



Institute of  
Certified Public Accountants  
of Singapore

# ICPAS TECHNICAL

## Audits of Group Financial Statements (Including the Work of Component Auditors)

### Key Changes and Requirements for a Group Audit

Clarified Singapore Standard on Auditing (SSA) 600



## Introduction

The clarified Singapore Standard on Auditing (SSA) 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) was updated by the Institute of Certified Public Accountants of Singapore (ICPAS) in January 2010 following a clarity consistency review of the various SSAs. Clarified SSA 600 replaces the former SSA 600 Using the Work of Another Auditor (1996) and is closely modeled after the clarified International Standard on Auditing (ISA) 600 issued by the International Auditing and Assurance Standards Board (IAASB), except for the references to the applicable reporting framework. Clarified SSA 600 sets out the guidelines for group audits, particularly those that involve component auditors and is effective for group financial statement periods beginning on or after 15 December 2009.

We have highlighted the salient changes of the clarified SSA 600 vis-à-vis the former SSA 600. For ease of visual reference, we present the important considerations in a group audit in Table 1.

## The Group

Businesses range from a simple sole proprietor to a highly sophisticated corporation. With the onset of globalization today, businesses proliferate beyond borders and operations. With the growth of businesses, auditors face the challenge of providing their opinions on the group financial statements that in all material aspects, the financial statements are true and fair. Due to the tremendous challenges of cross-border audits, the group auditor involves the expertise of component auditors to best achieve completion of an audit. The key questions addressed in clarified SSA 600 are “To what extent can I rely on the work performed by the component auditors and what do I need to do in order to place such reliance?”

## Responsibility

The clarified SSA 600 provides that the group auditor is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements and for the group audit opinion. A reference to the component auditor in the group audit opinion is not permitted unless required by law or regulation to include such reference in clarified SSA 600 paragraph 11. The practical implications are therefore:

- The need to pay greater attention to where risks lie within the group;
- Component auditors may expect the group auditor to be more involved in the audit of the component.

This is a significant change as it places full responsibility of the group financial statements on the group engagement partner.

## Accessibility of Relevant Information

Often in group audits, the consolidation of information will come from various components. Access to relevant component information may be restricted by the group’s management. The clarified SSA 600 includes new guidance on these situations. When the restrictions hinder the group audit such that the group engagement team is unable to obtain sufficient appropriate audit evidence from the component, which is material and pervasive to the group financial statements, the group engagement partner shall either decline if it is a new engagement, or withdraw from a continuing engagement. If this is not possible due to applicable law and regulation, a disclaimer on the group financial statements is warranted.

## A More Prescriptive Standard?

At one glance, it is apparent that the clarified SSA 600 is much lengthier than its predecessor. It prescribes a compendium of considerations and actions required in setting the overall audit strategy which includes, identifying and understanding significant components, determining materiality, formulating appropriate response to audit risks, planning and reviewing the consolidation process and performing various communications with component auditors, group’s management and those charged with governance. Currently, practitioners in the industry recognize that there are varying ways on how group audits involve the work of a component auditor and place assurance over the component auditor’s work. The application of a prescriptive clarified SSA 600 improves the consistency of a group audit and will enhance the quality of group audits.

Table 1 highlights the important requirements of a group audit based on the clarified SSA 600.

