



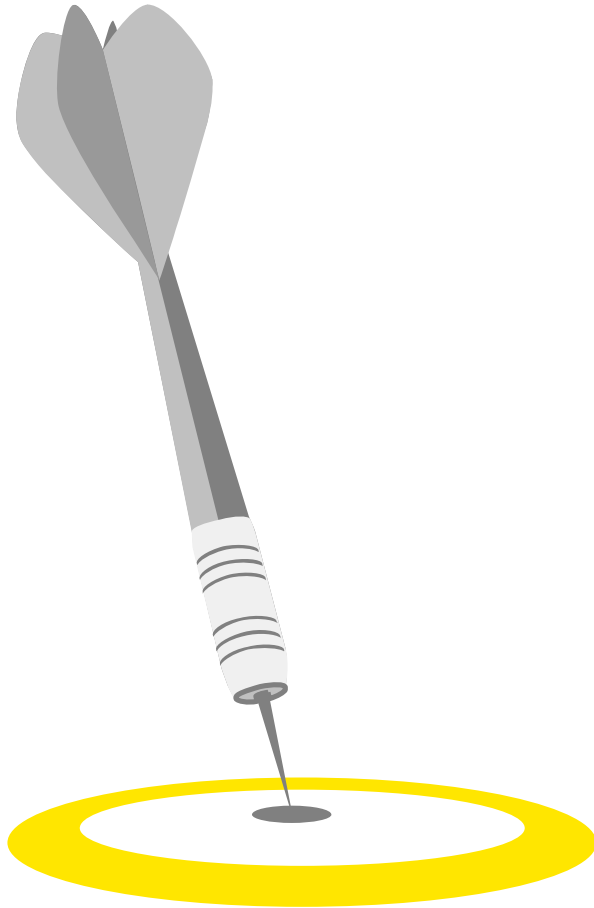
Group Audit – ISA 600



The better the question. The better the answer.
The better the world works.

Group Scoping – ISA 600

Scope



The auditing standard ISA Italia 600 sets out the specific considerations to be applied to group audits, in particular those involving component auditors. The person responsible for the group audit engagement must ensure with reasonable certainty that the group financial statements do not contain material errors. The manager processes his assessment through an understanding of the group, its components, the context in which they operate and the consolidation process, including an understanding of controls at the group level. The group audit engagement partner and his or her audit team communicate with the component auditors about the extent and timing of their assessment work performed on the component financial information and related results, so that obtain sufficient audit evidence to express an opinion on compliance with the regulatory framework of the financial statements.

Group Scoping – ISA 600

Scope



The auditor's objectives are:

Determine if he is capable to have the role of auditor of the group's financial statements.

In case of taking on this role:

a) Communicate clearly with component auditors about the extent and timing of their work on component financial information and related results

b) obtain sufficient and appropriate audit evidence on the financial information of the components and on the consolidation process, to express an opinion on whether the group financial statements have been prepared, in all material respects, in compliance with the regulatory framework on financial reporting applicable ISA Italy n. 600 par. 8 5

Group Scoping – ISA 600

Definitions

1

COMPONENT

A company or an entity for which the management of the group or component draws up the financial information that must be included in the group balance sheet

2

COMPONENT AUDITOR

Auditor engaged in the audit of the component

3

COMPONENT MANAGEMENT

Management in charge of preparing the group financial statements

4

COMPONENT MATERIALITY

The materiality of the Group determined by the Primary Team, or by the parent company

5

GROUP

All components whose financial information is included in the financial statements of group. A group always has more than one member

6

GROUP AUDIT

Audit of the group as whole

Group Scoping – ISA 600

Definitions

7

SIGNIFICATIVE COMPONENT

A member identified by the group's audit team who:

- i) is individually significant from an economic, equity and financial point of view for the purposes of the group financial statements; that is to say
- ii) it is likely to include material risks of material misstatement in the group's financial statements, due to its specific nature or specific circumstances

Group Scoping – ISA 600

Responsibilities

The group auditor is entirely responsible for expressing an opinion on the group financial statements.

