

Chamber of Tax Consultants

SA 600 (Revised)

**Special Considerations -Audit of group financial statements
(including the work of Component Auditors)**

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SA 600 (Revised)

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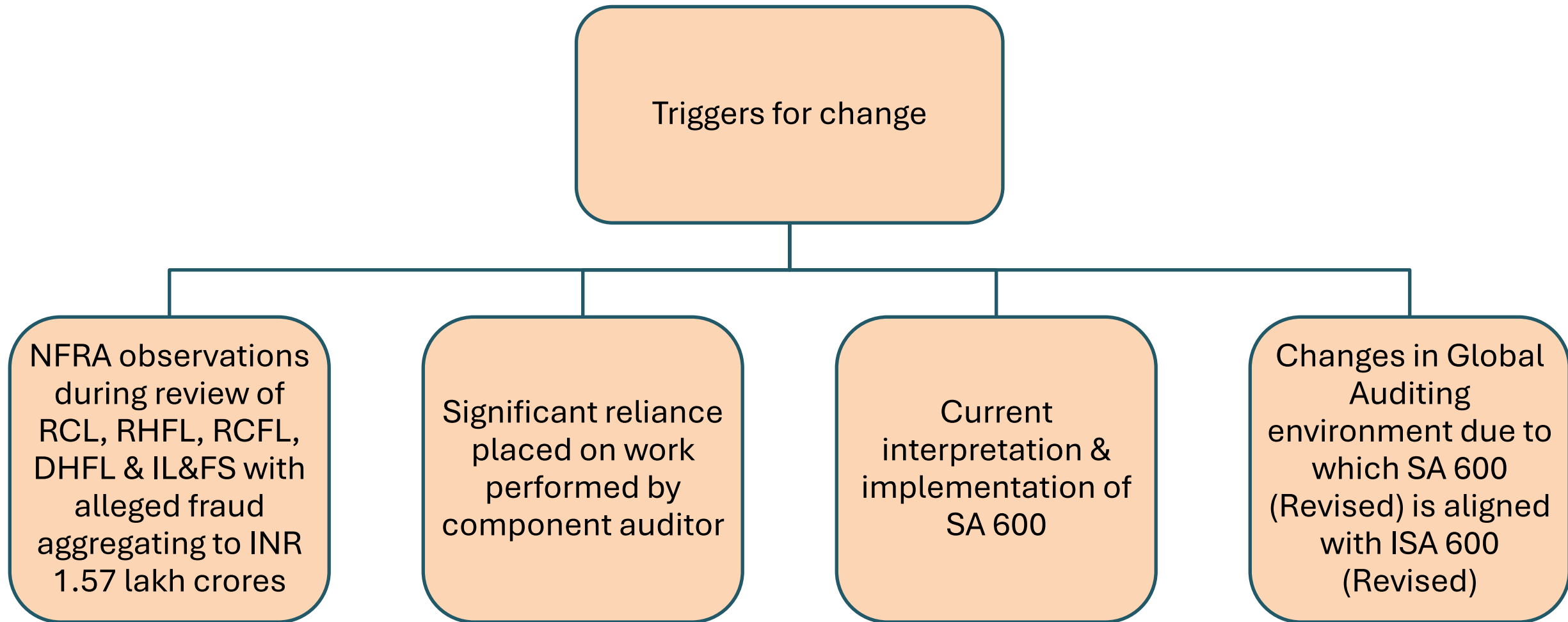


Background



*A **Chartered Accountant** is not working just to add and subtract these numbers between 0 to 9, but he should feel that he is playing an important role in building the economic infrastructure of this nation.*

Catalyst for change



Responsibilities as per existing SA 600 issued by ICAI

Planning the audit include use of work performed by other auditor

Determine materiality at CFS level

Communicate with Component auditor

Obtain SAAE regarding work performed by Component Auditors

Consider their findings while forming an opinion

No need to evaluate competency of component auditor who is member of ICAI

NFRA observations

Inadequate discussion / co-ordination with component auditors

Auditor failed to assess discrepancies in the number of components included in CFS and regulatory filings done by the Group

Non-assessment of unaudited financial statements of components included by Management in CFS

Diversion of funds to promoter entity at component level. However, it was not identified at group level

Principal Auditor stated that 'they had no obligation to evaluate the fraud risk in any of the group companies'

Principal Auditor stated that 'they had no access to the books of subsidiaries audited by the other auditors'

NFRA observations (Contd...)

