul style="list-style-type: none"> <li>• Revenue</li> <li>• Cost of sales</li> <li>• Selling and distribution expenses</li> <li>• Administrative and other expenses</li> <li>• PPE</li> <li>• Inventories</li> <li>• Trade receivables</li> <li>• Cash and cash equivalents</li> <li>• Trade and other payables</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue</li> <li>• Cost of sales</li> <li>• Selling and distribution expenses</li> <li>• Administrative and other expenses</li> <li>• PPE</li> <li>• Inventories</li> <li>• Trade receivables</li> <li>• Cash and cash equivalents</li> <li>• Trade and other payables</li> </ul>
By risk		<ul style="list-style-type: none"> <li>• Revenue (sale of product C)</li> </ul>	<ul style="list-style-type: none"> <li>• Provisions</li> </ul>	

In this case, the group auditor has identified all entities in the group as in-scope components, where audit work will need to be performed for group audit purposes due to:

- Size: financial significance to the group significant accounts<sup>41</sup>
- Risk: conditions present that give rise to RoMM of the group FS

*(Note: For Subsidiaries Y and Z, their revenue, cost of sales, PPE, inventories and trade receivables balances would also contribute to RoMM of the group FS. These accounts are not reflected under "By risk" since they have been captured under "By size" and have already been considered.)*

It is important for the group auditor to **document the thought process and considerations involved in identifying the components** as part of the group audit documentation, as required by SSA 600 (Revised) paragraph 59(b).

<sup>41</sup> In this example, the group auditor determined entity-level balances more than 15% of the group balance to be significant by size. However, it should be noted that SSA 600 (Revised) does not prescribe a brightline threshold in this respect and this is up to the professional judgment of the group auditor. After performing the initial scoping of components and determining the audit strategy at each component, the group auditor has to assess whether any further work needs to be performed on the untested balances (see Step 5).

### 3) Determine resource allocation (BY WHOM)

The group auditor may have determined the work allocation as follows:

- Group auditor performs the work for Parent Co A.
- Component Auditor X performs the work for Subsidiary X.
- Component Auditor Y performs the work for Subsidiary Y.
- Component Auditor Z performs the work for Subsidiary Z.

In determining resource allocation, documentation on the basis for the group auditor's determination of component auditors' competence and capabilities is required to be included as part of the group audit documentation per SSA 600 (Revised) paragraph 59(d).

#### **Practical considerations**

In a scenario where revenue contracts associated with Product C are handled by group management, the group auditor may decide to perform the work themselves without the involvement of Component Auditor X, since they would have access to the contracts and personnel handling the contracts who can address their queries.

Consider another scenario where all expense activities are processed by a shared service center. In this case, the group auditor could consider the shared service center as a component. Since audit procedures would be applied to the entire group expense population, the group auditor could choose to apply one component performance materiality to the shared service center for expenses.

### 4) Determine audit strategy at each component (HOW)

The group auditor may have determined the nature, timing and extent of work to be performed at each component as follows<sup>42</sup>:

<b>Parent Co A</b>	<b>Subsidiary X</b>	<b>Subsidiary Y</b>	<b>Subsidiary Z</b>
Audit of specified accounts: <ul style="list-style-type: none"> <li>• Cash and cash equivalent</li> <li>• Borrowings</li> </ul>	Specific procedures to address risk: <ul style="list-style-type: none"> <li>• Revenue (sale of product C) due to complex contract terms</li> </ul>	Full scope audit, including specific procedures to address <sup>43</sup> : <ul style="list-style-type: none"> <li>• Risk of impairment of PPE</li> <li>• Risk of under-provision due to non-compliance with environmental</li> </ul>	Full scope audit

<sup>42</sup> SSA 600 (Revised) para A131 indicates that in response to the assessed RoMM, the group auditor may determine the following scope of work to be appropriate at a component:

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

Component auditors can determine the further audit procedures to be performed, however, the group auditor is required to evaluate the appropriateness of the design and performance of those further procedures in accordance with SSA 600 (Revised) para 42. In the GAI, the RoMM of the accounts should be reflected so that the component auditors can determine the appropriate nature, timing and extent of the procedures.

<sup>43</sup> In this case, the group auditor has decided to highlight that specific procedures need to be performed for these risks as they arose from new developments during the year.

		protection regulations	
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**5) Assess if any further work needs to be performed on **untested balances****

In evaluating whether sufficient appropriate audit evidence has been obtained on the group balances, the group auditor assesses whether additional procedures need to be performed on the untested balances. Such assessment is judgmental, and the group auditor may consider both qualitative and quantitative factors such as the significance of the untested amount relative to the group balance and group performance materiality.

