



Planning and Materiality in Group Audits Demystified

8 May 2026

Ask a question



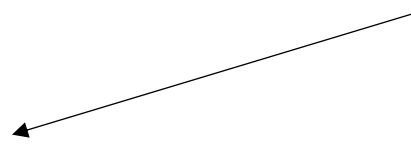
The screenshot shows a Q&A interface with a title bar 'Q&A'. It displays a question 'What happens when I raise my hand?' asked at 18:03 and an answer 'I can take you off of mute.' by Molly Parker at 18:04. Below this is a large text input area with the placeholder 'Please input your question'. At the bottom, there is a checkbox for 'Send Anonymously' and a blue 'Send' button.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.





Did you know?

ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).



Today's speakers



**Jez Williams,
Apex Professional Consulting**



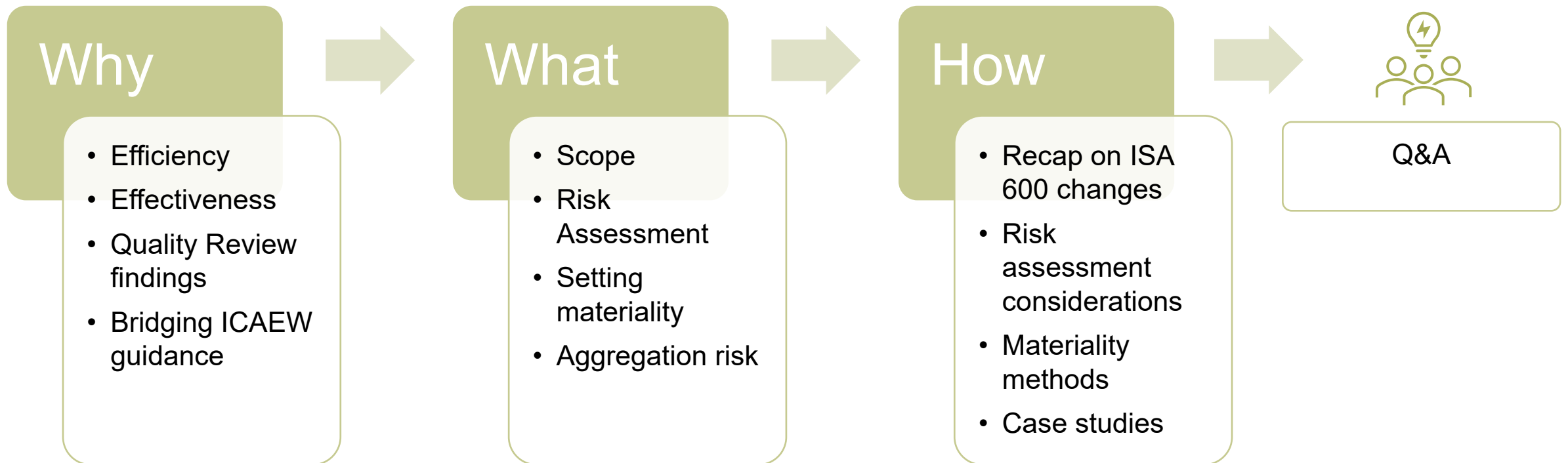
**Rhodri Whitlock,
HPL Associates Limited**

Introduction & Scene Setting

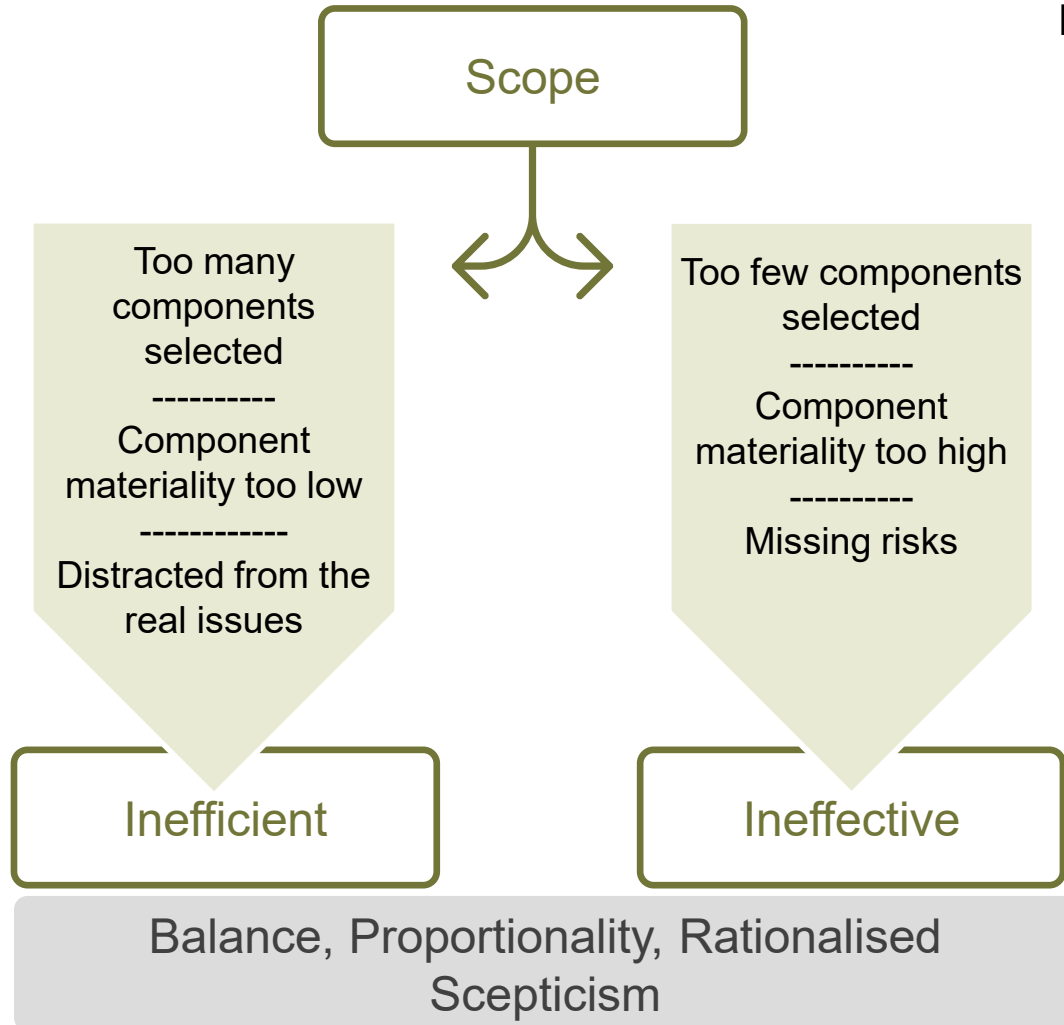
Objective



The demystification of planning and setting (and re-evaluating) materiality in group audit engagements



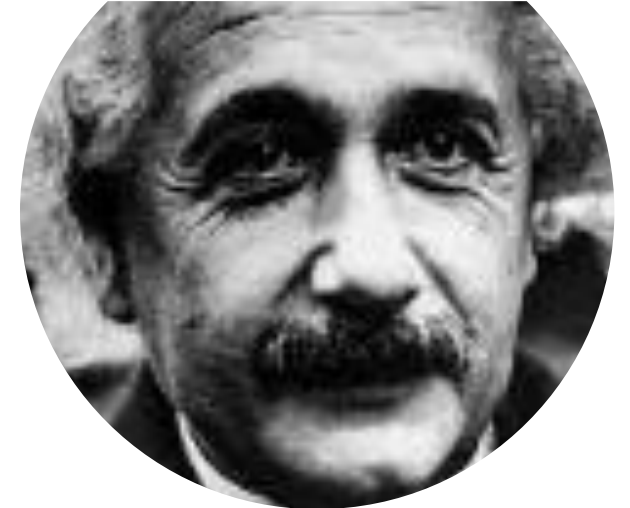
Why: Efficiency and Effectiveness



How much is enough? The perennial question for auditors

“If I had an hour to solve a problem, I’d spend 55 minutes thinking about the problem and 5 minutes thinking about solutions.”