"The person in charge of the group audit engagement is responsible for the direction, supervision and performance of the group audit engagement in accordance with the professional principles and applicable legal and regulatory provisions; he is also responsible for ensuring that the audit report issued is appropriate to the specific circumstances. Consequently, the group auditor's report should not refer to component auditors, unless such reference is required by law or regulation. ... "



Group Scoping – ISA 600

Responsibilities

"..the person responsible for the audit of the group must establish whether it can reasonably be expected to be able to obtain sufficient and appropriate audit evidence regarding the consolidation process, as well as the financial information of the components, on which to base the opinion on the group's financial statements. To do this, the group engagement team must acquire a sufficient understanding of the group, its components, and the context in which they operate to identify those components that may be significant. Where the audit work on the financial information of such components is performed by the relevant auditors, the group auditor should consider whether the group engagement team will be involved in the work of the component auditors to the extent necessary to obtain sufficient audit evidence. and appropriate. "



Group Scoping – ISA 600

Audit strategy

"The group engagement team must define an overall group audit strategy and develop an audit plan in accordance with ISA Italy no. 300. The group audit engagement manager must review the overall group audit strategy and audit plan. "



Group Scoping – ISA 600

Materiality

The group engagement team shall determine the following:

- i. Materiality for the group financial statements as a whole when establishing the overall group audit strategy;
- ii. If, in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements or which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures;
- iii. Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality shall be lower than materiality for the group financial statements as a whole;
- iv. The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.

Group Scoping – ISA 600

Materiality

Where component auditors will perform an audit for purposes of the group audit, the group engagement team shall evaluate the appropriateness of performance materiality determined at the component level. If a component is subject to audit by statute, regulation or other reason, and the group engagement team decides to use that audit to provide audit evidence for the group audit, the group engagement team shall determine whether:

- i. materiality for the component financial statements as a whole;
- ii. performance materiality at the component level meet the requirements of this ISA.



Group Scoping – ISA 600

Responding to assessing risks

The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements.

The group engagement team shall determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components. The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors.

If the nature, timing and extent of the work to be performed on the consolidation process or the financial information of the components are based on an expectation that group-wide controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, the group engagement team shall test, or request a component auditor to test, the operating effectiveness of those controls.

Group Scoping – ISA 600

Consolidation process

01

The group engagement team obtains an understanding of group-wide controls and the consolidation process, including the instructions issued by group management to components. The group engagement team, or component auditor at the request of the group engagement team, tests the operating effectiveness of group-wide controls if the nature, timing and extent of the work to be performed on the consolidation process are based on an expectation that group-wide controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level

02

The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements

03

The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and shall evaluate whether any fraud risk factors or indicators of possible management bias exist

Group Scoping – ISA 600

Consolidation process

04

If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

05

The group engagement team shall determine whether the financial information identified in the component auditor communication is the financial information that is incorporated in the group financial statements.

06

If the group financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the group engagement team shall evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

Group Scoping – ISA 600

Subsequent events

Where the group engagement team or component auditors perform audits on the financial information of components, the group engagement team or the component auditors shall perform procedures designed to identify events at those components that occur between the dates of the financial information of the components and the date of the auditor report on the group financial statements, and that may require adjustment to or disclosure in the group financial statements.

Where component auditors perform work other than audits of the financial information of components, the group engagement team shall request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements.



Group Scoping – ISA 600

Communication with the component auditor

The group engagement team shall communicate its requirements to the component auditor on a timely basis. This communication shall set out the work to be performed, the use to be made of that work, and the form and content of the component auditor communication with the group engagement team. It shall also include the following:

- i. A request that the component auditor, knowing the context in which the group engagement team will use the work of the component auditor, confirms that the component auditor will cooperate with the group engagement team;
- ii. The ethical requirements that are relevant to the group audit and, in particular, the independence requirements;
- iii. In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements;
- iv. Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor. The group engagement team shall request the component auditor to communicate on a timely basis any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and the component auditor's responses to such risks.

Group Scoping – ISA 600

Communication with the component auditor

- v. A list of related parties prepared by group management, and any other related parties of which the group engagement team is aware. The group engagement team shall request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team shall determine whether to identify such additional related parties to other component auditors.

The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit.

The group auditor is entirely responsible for the opinion on the group financial statements. All the communication between the group and the component auditor have to be in writing.

Group Scoping – ISA 600

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

The group engagement team shall evaluate the component auditor's communication. The group engagement team shall:

- i. Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate;
- ii. Determine whether it is necessary to review other relevant parts of the component auditor's audit documentation.

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.

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.

Group Scoping – ISA 600

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence.