The group auditor considers if any further work needs to be performed on the untested PPE balances. The group auditor notes that the group has a centralised capital expenditure approval process which has been tested by the group auditor. As there was no material PPE movement during the year, the group auditor may decide not to perform further work on the PPE balances under Parent Co A and Subsidiary X<sup>44</sup>.

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<sup>44</sup> Conversely, if there are qualitative risk factors identified by the group auditor, for example lack of fixed asset controls or standardised fixed asset recognition policy etc, the group auditor may decide that additional coverage is needed. Based on the level or type of risk identified, the group auditor could consider targeted procedures to address the specific risk. The group auditor should consider the specific facts and circumstances of the group holistically.

In situations where there are numerous individually immaterial balances at the entity level, the group auditor should evaluate whether these balances, in aggregate, could become material to the group FS and determine if any additional audit procedures are necessary.

## **Illustrative Example 1(b): Demonstrating Direction, Supervision and Review**

*(This example is an extension of Illustrative Example 1(a) and focuses on how group auditor demonstrates direction, supervision and review over Component Auditor Y.)*

### **Risk assessment stage**

See Step 1(a) Perform risk assessment procedures and determine significant group accounts under Illustrative Example 1(a).

The audit strategy was communicated to the component auditors through group audit instructions (GAI). In particular, the GAI communicated to Component Auditor Y included specific instructions to assess the impact of the new environmental regulations and impairment risk indicators on PPE on the financial statements, timeline of when such risk assessment should be completed and for the component auditor to discuss the risk assessment procedures and conclusions with the group auditor.

In addition to obtaining the reporting deliverables, the group auditor decides to visit the offices of Component Y to review certain working papers. This was communicated at the planning meeting.

### **Pre-finals stage**

At the pre-finals stage of the audit, the group auditor schedules a call with the Component Auditor Y to obtain an update on the progress of the audit.

Component Auditor Y highlights that:

- Subsidiary Y has received a warning letter for potential breach of environmental protection regulations. As this is a first-time offence for Subsidiary Y, no penalty was imposed. However, certain corrective actions need to be implemented within the financial year, otherwise Subsidiary Y may risk a financial penalty.
- No impairment loss of PPE was recorded.

Arising from this update, the group auditor instructs Component Auditor Y to:

- Obtain audit evidence on the progress of implementing the corrective actions, including communications to the authorities on such progress, and assess whether any provision or disclosure of contingent liability is required. Also, consider if external expert's opinion on such progress is needed.
- Obtain and review management's determination of recoverable amount to assess impairment of PPE.

### **What are the key learning points?**

- Early involvement of the component auditor at the risk assessment stage.
- Demonstration of direction and supervision of the component auditor through use of GAI and discussion.
- Clear communication of work expected to be performed by the component auditor.
- Timely involvement at appropriate phases of the audit. As a result, issues are communicated timely and addressed, preventing any surprises at the audit finalisation stage.

**How can the group auditor evidence their direction, supervision and review of Component Auditor Y?**

Documentation of the following can provide evidence of direction, supervision and review:

- Discussions and conclusions reached on the risk assessment by Component Auditor Y.
- Detailed GAI, including audit strategy for Component Y and review process/timeline.
- Notes on the calls with Component Auditor Y, including audit issues raised and follow-up action.



### **Illustrative Example 1(c): Group Auditor's Review of Additional Component Auditor's Documentation**

*(This example is an extension of Illustrative Example 1(a) and focuses on the group auditor's review of certain additional audit documentation of Component Y over PPE impairment related to Product B. This is a simplified illustration and tailoring will be required based on engagement facts and circumstances.)*

As part of the reporting deliverables, Component Auditor Y reported that they have: *"Performed procedures on management's value-in-use (VIU) assessment and concurred with management that no impairment on PPE related to Product B was required."*

As PPE impairment related to Product B was a new audit focus area during the year, the group auditor reviewed Component Auditor Y's relevant working papers and included documentation in their group audit file to supplement Component Auditor Y's reporting deliverables and to describe the group auditor's review to address the documentation requirement in SSA 600 (Revised) paragraph 59(f):

*"Based on the review of Component Auditor Y's audit working papers, it was noted that Component Auditor Y had tested the key assumptions (revenue growth rate, discount rate and terminal value) of the VIU (using 5-year discounted cash flows plus terminal value based on the PPE's remaining useful life) prepared by management.*