Albert Einstein



Opportunities to improve efficiency and effectiveness

Why: Quality Findings



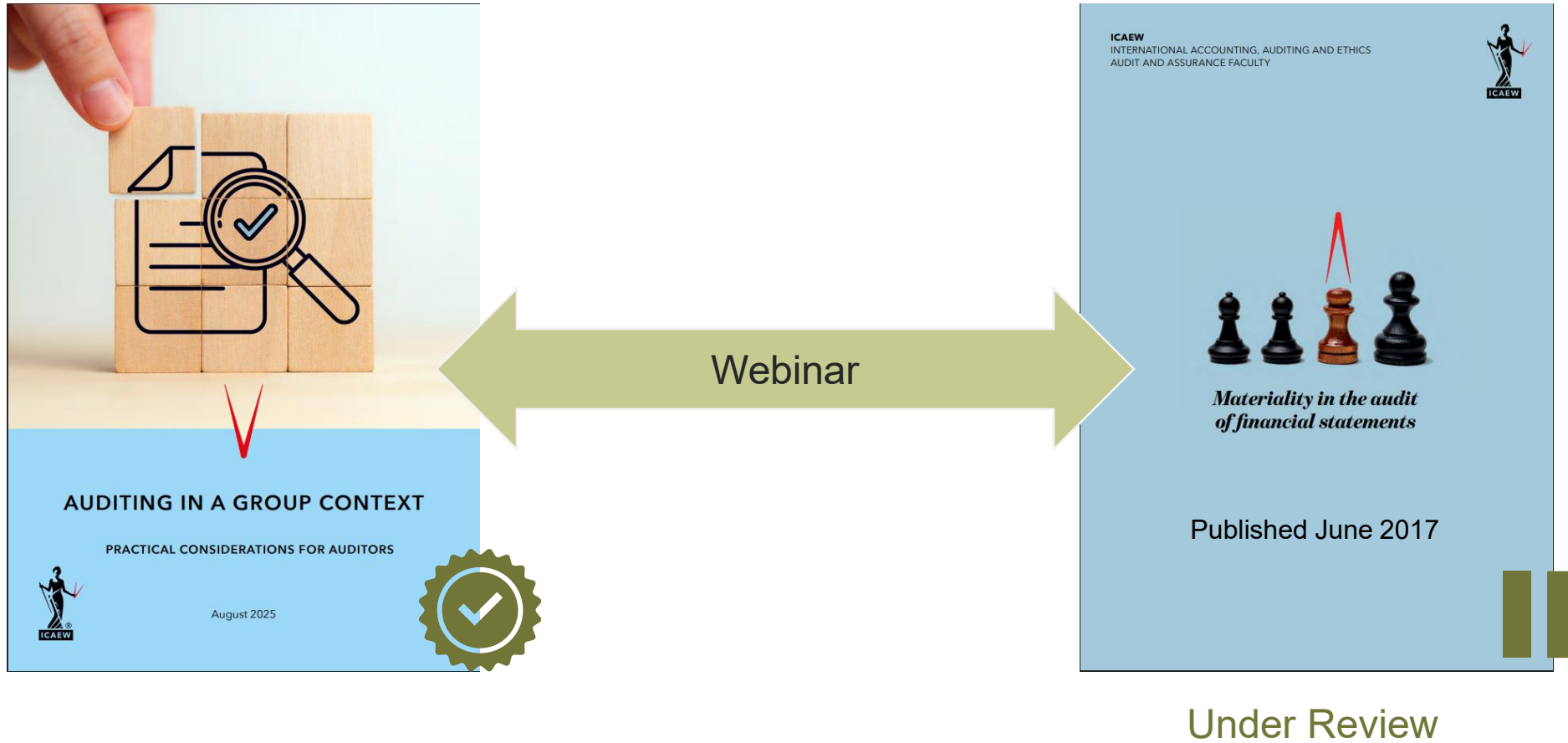
Cross-Regulator Common Themes (Summary Table)

Area	Recurrent Findings
Group risk assessment	Insufficient top-down identification of group risks
Component scoping	Size-driven rather than risk-driven
Component materiality	Set mechanically; aggregation risk ignored
Engagement with component auditors	Weak direction, limited review, boilerplate instructions
Documentation	Insufficient evidence of group partner involvement

Compiled from FRC, ICAEW, ICAS and ACCA findings over the last two years

- Not limited to large multi-team, multi-jurisdictional group audits
- Opportunities for smaller firms to improve quality, effectiveness and efficiency where they are the group and component(s) auditor

Why: Bridging ICAEW Guidance



What: Our focus



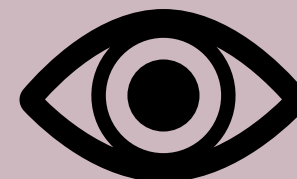
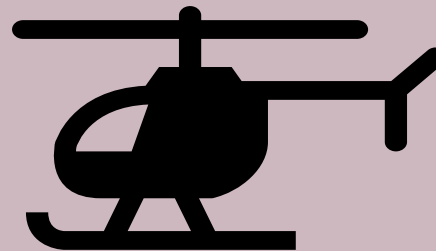
- Scope
- Risk Assessment
- Setting materiality
- Aggregation risk



How

ISA 600 Revised – Recap

Key changes and areas of challenge



ISA 600 Revised: Why and When

➤ Effective for accounting periods on or after 15 December 2023.

➤ Response to:

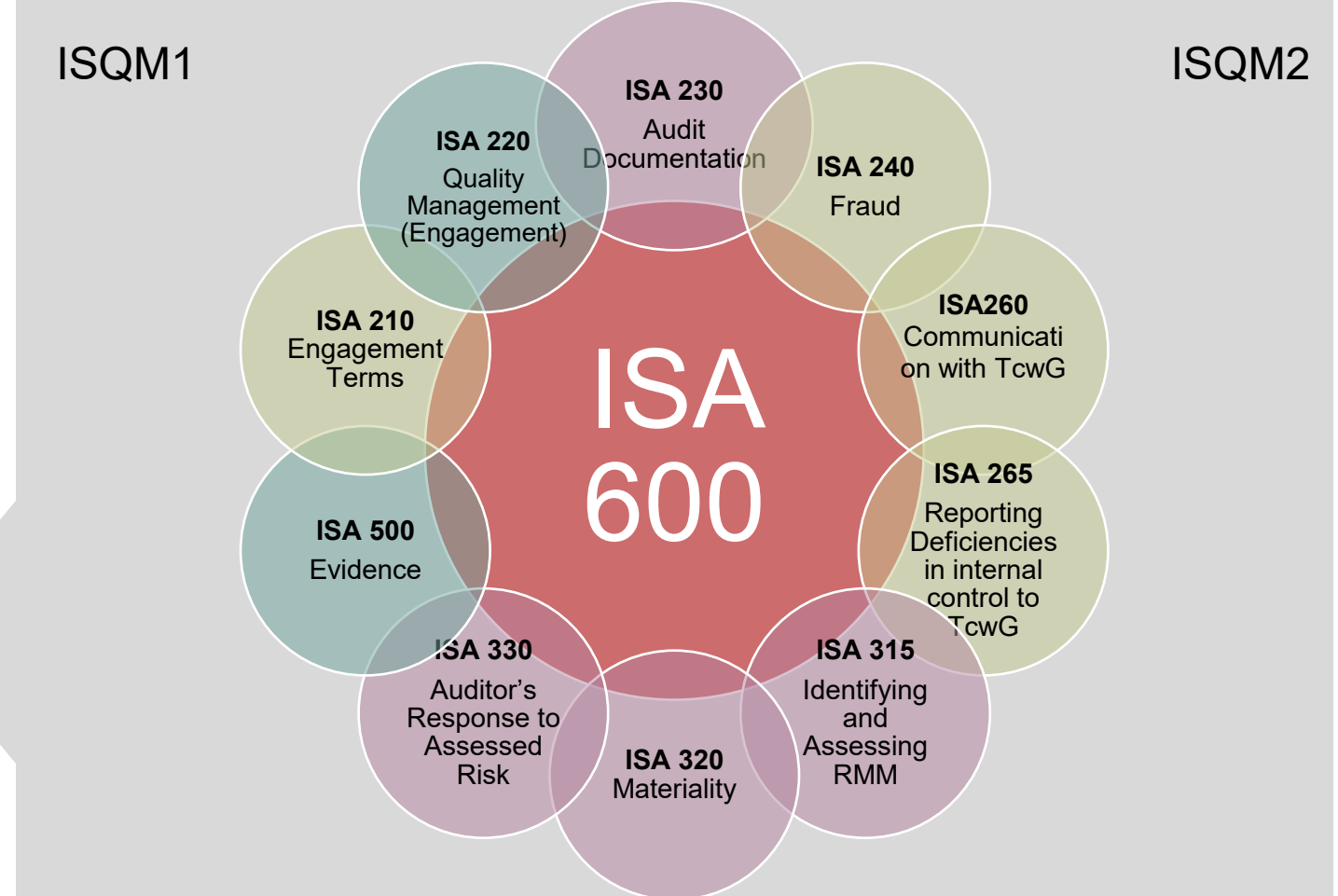
❑ **Audit failures**

❑ An ageing Standard (original standard issued in 2009 with updates in 2016 and 2019)

❑ Alignment with ISQM1 & 2

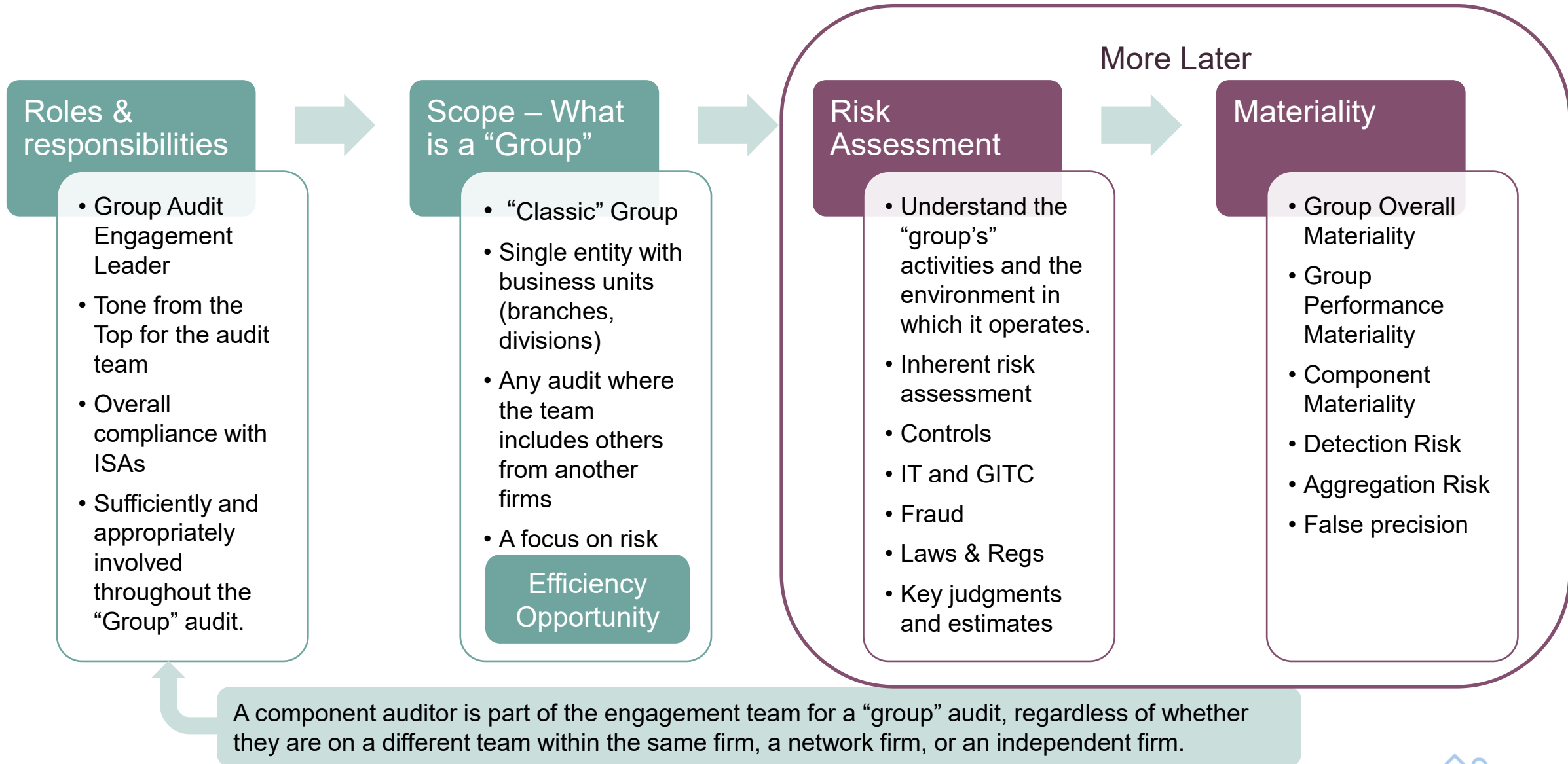
❑ Alignment with the ISA Ecosystem, notably ISA 230, 240, 315 & 330

➤ Provide scalability & Resilience



- Encourage proactive quality management at the group engagement and component levels.
- Foster an appropriately independent, challenging and sceptical mindset of the auditor

Key Considerations



Thinking Differently About the Testing Strategy



Area	Old ISA 600 (UK)	Revised ISA 600
Primary driver of scope	Component size	Group-level risks
Component selection	Size thresholds + significant risks	Components linked to specific RoMMs
Scope within a component	Generally whole component	Classes of transactions / balances / disclosures allowed
Partial-scope work	Possible but hard to justify	Explicitly encouraged where risk-aligned
Efficiency	Often over-audits	More precise and scalable

Amplifies the need to:

- Understand the Group, its activities and associated risks
- Determine appropriate levels of materialities.
- Address detection and aggregation risk
- Communicate, direct and engage with component auditors

