

# Audits of group financial statements


## Strengthening audit quality

Group audits can present significant challenges when they involve multiple entities or business units across jurisdictions requiring coordination with component auditors. Canadian Auditing Standard (CAS) 600, *Special Considerations — Audits of Group Financial Statements (including the work of component auditors)* (CAS 600, ISA 600 or the group audit standard),<sup>1</sup> was revised and is effective for 2024 calendar year-ends. According to the International Auditing and Assurance Standards Board (IAASB), the changes are intended to:

- Reinforce the connectivity between key foundational standards.
- Encourage proactive management of audit quality at the group and component levels.
- Keep the standard fit for purpose in a wide range of circumstances and in an evolving environment.
- Reinforce the need for robust communication and interaction during the group audit.
- Foster an appropriately independent and challenging skeptical mindset of the auditor.



<sup>1</sup> Adopted from International Standards on Auditing (ISA) set by the International Auditing and Assurance Standards Board (IAASB). The Canadian Auditing Standards (CAS) are published in the Chartered Professional Accountants (CPA) Canada Handbook – Assurance.

 This communication builds on the key messages in CPAB's 2024 CAS 315 publication [Identifying and assessing the risks of material misstatement: Strengthening audit quality](#).<sup>2</sup> It provides additional observations from CPAB inspections in applying the revised group audit standard, shares examples of how the standard was applied including our observations from inspections of component auditor working papers in foreign jurisdictions, and highlights areas where there were identified findings. It is important for audit firm leadership to distribute this communication to all audit engagement teams and to encourage open dialogue among engagement team members as they plan and perform their group audit engagements.

## Why was the group audit standard revised?

The IAASB initiated the project to update ISA 600 based on findings from the Clarified ISAs post-implementation review published in July 2013, where findings indicated a need for priority consideration of changes to some aspects of relevant standards. The quality of group audits, conducted in accordance with the ISAs, has been raised by the International Forum of Independent Audit Regulators (IFIAR) as a key standard that needed to be prioritized by the IAASB, based on the number of findings reported by IFIAR members in the IFIAR annual inspection surveys.


As the size and complexity of group audits increases, it is more likely that events and conditions are present that, individually or in combination, can increase the risk of material misstatement of the group financial statements, whether due to fraud or error. Some examples include:

**CAS 600, Appendix 2** outlines guidance on the key aspects of the consolidation process that group auditors should understand to effectively assess risk.

**CAS 600, Appendix 3** identifies examples of events and conditions that may give rise to risks of material misstatement of the group financial statements, including with respect to the consolidation process.

- Many components with geographic dispersity and different functional currencies.
- Decentralized structure, including different information technology (IT) environments.
- IT systems that are not integrated.
- Operations in multiple industries.
- Frequent acquisitions, disposals or reorganizations.
- Operations in jurisdictions with geopolitical risks, such as exposure to government intervention, sanctions or export restrictions.
- Numerous or frequent related party and/or intercompany transactions between entities and business units.

While aggregation risk exists in all audits of financial statements, it is particularly important to understand and address it in a group audit, because there is a greater likelihood that audit procedures will be performed over classes of transactions, account balances or disclosures that are disaggregated across components. As the size and complexity of the group increases, the probability that the aggregation of uncorrected and undetected misstatements may exceed materiality for the group financial statements also increases. This occurs because audit procedures may be performed separately on the financial information of components.

<sup>2</sup>  This symbol notes where there is strong alignment between this document and CPAB's CAS 315 publication. Readers are encouraged to review both documents together for further context and illustrative scenarios that are relevant to group audits.