Group Scoping – ISA 600

Documentation

The group engagement team shall include in the audit documentation the following matters:

- i. An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components;
- ii. The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon;
- iii. Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

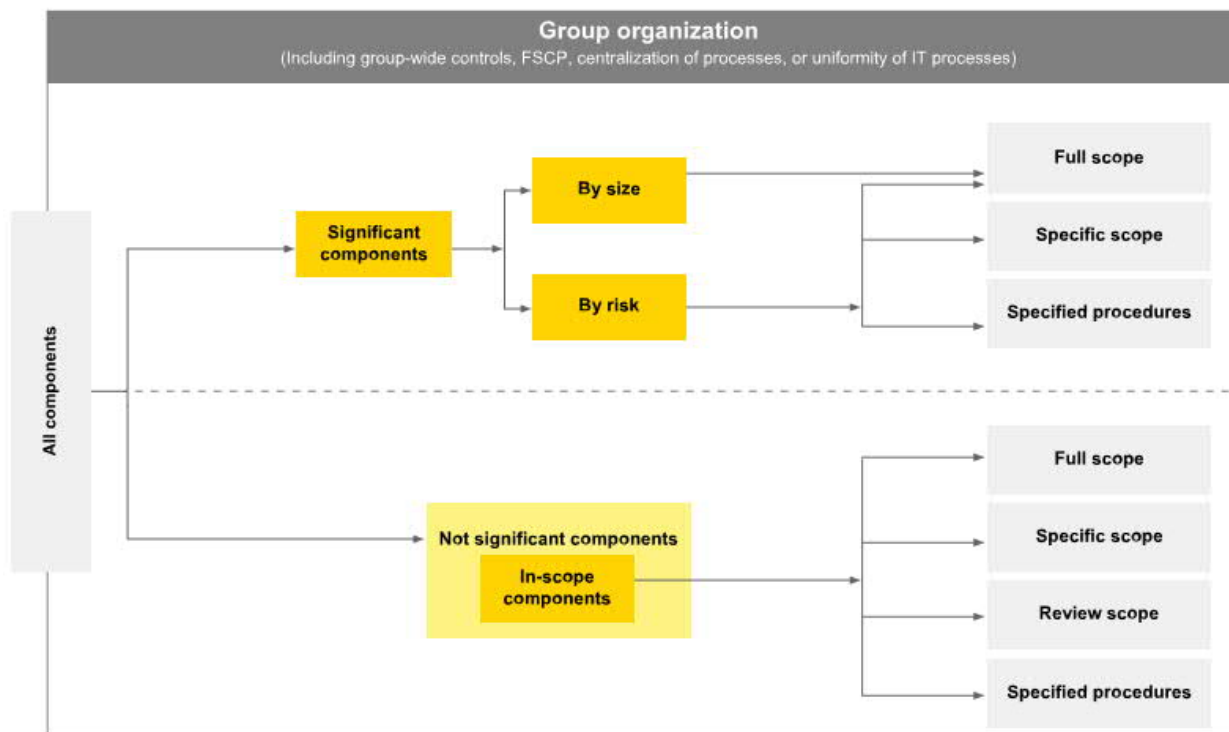
If the component auditor conclusions are not in writing form, the group auditor shall prepare a specific memorandum to be shared with the component auditor.

Group Scoping

Determine in-scope components

The audit of group financial statements requires the Primary Team to determine which components to include in the group audit scope ("in-scope components") and the work to be performed on those components (full scope, specific scope, review scope or specified procedures).

The graphic below summarizes the group audit scoping strategy:



When the Primary Team concludes that the not significant components cannot include risks of material misstatement to the group financial statements due to their very small contribution to the group financial statements, the Primary Team may exclude those components from the group audit scope.

Group Scoping

Determine significant components

SIGNIFICANT COMPONENTS BASED ON SIZE

The Primary Team begins the determination of significant components by reference to the relative financial size of each component to the group.

The Primary Team uses, as a starting point, the same measurement basis used to determine group PM. When that basis is not appropriate to determine the relative financial size of some of the components, the Primary Team determines those components' relative financial size to the group using one or more other appropriate measurement bases.

All components that represent 15% or more of the group are presumed to be significant based on size.

SIGNIFICANT COMPONENTS BASED ON RISK

All components which may give rise to a risk of material misstatement of the group financial statements due to their specific nature or circumstances are presumed to be significant based on risk.

Determining which components are significant based on risk is a matter of professional judgment.