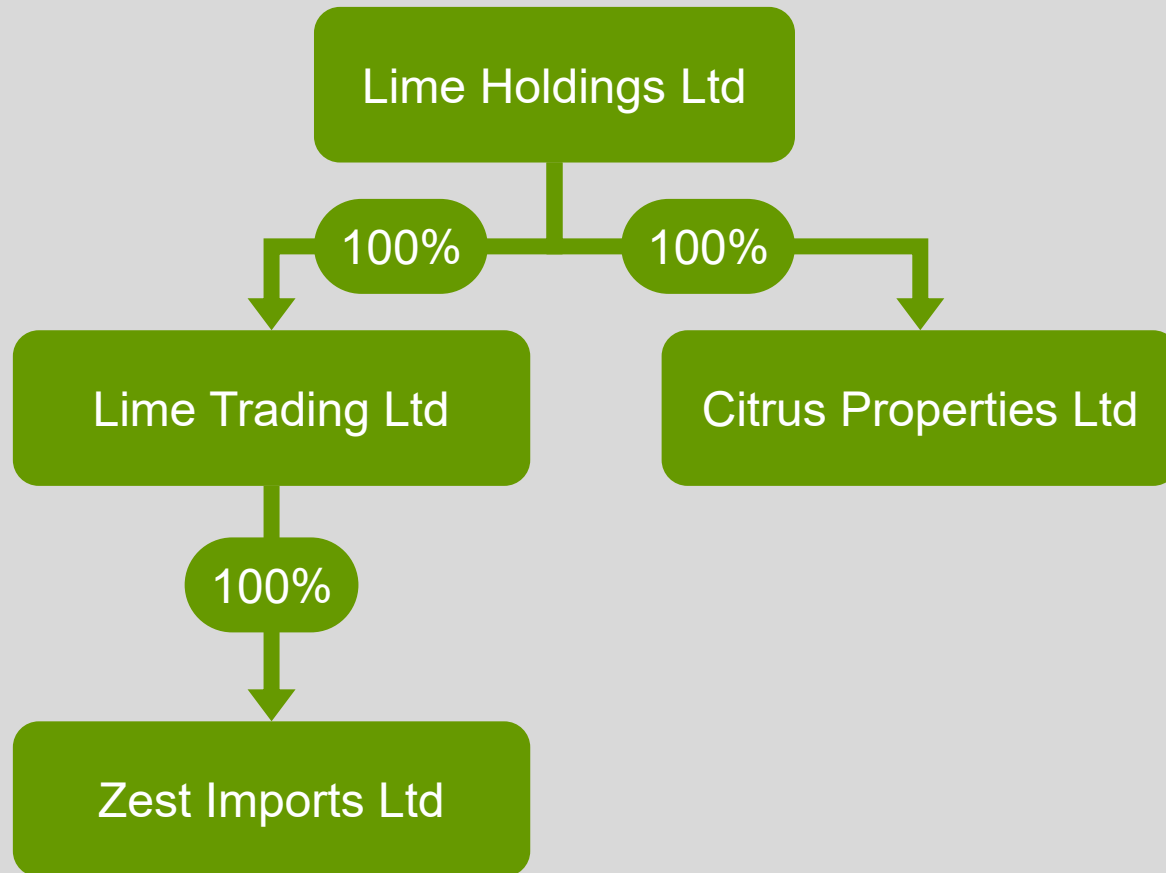
A Top-Down Targeted Risk-Based Approach

Supports a more focused, effective and efficient approach



Risk and materiality in group audits

Case Study 1: The Lime Group

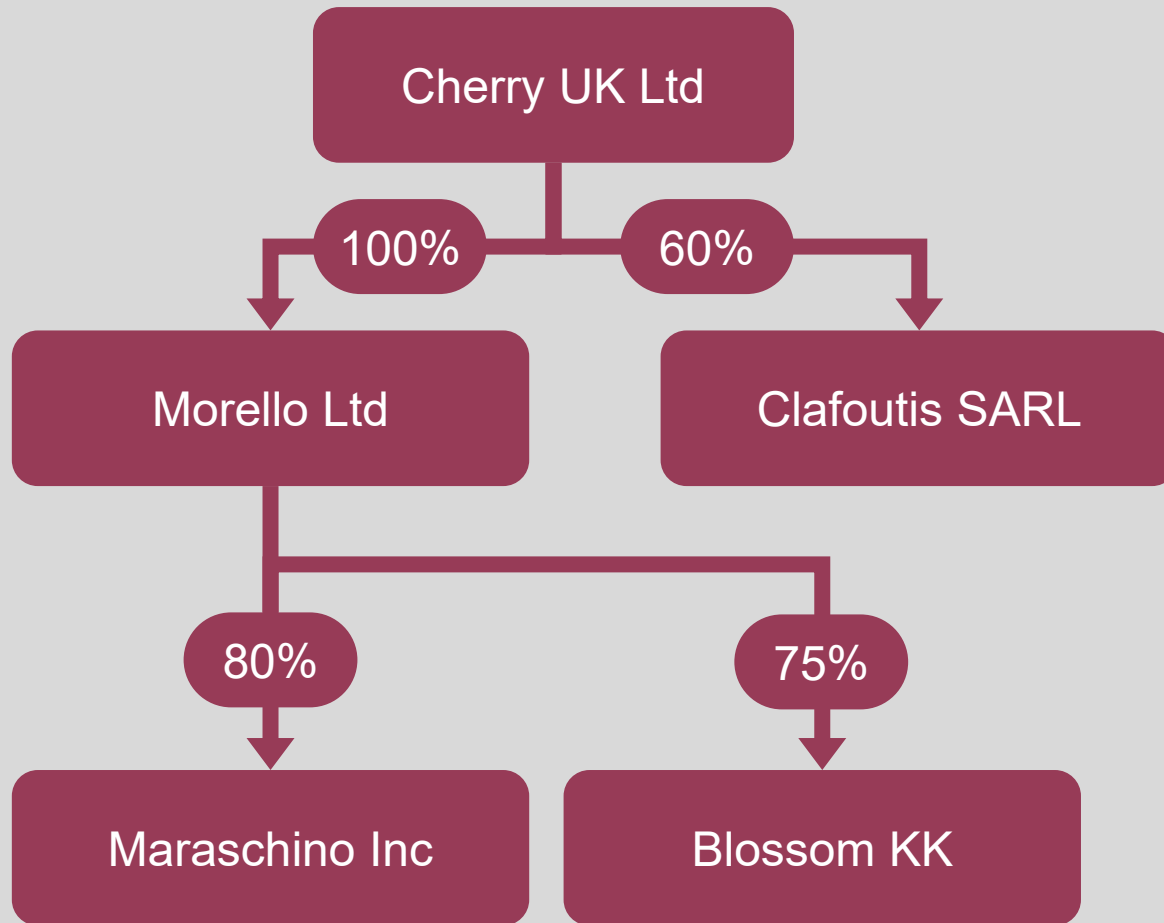


Group Revenue = £14.5m
Group PBT = £2.8m
Group net assets = £22.3m

The **Lime Group** consists of four UK companies:

- **Lime Holdings Ltd** does not trade. It holds the investments in its direct subsidiaries. It is owned by its three founder-directors.
- **Lime Trading Ltd** is the main trading company, wholesaling citrus fruit and fruit products (juices, preserves etc) to independent UK greengrocers. Revenue = £12m, PBT = £2.3m, net assets = £3.7m.
- **Zest Imports Ltd** imports ancillary products. It is much smaller. Revenue = £2m, PBT = £120K, net assets = £645K.
- **Citrus Properties Ltd** owns a portfolio of residential and commercial properties including the main warehouse operated by the group. Rental income = £458K (of which intra-group = £100K), PBT = £326K, net assets = £18m.

Case Study 2: The Cherry Group



Group Revenue = £41.3 million
Group PBT = £11.8 million
Group net assets = £18.2 million

The **Cherry Group** consists of five companies:

- **Cherry UK Ltd** does not trade. It is owned by a trust based in Jersey.
- **Morello Ltd** is the UK trading company, developing financial software and selling to UK/EU. Revenue = £18m, PBT = £5.2m, net assets = £7.3m.
- **Maraschino Inc** is Morello's USA distributor. Revenue = \$7m, PBT = \$2m, net assets = \$3.1m. **It is exempt from statutory audit.**
- **Blossom KK** is Morello's South-East Asian distributor. Revenue = \$9.5m, PBT = \$2.9m, net assets = \$4.2m. **It is exempt from statutory audit.**
- **Clafoutis SARL** is a French company engaged in R&D. Revenue = €7m, PBT = €2.9m, net assets = €3.5m. **It is audited by a local firm.**

What is group audit risk?



Group audit risk relates **solely to the group financial statements** and is the risk that these are materially misstated.

This is different from the risk of material misstatement (RMM) of the parent entity's separate financial statements (even though, in the UK, the latter are usually combined with those for the group).

A 'top down' approach to group audit risk

For the group audit, risk assessment is primarily considered from the perspective of the group financial statements – this can be called a '**top down**' approach. Group audit risk assessment will likely need to consider factors that may not be present within individual components or their financial information.

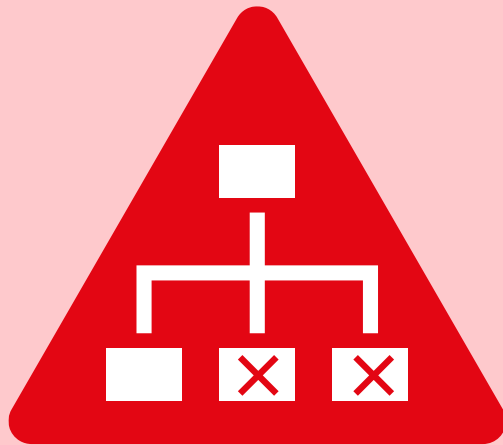
Intra-group
transactions
and balances

Going concern
and funding

Governance
and regulation

Management
bias and
override

Where do material misstatements in group financial statements originate?