Non evaluation of internal controls by Principal auditor and branch auditor leading to non evaluation at group level

Competence of overseas auditors not verified

Resignation by 2 component auditors who had reported suspected fraudulent diversion of Rs 0.29 lakh crores through group companies

The Principal auditor failed to properly evaluate non consolidation of a subsidiary which led to material misstatement

Principal and Other Auditors failed to identify the false and erroneous understatement of loans to entities controlled by promoters due to cheques received but uncashed

Interpretation of existing SA 600 and implementation gaps

NFRA observations in interpretation and implementation gaps

Selective reading of requirements, treating them as independent, unconnected with the overall responsibilities

SA 200 emphasizes obtaining reasonable assurance and sufficient appropriate audit evidence, applicable to both Principal and Component Auditors.

Auditors to apply requirements of all SA's wholistically and not conveniently

SA 600 requires Principal Auditors to assess Component Auditors' work, not blindly rely [no mechanical adoption / reliance on work of component auditor]

Relationship Between SA 600 and Other Relevant SAs

SA 220 (Revised)

- Focuses on quality control for both principal and component auditors

SA 230

- Addresses audit documentation, ensuring decisions regarding reliance on component auditors' work are properly documented

SA 300

- Provides guidance on audit planning, ensuring that group audits involve proper coordination and risk assessment

SA 315 (Revised)

- Guides the identification and assessment of risks at both the group and component levels

SA 330

- Explains the auditor's response to risks, ensuring effective procedures are implemented for identified risks

Obligations under Companies Act, 2013

Rights and Obligations of Holding Company's Auditor under Companies Act, 2013

Have access to the records of all subsidiaries and associates

Brings lot of responsibility on the shoulders of group auditor`

Still Principal auditors are unable to exercise their right to access information of components

Observations
by NFRA

Sequence of events

On Sept 17, 2024,
NFRA issues draft SA
600 (Revised) for
public comments



On October 3, 2024,
NFRA issued circular
elaborating
responsibilities of
Principal Auditor and
Other auditor



On Nov 12, 2024 NFRA
recommends that SA
600 (Revised) be
applicable from 1st
April 2026



SA 600 (Revised)

Key Contents

- Scope & Applicability
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- Appendix 1 Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion
- Appendix 2 Understanding the Group's System of Internal Control
- Appendix 3 Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

Key Requirements

- Leadership responsibilities for managing & achieving Quality on a group Audit
- Acceptance and Continuance
- Overall Group Audit Strategy and Group Audit Plan
- Understanding the group & its environment, AFRR & its internal control system
- Identifying & assessing the RoMM
- Materiality
- Responding to the assessed Risk
- Evaluating the Component auditor's communication and adequacy of their work
- Subsequent events
- Evaluation SAAE obtained
- Auditor's Report
- Communication with management and TCWG of the group
- Documentation

Objective



Scope & Applicability

- **SA 600 (Revised)** provides guidance on conducting audits of **group financial statements**, including situations where **component auditors** are involved.
- It deals with **special considerations** that arise in the audit of group financials, focusing on ensuring consistent quality and reliability in the final audit opinion.
- The standard is applicable to **PIEs** as per Rule 3 of the **NFRA Rules 2018**, excluding Public Sector Undertakings (PSUs), Public Sector Banks (PSBs), Public Sector Insurance Companies (PSIs), and their branches.
- NFRA has recommended that this revised standard be made applicable from 1st April, 2026, subject to approval of the Central Government.

Group engagement partner's Responsibilities

- The Group Engagement Partner is ultimately responsible for the group audit and group audit report.
- Even if tasks are delegated to Component Auditors, the Group Engagement Partner remains accountable for audit quality.
- No Reference to Component Auditor in the Audit Report unless required by law or regulation.

