

Group Audits - Inaccessibility of Component Auditors' Work Papers and Other Considerations

AGS 12 was approved by the Council of the Institute of Singapore Chartered Accountants in February 2020.

The principles and guidance contained in this Statement are consistent with Singapore Standards on Auditing (SSAs) and should be read in conjunction with the SSAs.

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Introduction

1. With the occurrence of an extraordinary event¹, such as an outbreak of a contagious virus or a natural disaster which restricts travel, group engagement teams with significant components² in overseas locations may face challenges in gaining physical access to review the component auditors' work papers. This poses a practical challenge to group engagement teams in completing their audits.
2. In a group audit, SSA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* sets out clear requirements for obtaining sufficient audit evidence and documentation of work done by component auditors so as to form a basis for the group audit opinion.

While travelling to review a component auditor's work papers is an option in fulfilling the requirements of SSA 600, it is not always required for the group engagement team as there may be alternative modes of review. The determination of the mode of review is dependent on the judgement of the group engagement team and the nature and extent of their communications with the component auditor.

Scope

3. This AGS provides guidance on reliance on the work performed by the component auditor in situations where the group engagement team 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 extraordinary event.
4. If the group engagement team is unable to complete the audit arising from the challenges pursuant to the extraordinary event, the group engagement team should consider if this limitation on the scope of the audit will result in a modification of the audit opinion in accordance with SSA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

Relevant requirements of SSA 600

5. Below are the relevant extracts of SSA 600 that are pertinent to the evaluation of the adequacy of the work performed by the component auditor:

30. If a component auditor performs an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by the group engagement team's understanding of the component auditor, but at a minimum shall include:

- (a) Discussing with the component auditor or component management those of the component's business activities that are significant to the group;*
- (b) Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and*
- (c) Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take*

¹ The extraordinary event is limited to situations that are beyond control of the group engagement team which restricts travel for a period/duration such that it will impact the finalisation of the auditor's report.

² As defined under SSA 600 paragraph 9(m).

the form of a memorandum that reflects the component auditor's conclusion with regard to the identified significant risks.

42. The group engagement team shall evaluate the component auditor's communication (see paragraph 41). The group engagement team shall:

- (a) Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and*
- (b) Determine whether it is necessary to review other relevant parts of the component auditor's audit documentation. (Ref: Para. A61)*

A61. What parts of the audit documentation of the component auditor will be relevant to the group audit may vary depending on the circumstances. Often the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review may be affected by the fact that the component auditor's audit documentation has been subjected to the component auditor's firm's review procedures.

44. The auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion. (Ref: Para. A62)

Issues addressed by this AGS

6. In situations where the group engagement team had planned to visit the component auditor to perform a review of the work papers but are unable to do so, or there are no other practicable means to obtain those work papers, alternative methods to perform the review need to be undertaken to obtain sufficient appropriate audit evidence to meet the requirements of SSA 600.44 (see paragraphs 9 – 12).
7. The typical areas that may be necessary for the group engagement team to review in the component auditor's audit documentation may include, amongst others:
 - (a) Risk assessment, particularly on identification of significant risks of material misstatement and areas involving key management judgement and estimates of the group financial statements
 - (b) Audit strategy, procedures performed, and audit evidence obtained, particularly to address significant risks of material misstatement and areas involving key management judgement and estimates of the group financial statements
8. In assessing the extent of such review required by SSA 600.42(b), the group engagement team may consider the following factors, amongst others:
 - (a) Knowledge of the professional competence of the component auditor. This knowledge may be enhanced from the review of previous audit work by the component auditor.
 - (b) Whether acceptable quality control policies and procedures are complied with in the conduct of the component auditor's practice.
 - (c) Whether the work performed by the component has been reviewed by an engagement quality control reviewer of the component auditor's practice.
 - (d) Robustness of group-wide and entity-level controls of the component, including level of supervision by the corporate office of the component.

The group engagement team needs to exercise professional judgement when performing such assessments to determine whether sufficient appropriate evidence have been obtained to form a basis for the group audit opinion.

Alternative methods of performing the review of work papers

9. In addressing the requirements of SSA 600.44, apart from visiting the component auditor's office to review work papers or reviewing the work papers remotely through the use of technology, such reviews can also be performed by way of requesting the component auditor to provide a detailed reporting memorandum, corroborated through group engagement team's discussions with the component auditor, especially on the significant risks of material misstatement and areas of significant estimates and judgements. Any alternative methods of reviewing audit work papers need to comply with the laws and regulations of the component auditor's jurisdiction.
10. The audit documentation needs to include sufficient details for the group engagement team to conclude on the adequacy of the work performed by the component auditor. Sufficient details typically include the following:
 - Nature, timing and extent of procedures performed, which may include details such as descriptions of source documents, basis of sampling, sample size and personnel inquired;
 - How the component team assessed that significant estimates and judgements by component management are reasonable;
 - Description of results of procedures performed; and
 - Conclusions reached

Such details would allow an experienced reviewer having no previous connection with the audit to assess how the group engagement team was able to conclude that the work performed by the component team was sufficient to base the group audit opinion.

The group engagement team should refer to paragraphs 8 – 11 of SSA 230, *Audit Documentation* for requirements on the extent of documentation and ACRA's Audit Practice Bulletin No.1 of 2015 for illustrative examples.

11. Discussions with the component auditor and the salient areas of the discussions should be duly documented via minutes.

The group engagement team could also participate in the component auditor's key meetings (such as planning meetings and finalisation meetings) with the component's management team via video / conference call, so as to understand the key accounting / audit issues discussed, and how the issues were resolved. This can also include discussions with component auditor's EQCR, where applicable, to understand critical issues raised by the EQCR and whether they were satisfactorily addressed, and also corroborate certain matters documented in the detailed memorandum with the EQCR.

12. The group engagement team needs to assess if above alternative methods of performing the review provide sufficient appropriate audit evidence on the adequacy of work performed by the component auditor.

Other audit considerations

13. In the situation where the component auditor is unable to perform the planned audit procedures for a significant component as a result of the extraordinary event, the component auditor and the group engagement team consider alternative procedures to be performed. The group engagement team assesses whether the alternative procedures are appropriate and whether sufficient and appropriate audit evidence is obtained from the alternative procedures performed. Where the audit evidence obtained by the component auditor is not sufficient, the group

engagement team assesses if there are further audit procedures which can be performed by the group engagement team themselves.

The group engagement team should refer to paragraph 6 of SSA 500 *Audit Evidence* for requirements on obtaining sufficient appropriate audit evidence.

14. Auditors should understand and evaluate how management has considered the impact of extraordinary events in the preparation of financial statements, such as: accounting estimates, discounted cash flow projections or value in use computation used in impairment assessments, going concern assessment, provisions, amongst others.

It should be noted that the effects of the extraordinary events may have a differing impact on entities, depending on their specific circumstances.

15. In fulfilling the requirements of SSA 560 *Subsequent Events*, auditors shall evaluate management's assessment on whether the extraordinary event is an adjusting or non-adjusting event. The adjusting events are those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*). In performing the evaluation, auditors should consider the timing during which the trigger events occur. Such trigger events may include travel advisories, suspension of operations, declarations of emergency or other relevant events. It should be recognized that such trigger events may differ between entities depending on their circumstances.

Entities affected by the extraordinary event (occurring after the end of the reporting period, but before the date of their financial statements) may need to disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. Auditors should evaluate whether subsequent event disclosures are necessary as these could influence the economic decisions of users of the financial statements.