Individual or aggregate misstatements present in **components'** financial information



Errors or omissions occurring during the **consolidation process**



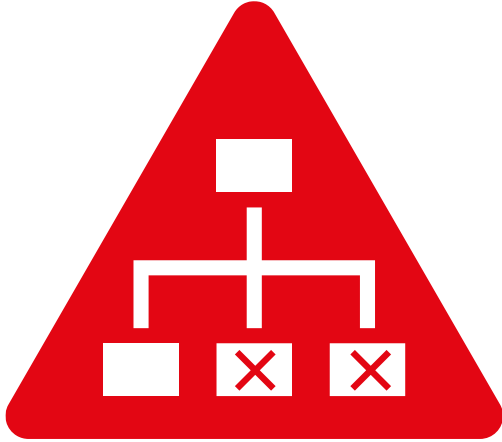
Misstatements that occur during the **finalisation** of group financial statements

Considering aggregation risk

Aggregation risk is the probability that the total of uncorrected and undetected misstatements in a group audit amounts to a material misstatement. In other words, **individually immaterial misstatements could combine to create a material misstatement in aggregate.**

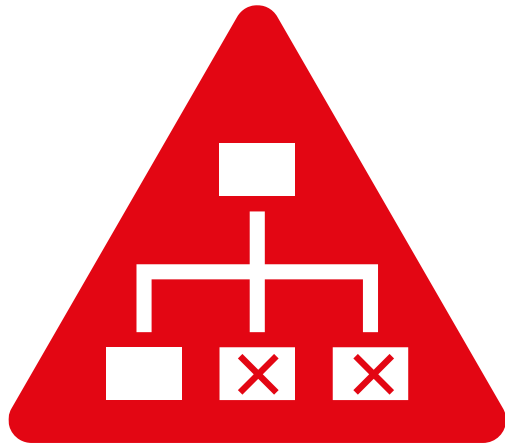


Considering aggregation risk



Misstatements at **any of these stages** could combine to cause the group financial statements to be materially misstated – all stages are subject to aggregation risk

Considering aggregation risk



This stage poses **additional aggregation risk**, since misstatements can occur in multiple components

Misstatements at **any of these stages** could combine to cause the group financial statements to be materially misstated – all stages are subject to aggregation risk

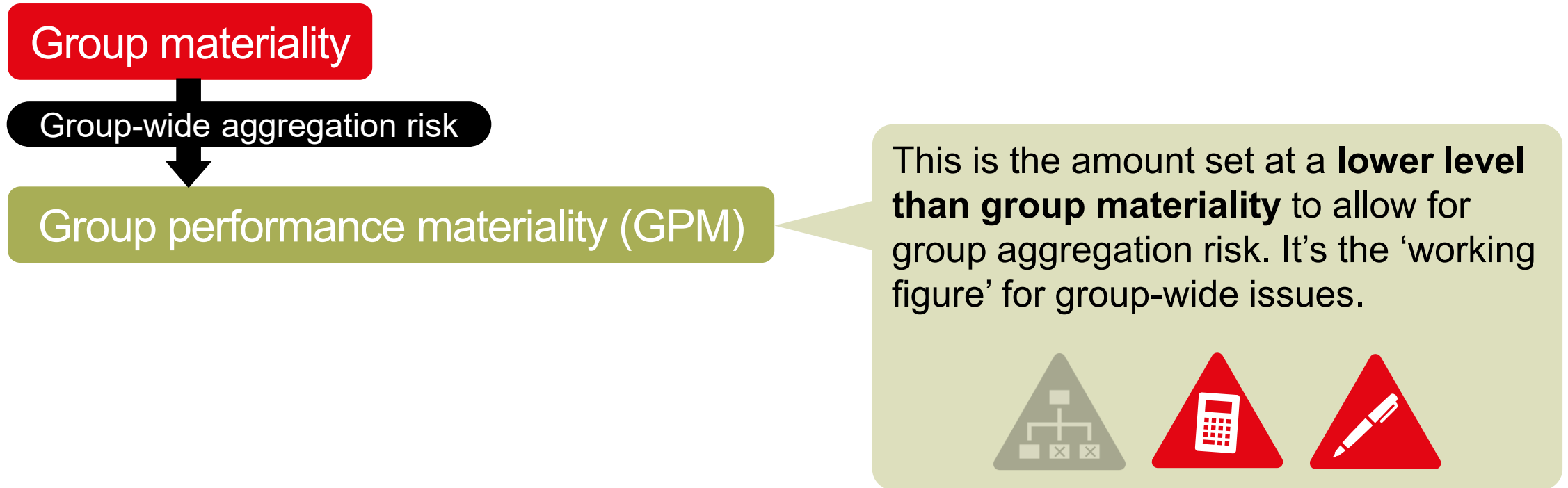
Setting materiality for the group audit

Group materiality

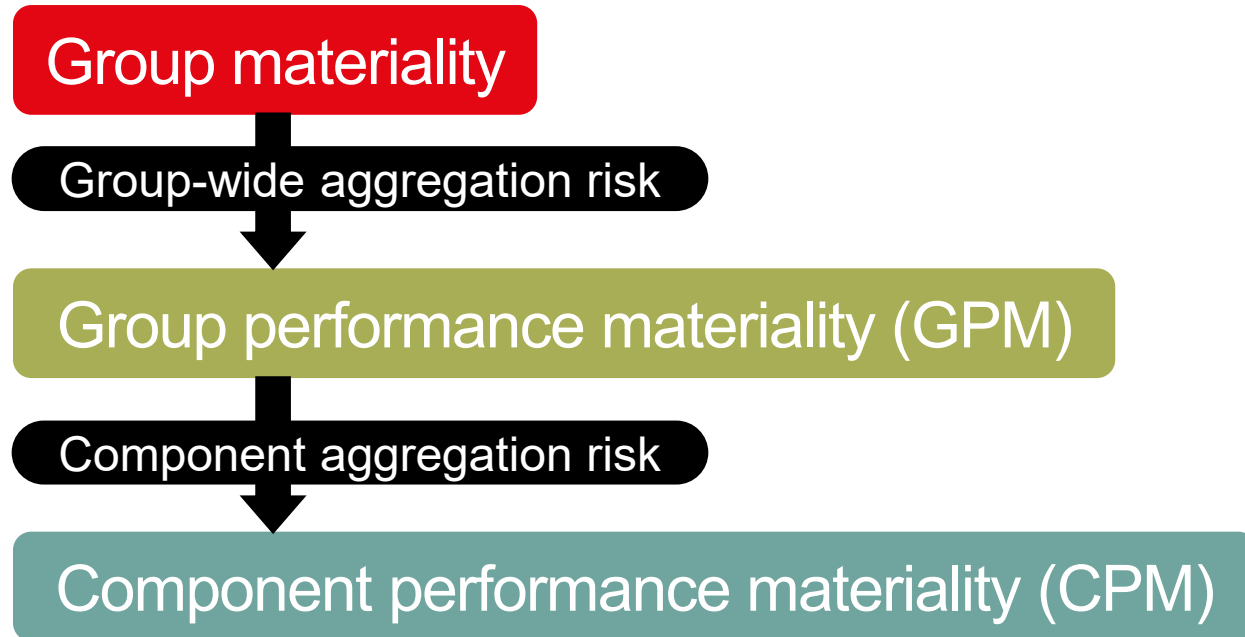
This is the **overall amount** at which misstatements are expected to influence users of the group financial statements.