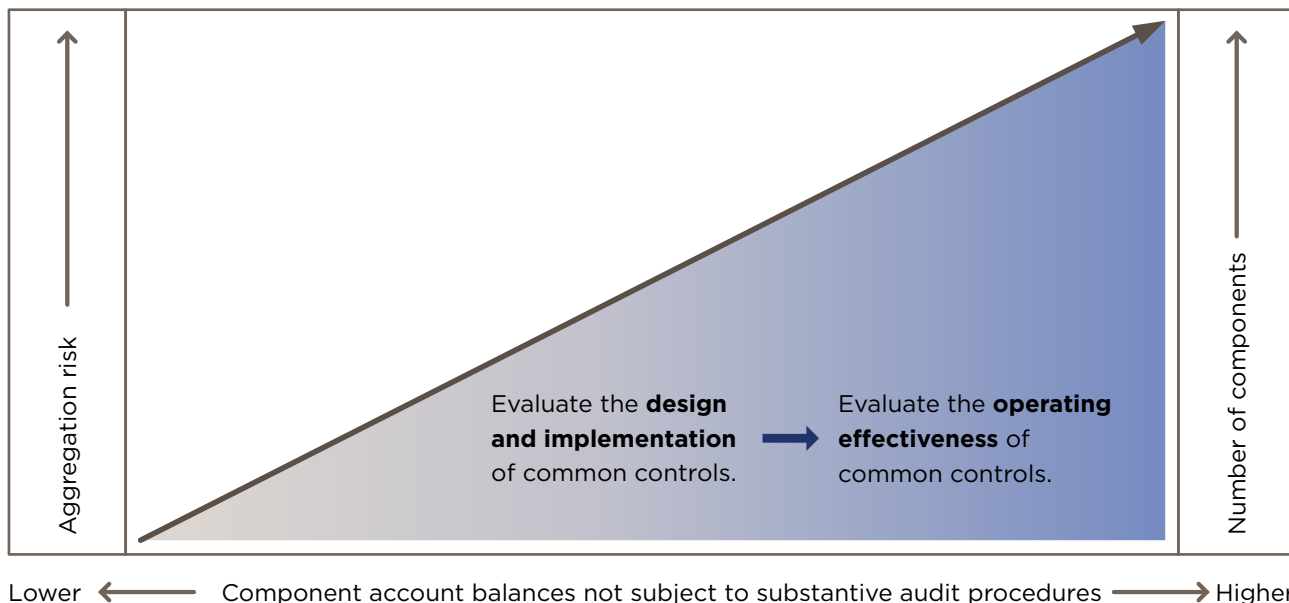


## Why are group-wide controls so important?

The existence of effective group-wide controls, that are designed to be sufficiently precise to address risks of material misstatement at the assertion level,<sup>3</sup> can help reduce the level of aggregation risk. As the inherent risk increases, so does the likelihood that substantive procedures alone may not be sufficient to reduce the risks of material misstatement in all areas of the group financial statements to an acceptably low level. Furthermore, as the number of components and the magnitude of balances that are not subject to audit procedures increases, more persuasive audit evidence is needed to support the effectiveness of group-wide controls that address assertion-level risks.

The following diagram illustrates how aggregation risk increases based on the number of components, and the need to evaluate group-wide controls.

### Account balances not subject to further substantive audit procedures at the component level



<sup>3</sup> CAS 315, paragraphs 13 and 26.

## What are the significant changes?

One of the key changes in CAS 600 is the requirement for group auditors to formulate a comprehensive and iterative risk-based approach in planning and executing the group audit. The risk assessment is expected to be more robust, as the revised standard clarifies the requirement to also comply with CAS 315, which requires a separate assessment of inherent and control risk. The standard has been enhanced to include more explicit requirements around the group auditor's responsibility for obtaining an understanding of the group's system of internal controls including:

- The nature and extent of commonality of controls.<sup>4</sup>
- Whether, and if so, how, the group centralizes financial reporting.
- The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments.<sup>5</sup>

The understanding of group-wide controls and how management oversees the operations of the consolidated entity underpins the auditors' ability to develop the group audit strategy. A comprehensive understanding allows for the group engagement partner to take overall responsibility for managing and achieving quality on the group audit engagement in accordance with the requirements of CAS 220, *Quality Management for an Audit of Financial Statements* (CAS 220).

The revised standard also clarifies the need to evaluate aggregation risk, to address that there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole.

## What our inspections reveal

In 2025, CPAB inspected a sample of group audit engagements across firms that audit group audit engagements with higher risk characteristics to evaluate the implementation of CAS 600. The inspections focused on select aspects of CAS 600 related to the focus areas that were in scope, which generally included revenue, inventory and cost of sales. CPAB's observations are organized into the following key themes:

- Understanding the group and its environment.
- Development of the group audit strategy.
- Consolidation process.
- Oversight by the group engagement partner.
- CPAB's review of component audit work in foreign jurisdictions.

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<sup>4</sup> Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (i.e., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). For other factors, see CAS 600, paragraphs A96 - A99.

<sup>5</sup> CAS 600, paragraph 30(c).