*Management had applied discount rate of xx% and terminal value of zero as they do not expect the asset to generate any residual value beyond the projection period of 5 years. Sensitivity analysis was performed by Component Auditor Y on the discount rate, and it was noted that the discount rate was not sensitive and even if increased by yy%, it would not result in an impairment loss.*

*The most significant and sensitive assumption was the revenue growth rate and Component Auditor Y had performed procedures as follows:*

- 1) Management had applied revenue growth rates of x% in FY 20x5, y% in FY 20x6 and 20x7, and z% for the remaining 2 years.*
- 2) Component Auditor Y had assessed the revenue growth rates to be reasonable as Subsidiary Y had signed a new 5-year contract with a new customer in 4Q 20x4, which contributed to the revenue growth.*
- 3) Detailed work performed included:*
  - Corroborated management's representations by reviewing the terms of the new contract and expected sales volume of Product B in the next 5 years.*
  - Derived expected revenue from the new customer based on gross committed selling prices for Product B in the new contract.*

*In response to the group auditor's queries during the review, Component Auditor Y also provided the following additional evidence and/or information:*

- a) The new contract would have increased utilisation of Subsidiary Y's production capacity for Product B from the current level of aa% to bb%, which was corroborated with the Production Head and supporting records; and*
- b) The gross profit margin of Product B would become positive due to the higher production, as reflected in the VIU assessment.*
- c) Based on review of the latest available interim financial information of Subsidiary Y post year-end, there was an increase in revenue from Product B due to the new customer and no contradictory evidence was noted regarding the reasonableness of the revenue growth rate.*

Through the review, the group auditor concluded that the work of Component Auditor Y was adequate for the group auditor's purpose i.e. sufficient appropriate audit evidence has been

obtained from the audit procedures performed on which to base the group audit opinion in accordance with paragraph 48 and 51 of SSA 600 (Revised) and documented their evaluation and conclusion as required by paragraph 59(h) of SSA 600 (Revised).

#### **What are the key learning points?**

- Group auditor reviewed and evaluated that the communication in the reporting deliverables provided by Component Auditor Y was not adequate for the group auditor's purpose in relation to the new audit focus area of PPE impairment as required by SSA 600 (Revised) paragraph 46(b).
- Therefore, the group auditor determined that it is necessary to review additional audit documentation of Component Auditor Y as required by SSA 600 (Revised) paragraph 47.
- Group auditor included documentation in the group auditor's file to describe the Group auditor's review and supplemented Component Auditor Y's reporting deliverables as required by SSA 600 (Revised) paragraph 59(f)), including:
  - Rationale for Group auditor's determination of Component Auditor Y's audit documentation selected for review.
  - Summary of the work performed by Component Auditor Y on significant assumptions (i.e. revenue growth rate).
  - Matters discussed with Component Auditor Y during the review.

#### **Practical considerations**

The group auditor also considers whether replicating (or retaining copies of) certain component auditor documentation (e.g. component management's detailed VIU computation provided to component auditor) will further supplement the description of the group auditor's review and communications from Component Auditor Y (see SSA 600 (Revised) paragraph A176).

## For reference: ISCA Auditing and Assurance Pronouncements and Publications

The table below summarises the formal categorisation, degrees of authority and due process for issuance of ISCA’s auditing and assurance standards and guidances. This provides credence to ISCA’s technical content, promulgates ISCA’s views on the application of auditing and assurance standards as well as promotes best practices and consistency in auditing and assurance.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. a) Singapore Standard on Auditing ( <b>SSA</b> ) b) Singapore Standard on Assurance Engagements ( <b>SSAE</b> ) c) Singapore Standard on Review Engagements ( <b>SSRE</b> ) d) Singapore Standard on Related Services ( <b>SSRS</b> ) e) Singapore Standard on Quality Control ( <b>SSQC</b> ) f) Statement of Auditing Practice ( <b>SAP</b> )	Authoritative pronouncements	Required to comply	Public consultation required	ACRA’s Public Accountants Oversight Committee
2. a) Audit Guidance Statement ( <b>AGS</b> ) b) Singapore Auditing Practice Note ( <b>SAPN</b> )	Provide interpretive and practical guidance to auditors  Non-authoritative	Expected to apply or explain departures	Public consultation required	ISCA Council
3. Audit Bulletin ( <b>AB</b> )	Informative / educational publications to highlight pertinent topical issues to auditors  Non-authoritative	For information and educational purposes	Public consultation not required	ISCA AASC

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