Key differences SA 600 (Revised) Vs SA 600

Key Differences	SA 600 (Revised)	SA 600
Division of Responsibility	Responsible for forming his opinion and reference to component auditor's report allowed only if required by law	Responsible for forming his opinion but can rely on work performed by another auditor and reference of reliance is given in audit report
Definition of Component auditors	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	Other auditor means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor

Key differences SA 600 (Revised) Vs SA 600

Key Differences	SA 600 (Revised)	SA 600
Significant / Non-Significant Component	Responsibility of the group auditor	Not mentioned specifically, however, it could be interpreted that it was group auditor's responsibility based on combined reading of auditing standards
Professional competence and capabilities of other auditors	Group engagement partner responsible for this assessment	Required only when other auditor is not a member of ICAI
Component Performance materiality	Group auditor's responsibility	No specific requirement

Key differences

SA 600 (Revised) Vs SA 600

Key Differences	SA 600 (Revised)	SA 600
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	Group engagement partner is responsible for this requirement	Not mentioned specifically, however, it could be interpreted that it was group auditor's responsibility based on combined reading of auditing standards
Sufficient and appropriate resources including sufficient time	Responsibility of the group auditor	
Direction, supervision of review	Group engagement partner to determine	No specific requirement
Sharing of workpaper	Specific requirement to review work papers of component auditors	No specific requirement. Left to the judgement of engagement partner



Audit Procedures – Practical application & guidance

Audit Planning

Engagement Resources

Competence and capabilities of component auditor

Engagement team has personnels with relevant experienced

Engagement team has sufficient time

Engagement performance

Nature, timing and extent of direction and supervision of component auditors and the review of their work

Determine significant risk areas

Determine significant judgements involved

Communicate with component auditor

Its responsibilities and the group auditor's expectations

appropriate & timely communication takes place between them

Nature, frequency, and form of communication to be determined based on the circumstances

Risk Assessment Procedures

Risk assessment procedure to be performed at Group level

Economic environment

Structure, locations / operations

Regulatory environment

Significant / fraud risk factors

Common controls (IT controls)

Financial reporting framework

Significant components

Consolidation process

Related party transactions

Going concern issues

Internal controls

Related party relationships

Risk Assessment Procedures (RAP)