### Firm Guidance

CPAB's inspections included a review of firm-level methodology, training and guidance, developed to support the implementation of CAS 600. We found that engagement teams applied the requirements more consistently in those firms that provided practical examples. This was particularly helpful when evaluating situations where it may be appropriate to test operating effectiveness of common controls and how to evaluate whether the aggregation risk related to components not subject to audit procedures has been reduced to an acceptably low level.



## Understanding the group and its environment



A comprehensive understanding of the group and its environment is critical to ensure inherent risk factors, and their impact on aggregation risk, are identified and evaluated. This understanding of the organizational structure and business model, how management oversees the group's operations, management's risk assessment process, and the overall control environment (including IT), informs the group audit strategy.

Examples to illustrate how auditors applied CAS 600 requirements:

- Identified relevant controls that addressed assertion-level risks and evaluated their design and implementation to validate their understanding of the organizational structure and business model.
- Instructed component auditors to perform procedures over the design and implementation of certain group-wide controls that address assertion-level risks to further enhance their understanding.
- Held a joint planning meeting with all component auditors to improve everyone's understanding of the group and its operations. This collaborative approach enhanced the group auditor's understanding of component-level risks, ensured the completeness of identified risks and promoted consistency across the group.
- Obtained and inspected management's risk assessment and internal audit's (IA) audit plan and results to assist in their identification of risks, as well as group-wide controls that can potentially address assertion-level risks.
- Engaged IT specialists to assist in their understanding and evaluation of the IT environment across the group. The group engagement team also obtained a listing of all the different financial reporting systems used by each component to understand the IT systems used at various sites, as well as the function of each IT system used in financial reporting. This detailed understanding assisted the engagement team in identifying and assessing potential risks of material misstatement arising from IT.

CPAB identified the following deficiencies related to the understanding of the group and its environment and the identification and assessment of the risks of material misstatement:

- The group engagement team had an insufficient understanding of the organizational structure and business model, the group's system of internal control, including the extent of commonality of controls across the different components, and whether the group centralizes activities relevant for financial reporting.
- The engagement team did not sufficiently evaluate the impact of a lack of entity-level controls that address assertion-level risks to support their conclusions that the risk of material misstatement, within significant account balances, was reduced to an appropriately low level.
- The inherent risk identification and assessment performed by the engagement team determined the likelihood of a misstatement to be low within certain components and transaction streams. This determination was primarily based on inquiry and did not consider relevant factors such as the group's decentralized structure (including different financial reporting systems), components with significant geographic dispersity and different functional currencies.

As a result of these deficiencies, the risk assessment procedures did not provide an appropriate basis for the identification and assessment of the risks of material misstatement to the group financial statements, whether due to fraud or error.

## Development of the group audit strategy



When auditors lack a comprehensive understanding of the entity and its environment and the entity's system of internal control, risks of material misstatement at both the financial statement and assertion levels arising from the use of IT may go unidentified and unassessed. CPAB continues to observe that auditors that do not obtain an in-depth understanding of the entity and its system of internal control are more likely to underestimate the complexities of financial reporting and IT. When the group auditor does not identify and assess all relevant risks, they are less likely to adequately design and perform appropriate audit procedures that would reduce the risk of material misstatement of the group financial statements to an acceptably low level.

The group auditor is required to take responsibility for the nature, timing and extent of further audit procedures to be performed, including the extent of testing to support the effectiveness of group-wide controls. This includes determining which components require further audit procedures, as well as the nature, timing and extent of audit procedures to be performed at each of those components.<sup>6</sup> While the revised standard is not expected to result in a substantive change to the components that were previously and continue to be financially significant, further audit procedures may be necessary for components where procedures were previously limited to review or analytical procedures.

Group auditors also need to continually evaluate aggregation risk throughout the audit process, monitoring the results of audit procedures performed across the group to determine if the group audit strategy needs to be changed. This may include performing further audit procedures at components that were not initially in scope for substantive audit procedures.

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<sup>6</sup> CAS 600, paragraph 37; CAS 330, paragraph 27.