- Set using a **relevant benchmark** (note that this may not be the same as that set for components, including the parent entity)
- Material classes of transactions, account balances and disclosure will require **some degree of audit evidence and testing**
- **Revisit** at the conclusion of the audit when considering unadjusted misstatements

Setting materiality for the group audit



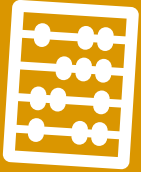
Setting materiality for the group audit



This is the amount(s) set at a **lower level than group performance materiality** to allow for component aggregation risk and may determine the nature and extent of testing of component financial information **for group purposes**



Approaches to calculating CPM



*Divide GPM by
the number of
components*



*Pro-rate GPM
using a relevant
benchmark*

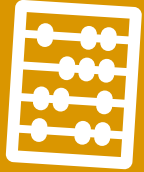


*Use a table
or formula
(e.g. 'MACM')*



*Use judgement
based on
individual risks*

Approaches to calculating CPM



~~*Divide GPM by
the number of
components*~~



~~*Pro-rate GPM
using a relevant
benchmark*~~



*Use a table
or formula
(e.g. 'MACM')*



*Use judgement
based on
individual risks*

Results in over-auditing and isn't logical

Approaches to calculating CPM



*Use a table
or formula
(e.g. 'MACM')*

No. of components	Multiple
2	1.5
3-4	2.0
5-6	2.5
7-9	3.0
10-14	3.5
15-19	4.0
20-25	4.5
26-30	5.0
31-40	5.5
41-50	6.0

Multiply this number by group materiality to calculate 'maximum aggregate component materiality' ('MACM')

Then allocate MACM to components using a benchmark, either directly or by using 'sum of squares'

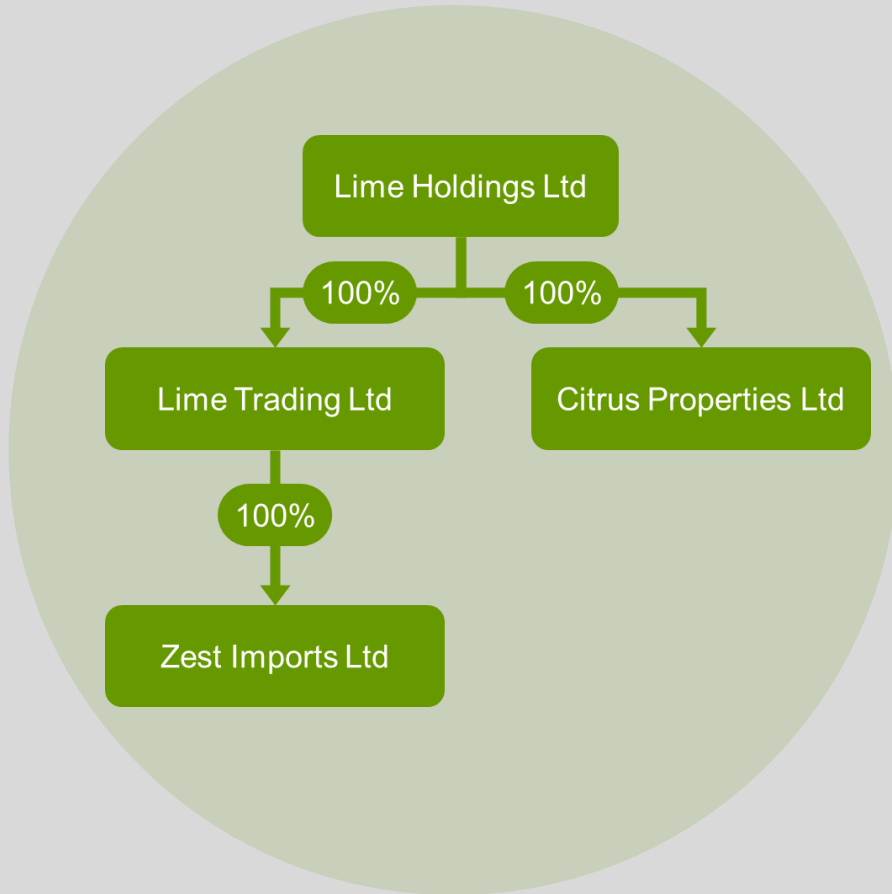
Approaches to calculating CPM



*Use judgement
based on
individual risks*

Scenario	Effect
Large number of components or greater disaggregation	Lower CPM
Single component is a large proportion of the group	Higher CPM
Component with unique or complex risks	Lower CPM
A transaction class or account balance exists in only one component	Group PM
Group risk spread unevenly across different components	Lower CPM
Group acquiring a new component	Lower CPM
Change to a group's business model, markets, etc	Lower CPM
Past experience of numerous misstatements	Lower CPM

Case Study 1: The Lime Group



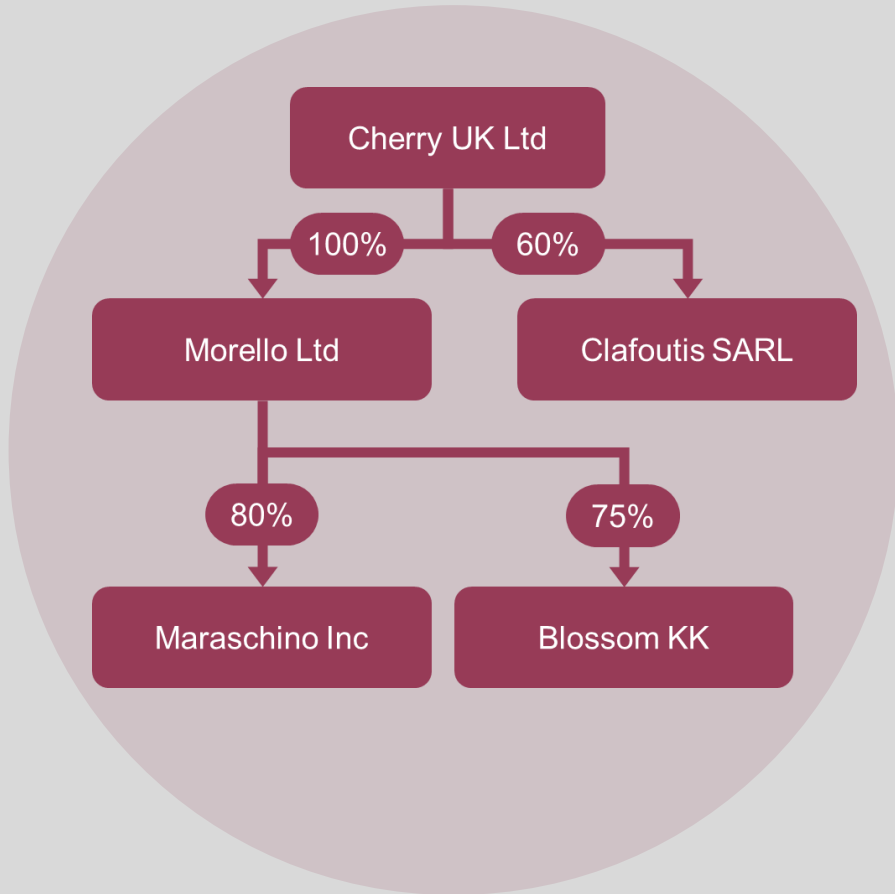
Group materiality set at 2% of group revenue = **£290,000**

Group PM set at 75%, i.e. **£217,500**

CPM set at base level 80%, i.e. **£174,000**

Component	Rationale	CPM (£)
Lime Holdings	No further aggregation risk – use group PM <i>(NB almost all eliminated on consolidation)</i>	217,500
Lime Trading	Base level appropriate	174,000
Zest Imports	Base level appropriate	174,000
Citrus Properties	No further aggregation risk – use group PM	217,500

Case Study 2: The Cherry Group



Group materiality set at 5% of group PBT = **£590,000**

Group PM set at 85%, i.e. **£501,500**

CPM set at base level 70%, i.e. **£351,050**

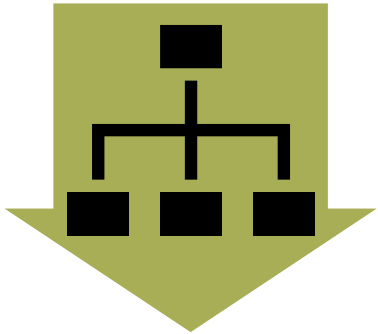
Component	Rationale	CPM (£)
Cherry UK	No further aggregation risk – use group PM (NB almost all eliminated on consolidation)	501,500
Morello	Base level appropriate	351,050
Maraschino	Base level appropriate	351,050
Blossom	Base level appropriate	351,050
Clafoutis	Higher risk attributed to business – lower CPM	250,000