Requirements	Details prescribed by clarified SSA 600
Acceptance and Continuation Para 12-13	<p>The group engagement team shall obtain understanding of the following to assess if sufficient appropriate audit evidence can be obtained prior to acceptance and continuation:</p> <ul style="list-style-type: none"> <li>• The group, its components and their environments</li> <li>• Group-wide controls</li> <li>• Consolidation process and instructions issued by group management to components</li> <li>• Risks of material misstatement of group financial statements due to fraud or error</li> </ul> <p>If insufficient information is available due to restrictions imposed by group's management and will possibly result in a disclaimer of opinion, the group engagement partner should decline or withdraw from the engagement, or disclaim an opinion on the group financial statements.</p>
Materiality Para 21-23	<p>Levels of materiality to be set by group engagement team:</p> <ul style="list-style-type: none"> <li>• Overall group audit materiality</li> <li>• Component materiality (to be set lower than group materiality)</li> <li>• Materiality for specific classes of transactions, account balances or disclosures</li> <li>• Threshold which misstatements cannot be clearly trivial to group financial statements</li> </ul>
Type of Work to be Done Para 24-30	<p>For significant components, the component auditor is expected to:</p> <ul style="list-style-type: none"> <li>• Perform an audit of the financial information using component materiality</li> <li>• Perform an audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risk of material misstatement to the group</li> <li>• Perform specified audit procedures relating to the likely significant risks</li> </ul> <p>For components that are not significant, the group engagement team shall perform analytical procedures at group level.</p>
Consolidation Para 32-37	<p>The considerations for consolidation include:</p> <ul style="list-style-type: none"> <li>• Understanding of group-wide controls and consolidation process (includes group management instructions to components)</li> <li>• Designing and performing audit procedures on consolidation process</li> <li>• Evaluating appropriateness, completeness and accuracy of consolidated financial statements and reclassifications</li> <li>• Evaluating if any fraud risk factors or indicators of management bias exist</li> <li>• Evaluating adjustments required when component and group have different accounting policies and financial reporting period-ends</li> <li>• Ensuring consistency of financial information in component auditor's communication and those incorporated in group financial statements</li> </ul>
Communication with Component Auditor Para 40-41	<p>The group engagement team shall communicate the following with the component auditor:</p> <ul style="list-style-type: none"> <li>• Work to be performed</li> <li>• Context in which the work will be used</li> <li>• Form and content of communication</li> <li>• Ethical requirements, particularly independence</li> <li>• Materiality levels in "materiality" section above, except for overall group materiality</li> <li>• Significant risks of material misstatement related to component</li> <li>• List of related parties prepared by group's management</li> </ul> <p>The group engagement team shall request the component auditor to communicate the following:</p> <ul style="list-style-type: none"> <li>• Compliance with ethical requirements, including independence and professional competence</li> <li>• Compliance with group requirements</li> <li>• Identification of financial information on which component auditor is reporting</li> <li>• Instances of non-compliance with laws and regulations</li> <li>• List of uncorrected financial information of the component above threshold which misstatements cannot be clearly trivial to group financial statements</li> <li>• Indicators of management bias</li> <li>• Significant deficiencies in internal control</li> <li>• Other significant matters communicated or expected to be communicated to those charged with governance of the component</li> <li>• Overall findings, conclusions or opinion</li> </ul>
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained Para 42-45	<p>The group engagement team shall evaluate the component auditor's communication by:</p> <ul style="list-style-type: none"> <li>• Discussing significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and</li> <li>• Determining whether it is necessary to review other relevant parts of the component auditor's audit documentation.</li> </ul> <p>The group engagement team should obtain sufficient appropriate audit evidence on which to base the audit opinion. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional procedures are to be performed, and whether they are to be performed by the component auditor or by the group engagement team.</p> <p>The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements and any instances where there has been an inability to obtain sufficient appropriate audit evidence.</p>
Communication with Those Charged with Governance Para 46-49	<p>Group engagement team shall communicate to those charged with governance on the following:</p> <ul style="list-style-type: none"> <li>• Overview of type of work to be performed</li> <li>• Nature of group engagement team's involvement in the work to be performed by the component auditors</li> <li>• Limitations on the group audit</li> <li>• Detected or suspected fraud involving group management, employees who have significant roles in group-wide controls or others where fraud resulted in material misstatement of the group financial statements.</li> </ul>
Documentation Para 50	<p>When a group engagement team uses the work of component auditor, the following documentation should be in place:</p> <ul style="list-style-type: none"> <li>• Analysis of components, indicating those that are significant and type of work performed on the financial information of the components</li> <li>• Nature, timing and extent of group engagement team's involvement in the work performed by the component auditors</li> <li>• Written communication between group and component auditor about group team's requirements</li> </ul>

# How Audit Firms Should Respond

There are certainly more requirements on the group auditor and the next question would then be "What do I need to do now to prepare myself for a group audit?" Internally, the group auditor need to revise their audit plans to take into account the extended procedures and train their staff to be adequately prepared for the new requirements. Externally, they would need to communicate the changes to the group's management, audit committee and component auditor.

## A Final Word

The clarified SSA 600 seeks to provide enhanced guidance to address varying degrees of group audit practice around the world. In the wake of accounting scandals and recent financial crisis, group auditors find themselves getting into trouble particularly in developing countries, where access to information is restricted and hence reliance on the other auditor's work results in failure to detect material errors or pending litigation. The requirements in the clarified SSA 600 will be daunting for the group auditor as with any new challenges in life, but the process becomes easier as we persevere on the road of consistency and reap the rewards of a better quality group financial statements.

**Members can download a copy of clarified SSA 600 from ICPAS website at [www.icpas.org.sg](http://www.icpas.org.sg) under the Members' Handbook Section.**

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The **Certified Public Accountant Singapore (CPA Singapore)** is a professional in accountancy, finance and business who has the relevant work experience in addition to a recognised accountancy qualification. They are highly versatile and well sought after as business leaders beyond the accountancy, banking and finance industries.

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