Examples to illustrate how auditors applied CAS 600 requirements:

- The identified components aligned with how group management oversees its business. For example, where management performs sub-consolidations to combine multiple legal entities within the group, these were treated as a single component on the basis that there were common controls and management.
- Considered a variety of quantitative and qualitative factors to identify components where work will be performed, the nature of the work and by whom. See [Appendix A](#) for examples of factors that were considered.
- Determined whether certain IT automated controls and IT general controls would need to be tested for operating effectiveness, based on the degree of integration and standardization of IT systems and processes, including whether each component operates its own IT system and whether there is potential for a pervasive issue to affect multiple components.
- Tailored procedures for components using different IT systems to specifically address variability of the IT systems in access management or change control processes, which differ in their level of process maturity across locations.
- Performed monthly analytical procedures on the untested components using a threshold that was significantly below group performance materiality. Based on the engagement team's understanding of the business, the month-to-month variances were expected to be minimal. For those components with unexpected variances in revenue month to month, the engagement team designed and performed further substantive audit procedures.
- Assessed aggregation risk to ensure that the risk of material misstatement of the group financial statements was reduced to an acceptably low level. Examples include:
  - Whether individual components had account balances above group planning materiality and the significance of the untested balance across all components not subject to audit procedures.
  - When group-wide controls that address assertion-level risks were not designed and implemented appropriately or operating effectively, the aggregate of account balances at components not subject to further audit procedures was significantly reduced.

See [Appendix B](#) for additional examples on the identification and evaluation of group-wide controls from CPAB's inspections.



CPAB identified the following deficiencies in how components were selected for audit procedures and how aggregation risk was considered:

- The engagement team's evaluation of untested revenue and cost of goods sold was inappropriately determined based on gross margin alone. This assessment was not aligned with the engagement team's determination that revenue and cost of goods sold were individually significant accounts with a risk of material misstatement to the group financial statements.
- The engagement team inappropriately excluded material amounts that were not subject to testing from their untested population. This resulted in an aggregate untested revenue and cost of sales balances that were approximately 50 and 35 times greater than the group planning materiality, respectively, that were not sufficiently evaluated. For example, the engagement team inappropriately included amounts in their tested population, where the procedures performed were limited to a single assertion (cut-off).
- When performing final analytical reviews for components not subject to testing, the engagement team did not investigate unusual or unexpected variances, which could indicate conditions that may lead to material misstatements at the group level.

## Consolidation process

CAS 600 has an explicit requirement for the auditor to assess and respond to the risks of material misstatement due to fraud arising from the consolidation process.<sup>7</sup> The standard contains additional application guidance clarifying that further audit procedures on the consolidation process, including sub-consolidations, may include evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.<sup>8</sup>

### Prevalence of IT

When there are many components and a high volume of intercompany transactions, management often relies on a combination of IT and manual controls in the consolidation process. Auditors need to identify IT risks arising from the consolidation process and consider whether substantive procedures alone are sufficient.

<sup>7</sup> Review CPAB's CAS 315 publication for an illustrative example of risks not identified and assessed by the engagement team in a group audit setting; CAS 600, paragraph 38.

<sup>8</sup> CAS 600, paragraph A140.

Examples to illustrate how auditors applied CAS 600 requirements:

- Performed walkthroughs and prepared flowcharts that mapped key controls for what could go wrong within the consolidation process, including how intercompany and related party accounts are identified and accounted for. See examples of audit procedures performed over the consolidation process in [Appendix C](#) and some common consolidation risks identified.
- Tested the design and implementation of relevant controls, both manual and automated, within the consolidation process, including those pertaining to the identification of related parties (which include subsidiaries) and the elimination of intercompany transactions. IT specialists were engaged, as appropriate. See examples included in [Appendix C](#).
- Directed component auditors to test intercompany balances by confirming intercompany receivables/payables with group management, inspect intercompany subledgers to ensure they only included transactions with group entities, and inspect for non-third-party transactions when testing third-party revenues.
- Reperformed the tie-out to underlying component financial statements to the consolidation schedule, and, where relevant, tested the relevant controls over how component financial information is prepared, reviewed, and reported to group management.
- Performed a stand back assessment in situations where the design and implementation or operating effectiveness of relevant controls failed and designed further audit procedures to address the risks of material misstatement.

CPAB identified the following deficiencies related to identifying and responding to the risks of material misstatement arising from the consolidation process:

- The auditor did not identify any risks associated with the consolidation, nor did they sufficiently evaluate the risk of fraud within the consolidation process.
- The auditor did not sufficiently evaluate the risks relating to the completeness of intercompany transactions and related parties.
- The auditor's approach to testing the tie-out of financial information relied inherently on the effectiveness of consolidation controls without testing those controls.