Determining the right approach to components

Planning an effective and efficient approach

'TOP-DOWN'



Similar

Nature of business

Dissimilar

Centralised

Systems and controls

Decentralised

Identical

Audit risk areas

Distinct

Small and local

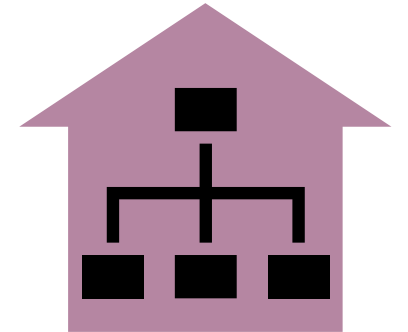
Engagement team

Large or widespread

Consistent

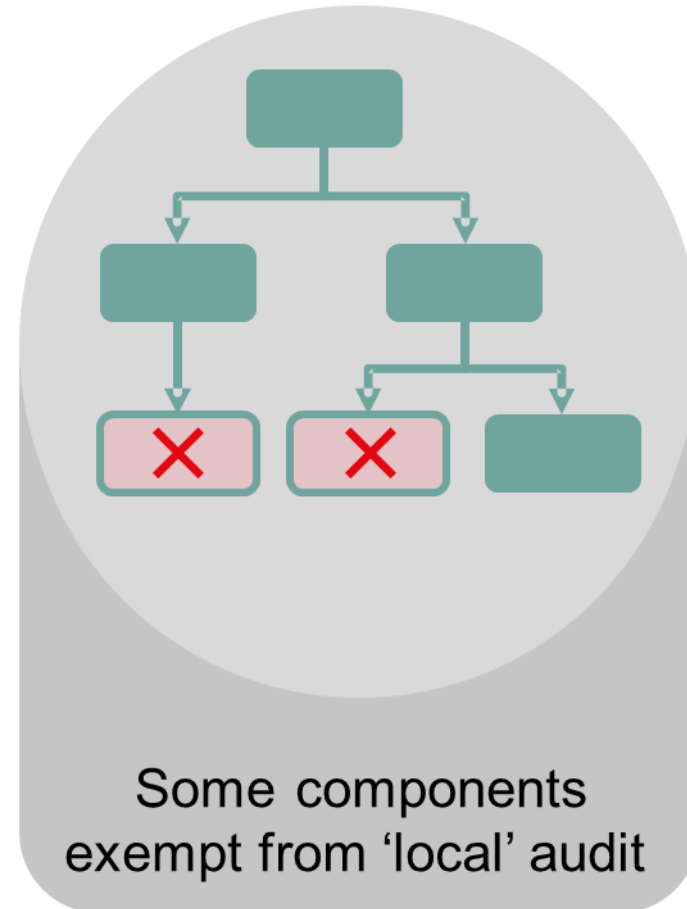
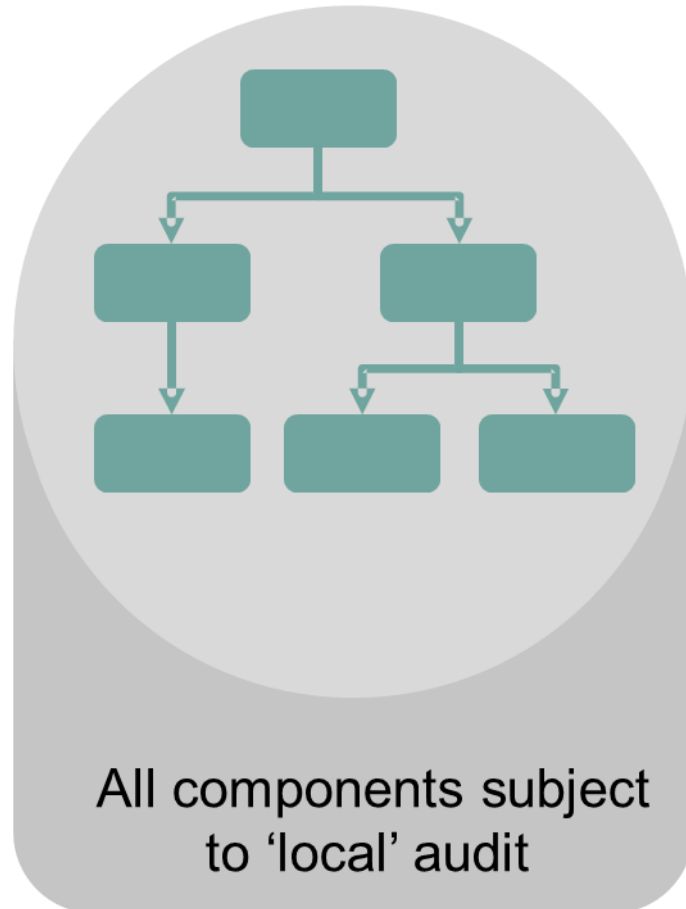
Audit methodology

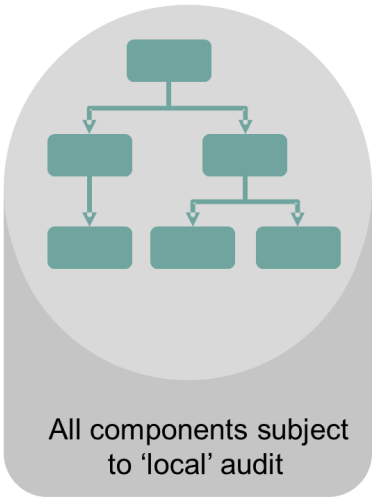
Diverse



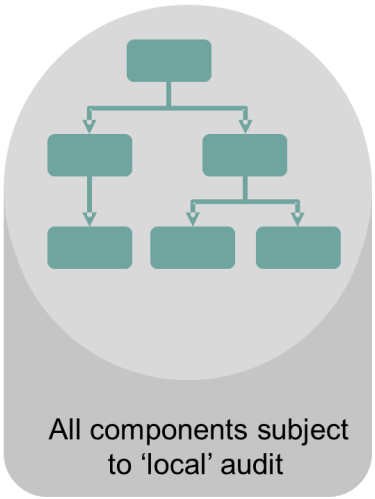
'BOTTOM-UP'

Components and 'local' audit





If we're auditing all the components, there's **no need to plan group-specific testing**, right?



- Components' local performance materiality is usually smaller than CPM, **but not always**
- There can be **group-wide risks** that aren't identified as such at local level
- Don't forget to audit the **consolidation process** and the **final drafting!**

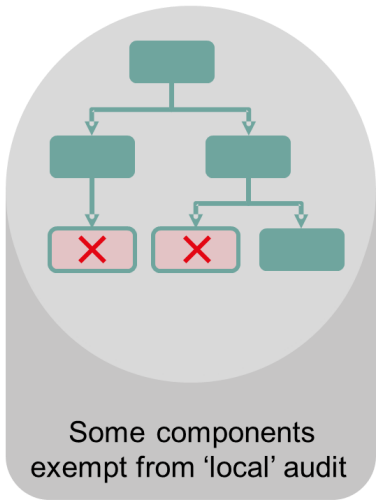
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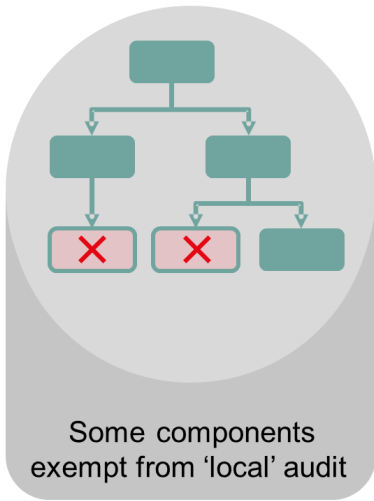
Group PM set at 75%, i.e. **£217,500**