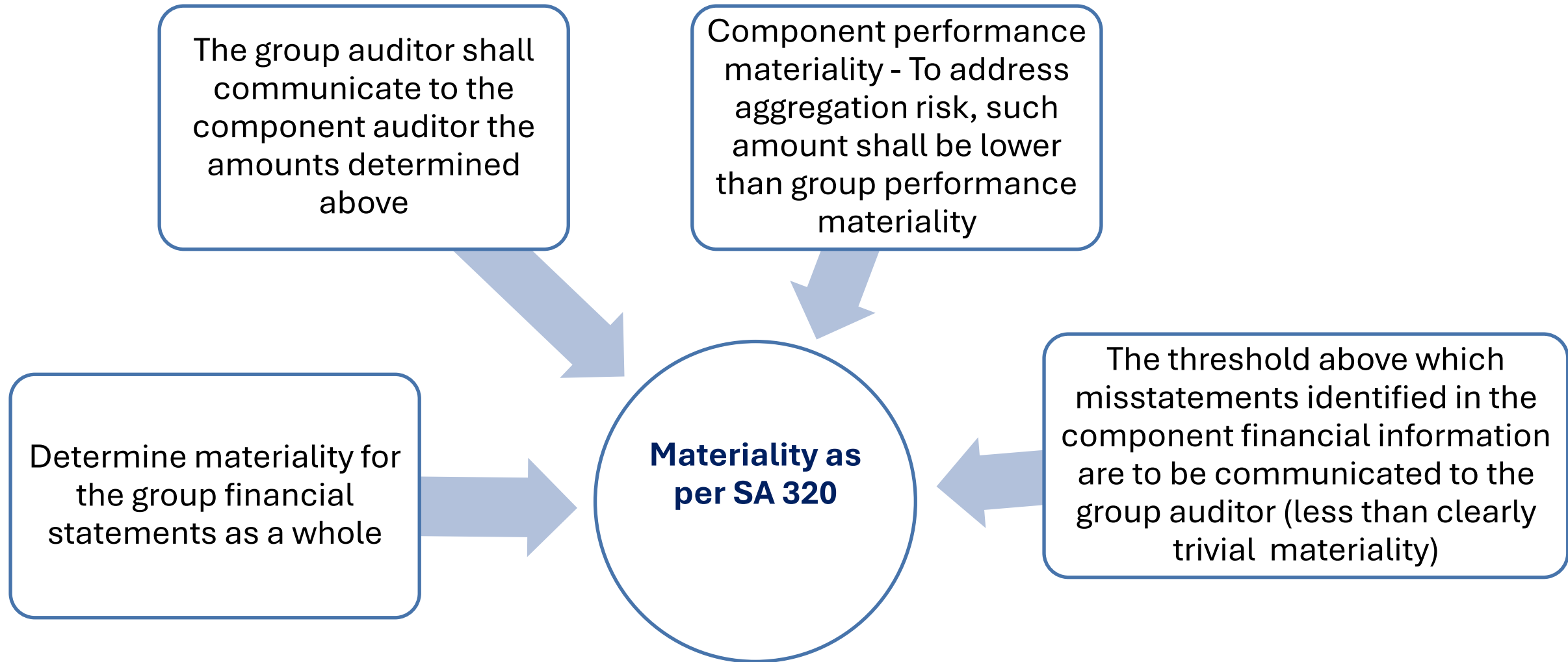
**Considerations when
Component auditors are
involved**

Matters relevant to the
component auditor's
design or performance of
risk assessment
procedures

Financial information of
component relevant for
RoMM at GFS level

Obtain evidence that RAP
of component auditors is
satisfactory

Materiality for group audits



Responding to the assessed risk of material misstatement

- Determine the components where to perform further audit procedures and the nature, timing and extent of the work to be performed
- Determine whether the basis for significant judgments made, and the conclusions reached, are appropriate
- The further audit procedures on the consolidation process:
 - Determining that the necessary journal entries for consolidation
 - Evaluating the operating effectiveness of the controls of consolidation
 - responding appropriately to ineffective controls

Consideration when component auditors are involved

Need to review and revise group audit instructions

Need to review work papers of component auditors

Follow up meeting with component auditors

Increase formal communication (calls / meetings, etc.)

Interim review

Closing meeting

Illustrative questions to be covered in the Group audit instructions

- any unusual transaction
- related party transaction entered for first time
- major thrust / focus area that was addressed
- materiality considered
- major areas identified pursuant to risk assessment
- did you review the secretarial records and the board minutes for identification of any major decisions
- changes to the manner in which the business was conducted as compared earlier periods
- expense and income heads where there were significant variances
- to request component auditor to communicate subsequent events as they become aware and perform audit procedures from the date of financial statements till the date of auditor's report

Evaluation of Component Auditor's Communication and adequacy of the work performed by them

Whether information requested from component auditor is received?