As a result, the risk assessment procedures performed on the consolidation process did not provide an appropriate basis for the identification and assessment of the risks of material misstatement to the group financial statements, at both the financial statement and assertion levels, whether due to fraud or error.

## Oversight by the group engagement partner

Ultimately, the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement.<sup>9</sup> The group engagement partner's oversight of the group audit and component auditors ensures the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement. Effective communication between the group auditor and their component auditors is essential for identifying inherent risk factors, evaluating their impact on aggregation risk, and assessing and reassessing the risk of material misstatement in the group financial statements.

Examples to illustrate how auditors applied CAS 600 requirements:

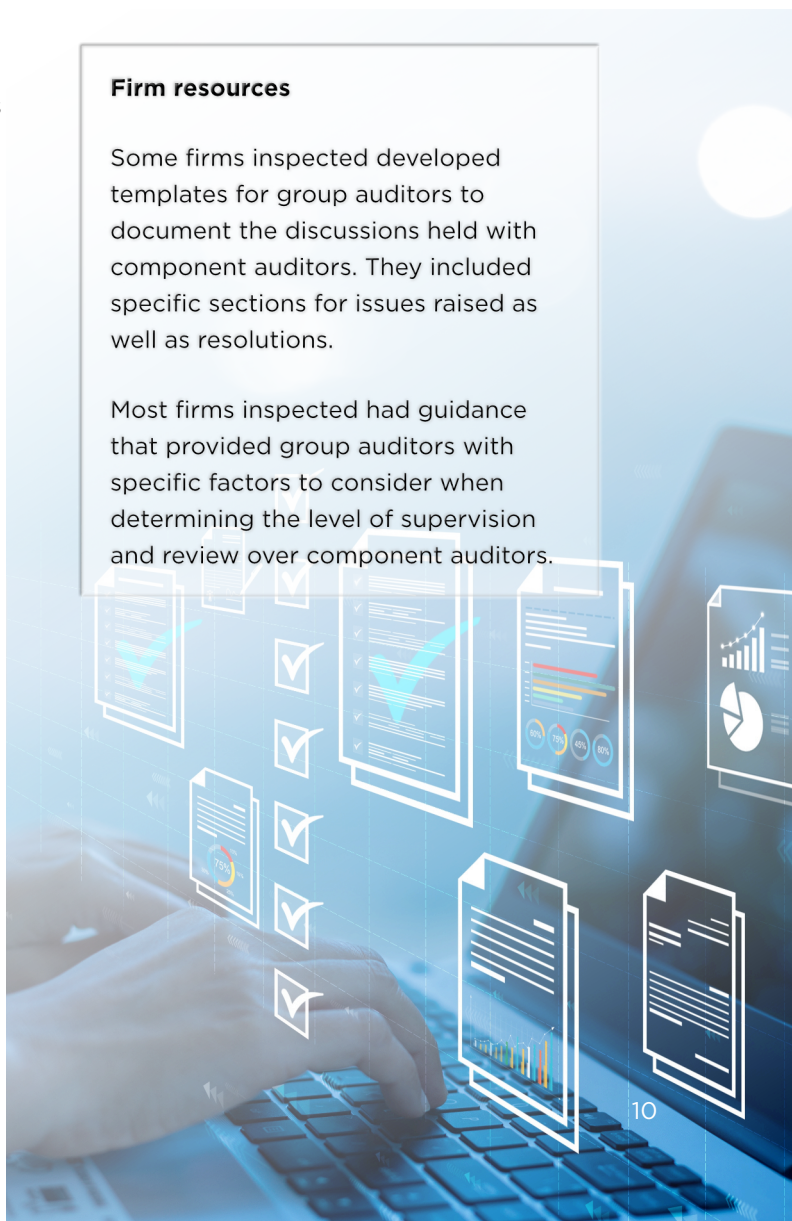
- Applied a risk-based approach to determine where site visits or direct reviews of component auditor working papers were appropriate. Examples of factors considered include:
  - The presence of significant risks at the component level.
  - The engagement team's experience with the component auditors.
  - The regulatory environment in the jurisdiction that the component and component auditor operate.
- Demonstrated ongoing communication with component auditors throughout the audit, including documentation of discussions held on identified risks, planned procedures, status updates and emerging issues.
- The review of component auditor working papers was clearly documented, including challenges raised with the component auditor and how they were resolved in the audit file.
- The review was not limited to areas involving significant risks or complex judgments.
- Performed an iterative risk assessment and stand-back analysis that included:
  - Evaluated the applicability of additional risks identified at one component to others and expanded the scope of audit procedures to address the additional risks.
  - Confirmed the balances and amounts tested substantively by the component teams and updated the aggregation risk analysis to include amounts that were expected to be tested but were not.