CPM set at base level 80%, i.e. **£174,000**

Component	CPM (£)	'Local' PM	Rationale
Lime Holdings	217,500	8,000	Only assets are shares in subs totalling £396,000
Lime Trading	174,000	180,000	Local PM at 75% - exceeds CPM due to relative size of this subsidiary
Zest Imports	174,000	40,000	Local PM well below CPM – likely adequate local work
Citrus Properties	217,500	288,000	Local materiality based on 2% net assets , Local PM at 75%

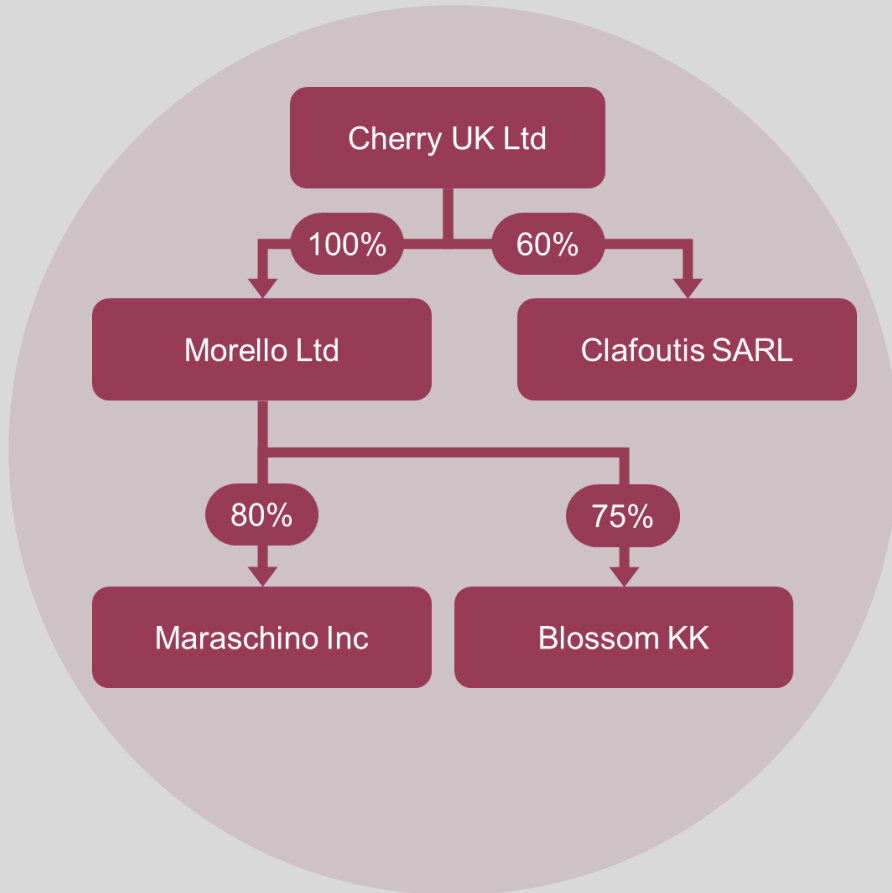


Where we're performing specific testing on audit exempt components, can we **test in aggregate** (e.g. using a single sample for revenue testing allocated between components)?



- Testing needs to focus on **group-specific risks**, using CPM to set the scope and extent of areas to test
- Using a combined sample test is appropriate **only if** the relevant transactions across components can reasonably be considered to form a single population

Case Study 2: The Cherry Group



Morello, Maraschino and Blossom share the same sales system, which runs in central SOP software. No hard copies of documents are retained but are attached as PDF links and can be 'drilled down' from within the SOP software and from the postings into Sage, the group's financial reporting package from which the draft financial statements are generated. The original PDFs are stored on a central server and can be accessed separately.

The group auditors consider that the relevant assertions at risk of material misstatement are completeness and accuracy, and that the risks are similar across all three companies. They therefore judge that sales orders and transactions form a single population. They select a sample of all orders, using random selection but ensuring roughly proportionate coverage of each company by sales volume, and test by tracing the order PDF to the related posting in SOP and thence into Sage.



Documentation

Documentation: Know your audience and protect yourself



ISA 230, the Acid Test

“.....is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand.....”



In Short!

Has the audit team ensured that the audit file tells the story of the audit from cradle to archiving, including scepticism & challenge, and the basis for the conclusions (*generally and specifically in relation to key judgments*) reached and opinions given?

Taking time to record your reasoning can be a valuable sense check



Quality documentation: Getting it right first time

27 February 2025

Documentation ~ Re-imagining the “audit file”



HPL Associates Limited



Documentation: Other considerations



- Who?
-
- What?
-
- Why?
-
- When?
-
- How?
-
- Did they do it?
-
- Level of scepticism
-
- Basis for reliance
-
- Accessibility
-
- Revised response
-
- Basis for opinion & key findings

- Interaction with Component Auditors:
 - Clarity over the nature, timing and extent of direction and supervision of component auditors – **including the setting of component materialities.**
 - Evidence of an appropriate review of their work, including meeting notes, the exercise of professional scepticism and challenge.
- Component Assurance
 - Access to Component working papers if requested by **the Competent Authority** to perform a quality review – Signed undertaking?
 - Retain sufficient documentation to explain the nature of testing undertaken by the Component Auditor and why it was appropriate for group reporting purposes.
- Identification of those areas tested directly by the Group Audit Engagement Team.
- Details of any restrictions or other limitations imposed and the impact on the audit.

Engagement File Stuffing

Can work: Needs to be proportionate and aligned to risk assessment



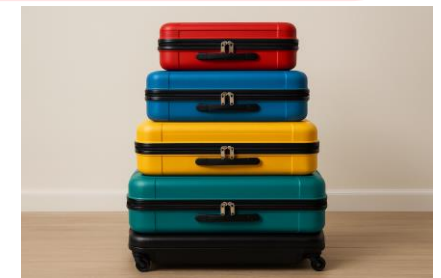
Beware of False Economies



- Lost functionality of the audit platform
- Confusing with multiple materialities and risks
- Overly complex workbooks
- Difficult to review (if over-stuffed)
 - Missing risks
 - Missing Assurance
- Difficulty resolving queries
- Completion challenges
- Archiving challenges



V





Summing Up

Summing Up

Understand the Entity Group

Develop a good understanding of the “Group”, its activities, the environment in which it operates and the associated risk.

Don't forget the parent entity and Group (consolidation) risks

Assess Risk & Develop Response

Leverage your ISA 315 understanding to assess risk across the group and develop your response.

Scope

Identify what is within scope based on the risk of material misstatement based on classes of transactions, balances and disclosures to the Group

Subsidiaries | Divisions | Individual Transactions, Balances & Disclosures

Evaluate Materiality

Determine all relevant levels of materiality. Ensure that component materiality is anchored in qualitative risk factors and mitigates aggregation risk. Maths on its own may not be sufficient.

Communicate and engage with Component Auditors

Reassess risk and materiality throughout the audit, and specifically prior to completion.
Remain alert to threats to detection and aggregation risk



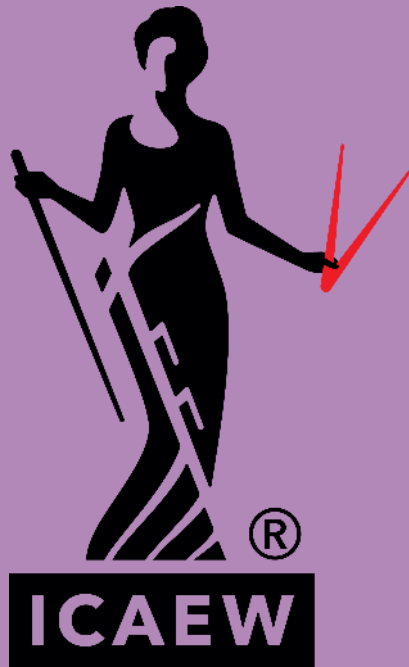
Document and record reasoning and professional scepticism

–

Ensure documentation meets the ISA 230 Acid Test.



Q&A



[icaew.com](https://www.icaew.com)