Key issues have been highlighted

Highlight instances of non-compliance with law

Ethical requirements adhered

Corrected or uncorrected misstatements above threshold are communicated

Indicates possibility of management biases

Reviewing Additional Component Auditor Audit Documentation

Component Auditor's Overall Findings or Conclusions

Deficiency in internal controls identified

Key issues discussed with components management / TCWG

Significant fraud risk factors identified

Related party transactions not previously identified

Communication with Management & TCWG during Audit Committee and Board Meeting

Planned scope
and
timing of audit

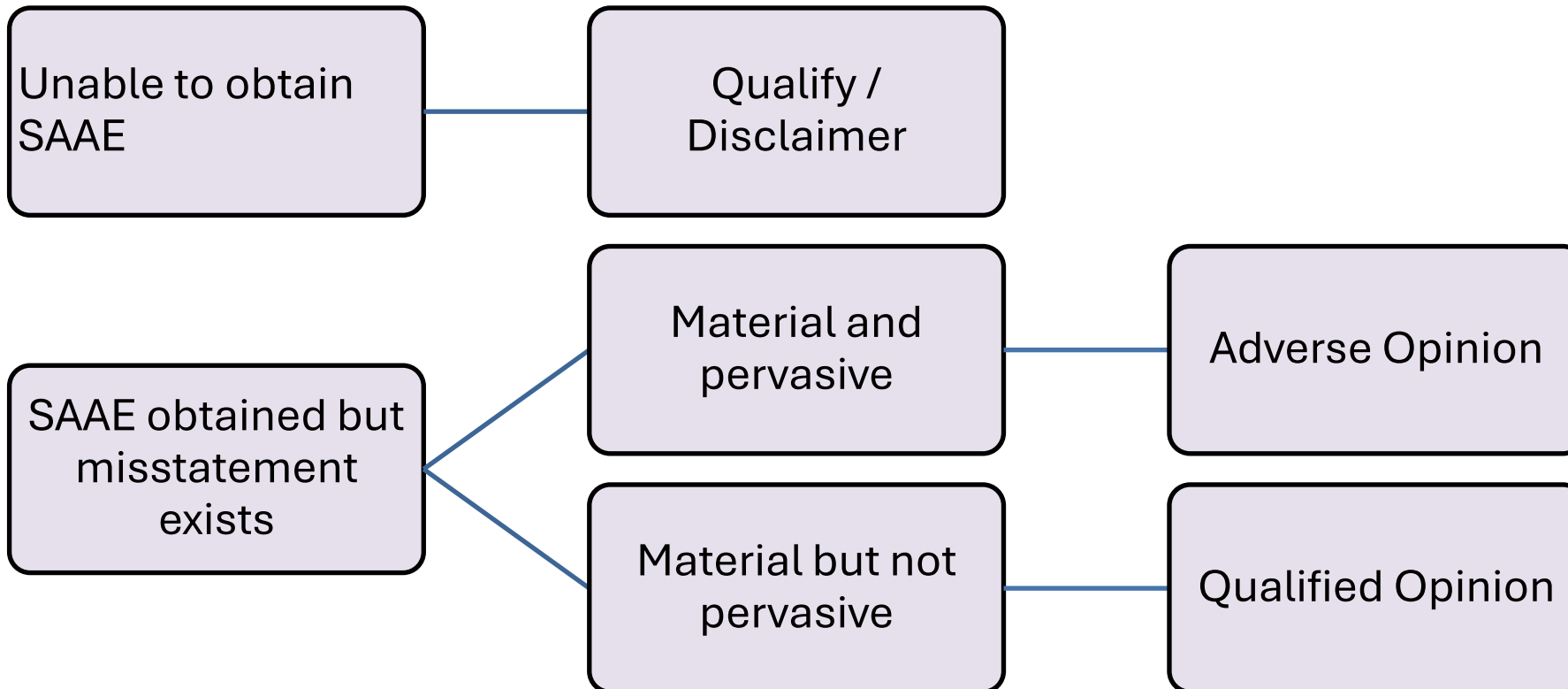
Planned involvement
in work of
component auditors