### Firm resources

Some firms inspected developed templates for group auditors to document the discussions held with component auditors. They included specific sections for issues raised as well as resolutions.

Most firms inspected had guidance that provided group auditors with specific factors to consider when determining the level of supervision and review over component auditors.

<sup>9</sup> CAS 600, paragraph 16.





CPAB identified the following deficiencies related to the oversight by the group engagement partner:

- The group engagement team's review of component auditor work was primarily limited to areas that were identified as having a significant risk of material misstatement. The extent of oversight and review was not appropriate for the circumstances of the engagement. Some examples include:
  - Insufficient evaluation of whether certain accounting policies were appropriate and consistent with the applicable financial reporting framework.
  - Insufficient evaluation of whether control deficiencies exist within the entity's system of internal control.
- The group auditor did not re-evaluate the conclusion that the lack of a formal annual fraud risk assessment did not rise to the level of a fraud risk to the group financial statements, based on new information identified by a component auditor.

## CPAB's review of component audit work in foreign jurisdictions

CPAB obtained access to and reviewed component auditor working papers located in foreign jurisdictions for a select group of engagement files to evaluate and conclude on the sufficiency of evidence to support the oversight of components by the group engagement partner, as it pertains to the selected focus areas. CPAB's determination of whether to request access to and review the work performed for foreign components is based on the specific facts and circumstances of the group engagement.

CPAB identified findings related to the sufficiency and appropriateness of audit evidence in our inspection of component audit files that were not identified by the group engagement team through their oversight. The following are observations of factors that were commonly present:

- The working papers were not reviewed by the group engagement team solely because they were low risk and it was not required under firm policy. This was done without considering the relevant facts and circumstances (i.e., materiality, experience of component auditors, nature of the account balance etc.)
- Senior members of the group engagement team visited the components and component management, but their review of working papers was limited.
- The detailed review of working papers was delegated to a junior manager or senior associate who may not have had the appropriate competence and capabilities, including sufficient time.
- The working papers were documented in a foreign language and the group auditor relied on the component auditor to discuss the contents of the working papers without performing a detailed review. This resulted in the summary of procedures performed included in the group engagement file not being consistent with the underlying component working papers.
- The group engagement team did not communicate additional guidance developed by the Canadian firm that was relevant to the work delegated to the component auditor(s).

## Bringing it all together

As group auditors plan and execute their group audit strategy, we encourage them to revisit their plan with the themes from this publication in mind.

### Key takeaways for group auditors:

#### Connectivity with other standards

The revisions to CAS 600 reinforce the connectivity with key foundational standards, particularly, CAS 220, CAS 230, CAS 300, CAS 315 and CAS 330.

#### Understanding the group and its environment

CAS 315 and CAS 600 require the understanding of the group, and its environment, to identify and assess the risk of material misstatement, whether due to fraud or error, at both the financial statement and assertion levels. This understanding ensures that audit procedures are designed in accordance with CAS 330.

Component auditors can help deepen the group's understanding of the business, the IT environment and the commonality of controls, through performing additional risk assessment procedures, including testing the design and implementation of relevant controls, including those related to IT.

#### Substantive procedures alone

CAS 315 requires the auditor to determine whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone.<sup>10</sup>

As the size and complexity of group audits increases, it is more likely that events and conditions are present that, individually or in combination, can increase the risk of material misstatement of the group financial statements, whether due to fraud or error. As the inherent risk increases, so does the likelihood that substantive procedures alone may not be sufficient to reduce the risks of material misstatement in all areas of the group financial statements to an acceptably low level.

#### Effectiveness of group-wide controls

The existence of effective group-wide controls that are designed to be sufficiently precise to address risks of material misstatement at the assertion level can help reduce the level of aggregation risk.

CAS 315 requires that the assessment of inherent and control risk be performed separately. We continue to identify findings where higher inherent risk factors are present, but where the auditor inappropriately concludes the risk of material misstatement is low, based on the expectation that group-wide controls are effective.