Group Scoping

Determine scoping strategy for not significant components

Once the Primary Team has determined which components are significant based on size and based on risk, the Primary Team determines whether the not significant components can, in the aggregate, give rise to a risk of material misstatement of the group financial statements

The Primary Team could select additional in-scope components considering the following:


- i. The sufficiency and appropriateness of the audit evidence obtained from the significant components;
- ii. The effectiveness of group-wide controls and the group FSCP;
- iii. The results of analytical procedures performed on the aggregated financial information of the not significant components.



Group Scoping

Extent of work to be performed at in-scope components

The table below summarizes the extent of work to be performed at each of the in-scope components:

In-scope components	Full scope	Specific scope	Specified procedures	Review scope	Primary Team involvement
Significant components based on size (GROUP SCOPE 2.1)	✓				
Significant components based on risk (GROUP SCOPE 2.2)	✓*	✓*	✓*		
Not Significant Other components (GROUP SCOPE 2.3)	✓*	✓*	✓*	✓*	

* Exercise professional judgment based on the nature of the risks identified, the strength of the group-wide controls, the centralization of group operations and processes, the effectiveness of controls over the consolidation process and the Primary Team's knowledge of components

Group Scoping

Extent of work to be performed at in-scope components

Full scope

1

The component team: i) Plans and performs procedures using assigned TE; ii) Accumulates corrected and uncorrected misstatements above the assigned SAD N.A. and reports them to the Primary Team; iii) conclude on the component reporting package.

Specific scope

2

The component team assesses the risks of material misstatement for the specific accounts or disclosures, designing and performing substantive procedures in response to the assessed risks at the assigned TE and evaluating the results. The component team conclude on component reporting package.

Review scope

3

the component team's responsibilities include: i) Planning and performing the analytical procedures and inquiries based on the assigned threshold; ii) Planning and performing any additional procedures requested in the group audit instructions; iii) conclude on component reporting package.

Specified procedures

4

The component team performs the procedures specified by the Primary Team and reports on the results of the procedures performed, but does not express a conclusion on the accounts or disclosures subject to the specified procedures.

Group Scoping

Determine Group PM, TE & SAD NA

When determining group PM, group TE and group SAD nominal amount, the Primary Team uses the same considerations as those for a stand-alone entity.

Once group PM and group TE have been determined for purposes of the audit of the group financial statements, the Primary Team uses this information to:

- i. Identify group significant accounts;
- ii. Identify in-scope components;
- iii. Designate the level of audit effort.

When the Primary Team is required to issue separate audit opinions on the group financial statements and the holding entity financial statements, it separately determines PM, TE and the SAD nominal amount for the audits of the group financial statements and the holding entity financial statements.

However, when designing the audit procedures for the holding entity financial statements, the Primary Team uses professional judgment in setting the thresholds to be used for testing purposes.