Quality issues
with regards to
work of component auditors

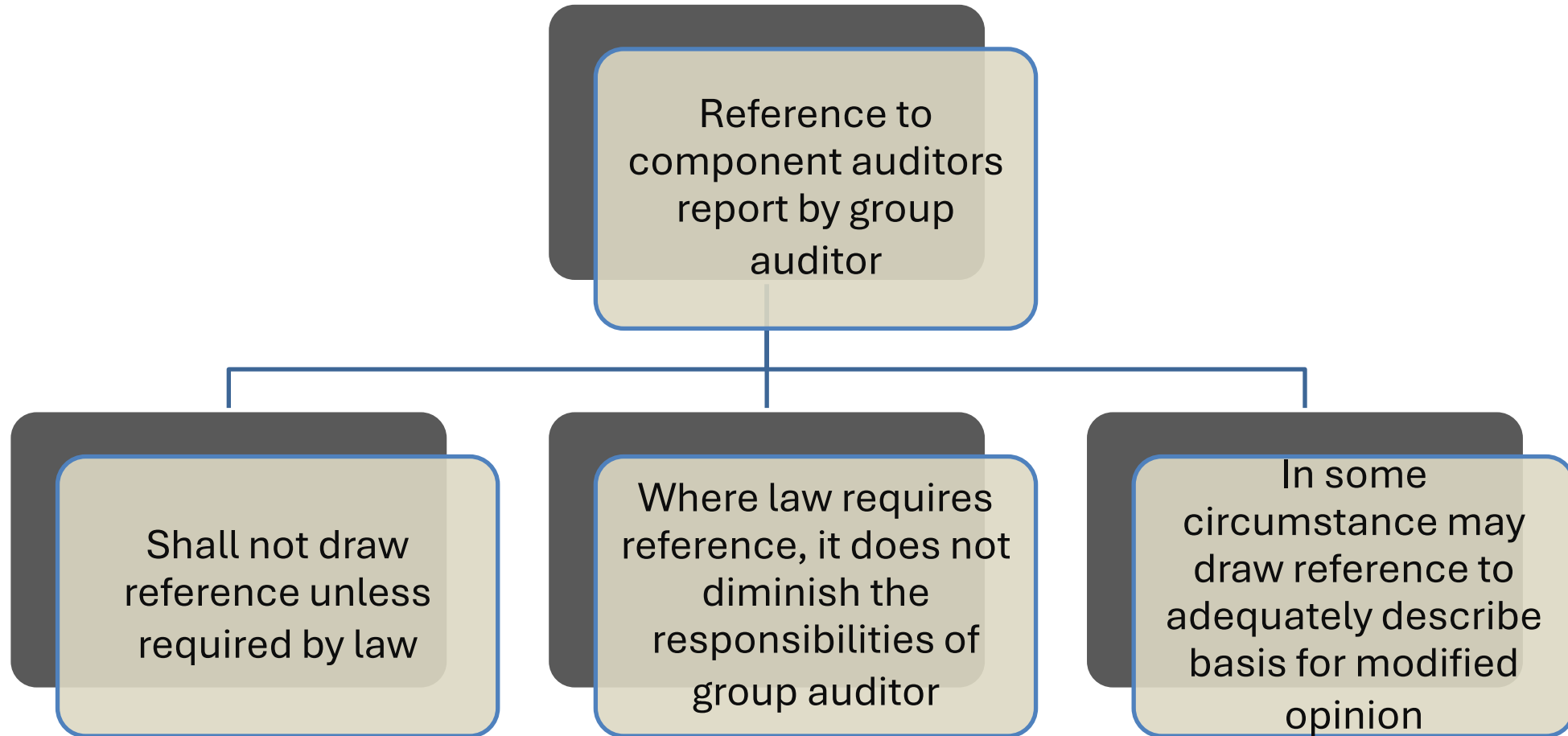
Matters unresolved
at component level

Reporting considerations

Considerations while forming opinion on GFS



Reporting considerations (Contd...)



Audit Documentation

Document nature, timing and extent of audit procedures for significant matters, audit evidences obtained, and conclusions reached such as

Restriction on access to people / information within the group

Basis for determining significant components

Basis for determining materiality for component

Basis for determining competence and capabilities of component auditors

Key take aways

Scope and Objectives

The **Group Auditor** is responsible for the overall group audit, even when relying on **Component Auditors**

Group Auditor's Responsibility

The Group Auditor is accountable for the audit and must evaluate the work of **Component Auditors**

Engagement Strategy

Involves **Component Auditors** in risk assessment and designing audit procedures