We have also observed that some auditors inappropriately take credit for the effectiveness of group-wide controls based on their evaluation of higher-level controls that may address risks of material misstatement at the financial statement level, but that are not sufficiently precise to address the risks of material misstatement at the assertion level. Some examples of higher-level controls include oversight by those charged with governance, management's risk assessment process and internal audit function. While these are critical to support activity level controls, they are not sufficiently precise on their own.

See examples of controls that address assertion-level risks included in Appendix B.

<sup>10</sup> CAS 315, paragraphs 33 and A162.

## Key takeaways for group auditors:

### Comprehensive IT integration

As the complexity of group audits increase and the use of IT grows, there may also be an increased level of risk associated with IT, and these risks may impact all areas of the audit. The consolidation process is particularly susceptible to IT-related risks, requiring a thorough understanding of underlying systems and controls.

Group auditors are responsible for determining the extent of work to be performed by IT specialists, and whether component auditors require their own IT specialists to appropriately understand, identify and address IT-related risks.

### Considerations over fraud risks

The revised CAS 600 standard introduced an explicit requirement for auditors to assess and respond to the risks of material misstatement due to fraud arising from the consolidation process. This change acknowledges that the consolidation process is an area where there is increased opportunity for management to manipulate the financial statements.

### Oversight by the group engagement partner

Effective coordination, communication and oversight of component auditors is critical to ensure that the group engagement partner is made aware of matters that are relevant to the group financial statements. In accordance with CAS 220, the group engagement partner retains ultimate responsibility and accountability for compliance with the CAS in the audit of group financial statements. While certain tasks, including the design or performance of certain procedures, may be delegated to qualified engagement team members, including component auditors, the group engagement partner remains ultimately responsible for overall audit quality.

### Stand back assessment

Risk assessment is iterative in nature. As new information is obtained, including that arising from the audit procedures performed by the group and component auditors, group auditors need to revisit the initial risk assessment and determine whether the risk of material misstatement at both the financial statement and assertion level remain appropriate.

Examples of information that may cause the auditor to re-evaluate the initial risk assessment and aggregate risk include: component reporting of untested balances, control deficiencies and identified errors from substantive audit procedures.



## Appendices: Practical examples

The following appendices provide additional examples observed in our inspections to illustrate how auditors applied the requirements of CAS 600. These are not intended to address all aspects of CAS 600.

### Appendix A - Considerations in developing the group audit strategy

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#### Examples of factors considered by the group engagement team in their determination of group audit strategy:<sup>11</sup>

Which components will be selected:

- Components that operated within jurisdictions that exhibit high levels of corruption, even when the balances associated with the components are not quantitatively significant.
- Newly acquired components where there was no previous experience with component management.
- Components where the entity's internal audit function identified control deficiencies.
- Components where significant changes during the reporting period were identified through the risk assessment analytical procedures. Those procedures evaluated interrelationships among key accounts such as revenue, cost of sales and inventory, and applied thresholds that were sufficiently precise to mitigate aggregation risk (i.e., thresholds were set well below group planning materiality).
- Components that have not previously been tested for the element of unpredictability.

What work will be performed:

- Extent to which understanding of the business and controls at the component-level is required to identify and evaluate risks (i.e., sub-consolidations).
- The level of significant judgment and risk associated with a significant account/assertion (i.e., management override of controls may be addressed centrally whereas specific significant risks associated with revenue may be performed at the component-level).
- Specific conditions or events identified at the component-level (i.e., fraud).

Who will perform the work:

- Knowledge of local customs, laws and regulation, business practices, and language.
- Location of finance and component management team.
- Ability to access information and people.

<sup>11</sup> CAS 600, paragraph A50 provides other matters that may influence the group auditor's determination of components at which to perform audit work.

## Appendix B: Identification and evaluation of group-wide controls

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### Examples of procedures performed<sup>12</sup> to understand the extent to which the control was commonly applied across the group:

- Evaluated the consistency of control operation across the group, particularly in cases where the control ownership was distributed among multiple individuals (i.e., business unit leaders versus the group's finance team).
- Tested the configuration of automated controls to confirm consistency across IT application(s) used by the various components.
- Identified and tested controls that were performed by group management at the component-level that were sufficiently precise to address assertion-level risks.

### Examples of group-wide controls performed by management that were determined to be appropriately designed and implemented to address assertion-level risks:

Monthly component-level financial reports are reviewed to identify unexpected variances that may indicate material misstatements. These reviews are conducted on an account-by-account basis, with investigation of any variances outside of an established threshold or inconsistent with expectations.