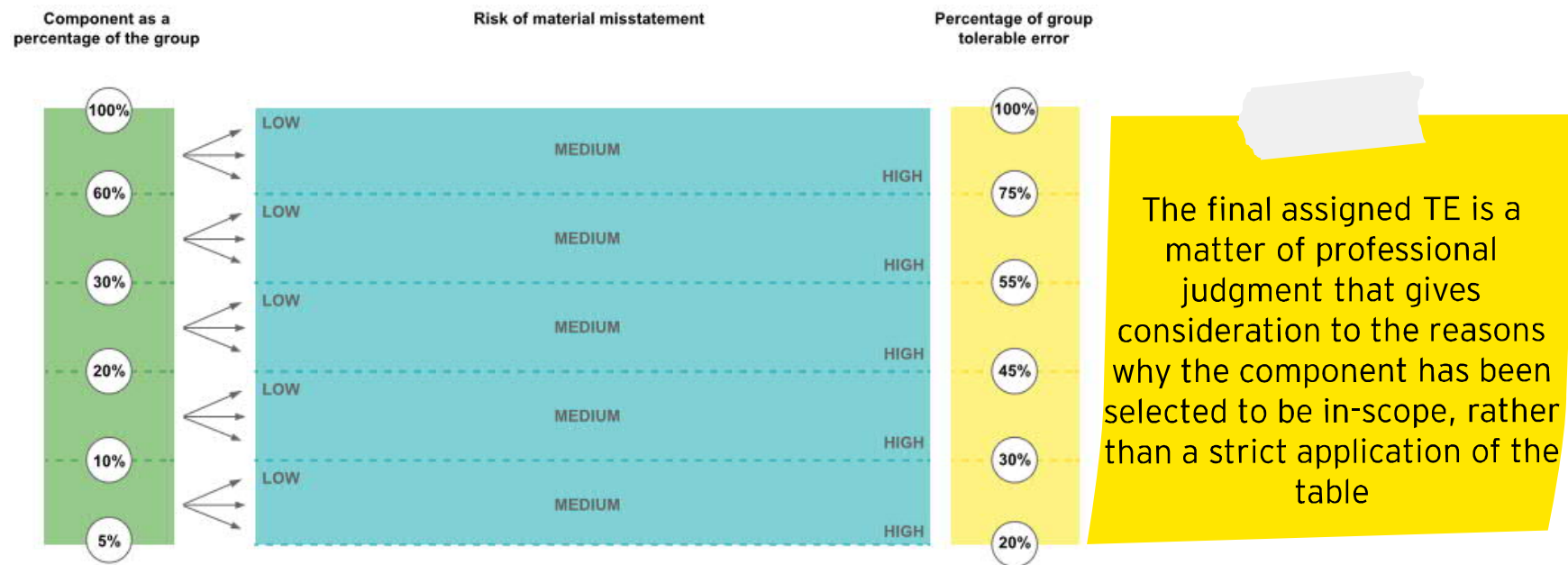
Group Scoping

Assign Tolerable Error

The Primary Team is responsible for assigning TE to full scope and specific scope engagements.

Assigned TE is determined to reduce to an appropriately low level the probability that the aggregated uncorrected and undetected misstatements in the group financial statements exceeds group PM.

See the table below to determine how to assign TE:



Group Scoping

Determine review thresholds for review scope engagements

The Primary Team determines a review threshold for those engagements that have been assigned a review scope engagement.

Review scope engagements primarily consist of performing analytical procedures and making inquiries of operational and financial component management, based on overall risk considerations.

The Primary Team usually starts the determination of the threshold using a small percentage of the group TE (e.g., 10 to 20% of group TE), and increases or decreases this amount based on:

- i. The nature of the group, in case of numerous components to which Primary Team decided to assign a review scope;
- ii. The risks identified at those components and the reason for assigning a review scope engagement;
- iii. The overall strategy selected for the not significant components.

Group Audit Instruction: minimum contents

Minimum contents of group audit instruction are detailed below:

KEY INFORMATION FROM THE PRIMARY TEAM

- i. Current year information: This section captures significant changes in the group or in the group audit instructions from the prior period that the Primary Team believes to be important to component teams. At a minimum, this section contains:
 - An update from prior year;
 - The results of client acceptance/continuance procedures;
 - A description of significant risks, including risks of material misstatement due to fraud;
 - A summary of key accounting and auditing issues;
 - Other items that have changed compared to prior year.
- ii. Recurring information: background information about the group and key business and administrative aspects. This section also includes:
 - Information on the financial reporting framework and applicable auditing standards;
 - A list of related parties identified at group level and communicated by group management;
 - A description of the ethical requirements, including independence.

Group Audit Instruction: minimum contents

- iii. Timetable: This section sets out the communication and required reporting deadlines for components, as well as the Primary Team contacts, client deadlines, planned visits to the component teams and expected communication protocols, including the expectations of the client;
- iv. Procedures performed by the Primary Team: nature, timing and extent of procedures to be performed by the Primary Team or by other EY teams;
- v. Using the work of the internal auditors or others: The Primary Team describes the extent of use of the work of internal auditors;
- vi. Representation letters: The Primary Team provides examples of the representations they require from component management. Component teams obtain representations from component management for full, specific and review scope engagements;
- vii. Engagement agreement: The Primary Team describes if an engagement agreement is obtained for the entire group;
- viii. Results of procedures performed by the Primary Team: report the results of procedures performed by the Primary Team or other EY teams.

Group Audit Instruction: minimum contents

SCOPE OF WORK

- i. Audit scope: The Primary Team describes the scope of work for each in scope component;
- ii. Instructions for in-scope components: procedures to be performed depend on the audit scope assigned to each component. In this section the Primary Team could describe additional audit procedures other than those highlighted in our methodology;
- iii. Assigned TE, SAD nominal amount and review thresholds: The Primary Team defines the assigned TE for full scope and specific scope engagements as well as the threshold to be used for analytical procedures for review scope engagements;

REPORTING FORMS

The Primary Team define the main reporting forms that have to be provided by component teams during the audit.