Practical challenges

Challenges to implementation

Concentration of audit work with large firm

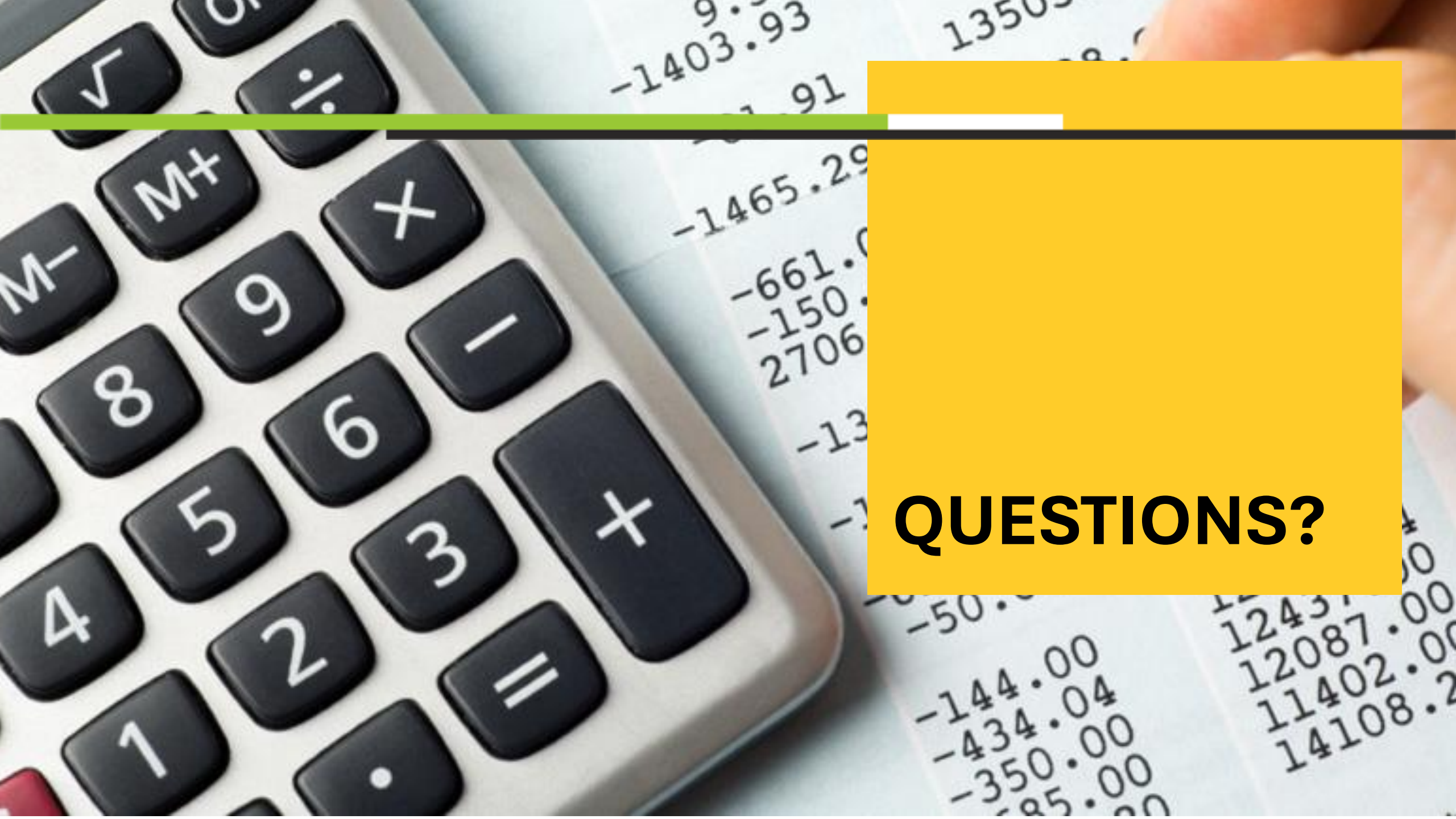
Adherence to different standards for different types of entities

Sharing of work papers

Substantial increase in audit fees considering additional time and cost

Challenges in bank / other institutions not covered in exemption

Challenge in adherence to timelines



QUESTIONS?



Thank you