Quarterly segment summaries are analyzed to compare financial results against both prior year balances and forecasts. The summaries are further disaggregated by component to support the detection of material misstatements at the account or component level.

### Examples of audit procedures performed to test the operating effectiveness of controls:

- Evaluated the preciseness of the thresholds used by management by understanding of how the thresholds were established and evaluating them against the auditor's understanding of the business.
- Determined that variances were appropriately identified and investigated by management.
- Inspected multiple instances of the control throughout the year and at year end for evidence of review.
- The population of controls was determined by multiplying the number of components by 12 (because the control being evaluated was the monthly component-level review).
- Selected two segment summaries, including Q4, and obtained evidence that all components were reviewed and included in those quarterly summaries (as the control being evaluated was the quarterly review for all components).
- Reperformed management's control and where appropriate, the auditor used their knowledge of the business to challenge management on their identification and investigation of outliers.
- Tested controls over the forecasting process (as the control relied on the accuracy and completeness of the forecasted figures).

<sup>12</sup> Procedures are illustrative in nature and should not be considered an exhaustive list.

**Examples of group-wide controls performed by management that were determined to be appropriately designed and implemented to address assertion-level risks:**

All significant contracts over a specified amount are subject to review centrally by the group controller to ensure compliance with the applicable accounting standards.

**Examples of audit procedures performed to test the operating effectiveness of controls:**

- Obtained evidence to support that group management had appropriately challenged the accounting analyses performed. For example, ensuring that performance obligations were appropriately identified, and measured in accordance with IFRS 15, *Revenue from Contracts with Customers*.
- Evaluated the threshold used to determine the significance of contracts to ensure it was sufficiently precise to detect material misstatements.





## Appendix C: Procedures performed over the consolidation process

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### Examples of audit procedures<sup>13</sup> performed by the group engagement team over the consolidation process:

- Obtained an understanding of the consolidation process, including:
  - Methods used by operating units to identify intercompany transactions and other related parties.
  - Procedures performed by operating units and corporate to record intercompany transactions.
  - Nature and characteristics of intercompany transactions.
- Evaluated the general controls (GITCs) and relevant information technology application controls (ITAC) over the consolidation system(s).
- Where deficiencies were identified in the GITCs, the group engagement team determined the impact to their risk assessment and audit approach and developed additional audit responses.

#### Examples of common risks associated with the consolidation process:

#### Examples of audit procedures performed over the consolidation process to address identified risks:

Consolidated financial statements do not include all components.  
(Completeness)

- Evaluated the operating effectiveness over manual controls used to reconcile component trial balance to the consolidated financial statements.
- Reconciled the legal entities per the organization chart to the consolidation schedule.
- Evaluated the ITAC over the transfer of component-level financial information into the consolidated reporting system.

Component information in the consolidated financial statement is not complete or accurate.  
(Completeness and accuracy)

- Evaluated the operating effectiveness of group management's review control over component reporting.
- Reperformed the tie-out of the underlying financial information of all components to the consolidated statements.
- Instructed component auditors to test the relevant controls over how component financial information is prepared and reported to group management.

<sup>13</sup> Procedures are illustrative in nature and should not be considered an exhaustive list.

Examples of common risks associated with the consolidation process:	Examples of audit procedures performed over the consolidation process to address identified risks:
<p>Consolidation adjustments and reclassifications are not performed, incomplete or inaccurate. (Completeness and accuracy)</p>	<ul style="list-style-type: none"> <li>▪ Evaluated the monthly management review control over the intercompany elimination report, which was designed to ensure the completeness and accuracy of intercompany eliminations.</li> <li>▪ Tested the ITAC responsible for eliminating intercompany balances, including verifying that the configuration was appropriate and had received the necessary approvals to ensure accurate identification of intercompany transactions.</li> <li>▪ Inspected material journal entries relating to intercompany transactions for accuracy and alignment with their understanding of the nature of intercompany transactions by agreeing to supporting documents.</li> </ul>
<p>Financial statements are not accurately translated from the functional currency to presentation currency. (Completeness and accuracy)</p>	<ul style="list-style-type: none"> <li>▪ Tested the operating effectiveness of the ITAC over foreign currency translation. As part of that control testing, also tested the completeness and accuracy of the rates that were input into the system.</li> <li>▪ Recalculated the foreign exchange translation using independently sourced foreign exchange rates.</li> </ul>

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