

**[ISA AND IAPS SPLIT]****PROPOSED INTERNATIONAL AUDITING PRACTICE STATEMENT XXX  
THE APPLICATION OF INTERNATIONAL STANDARDS ON AUDITING IN AN  
AUDIT OF GROUP FINANCIAL STATEMENTS**

(Effective for audits of group financial statements for  
periods beginning on or after December 15, 2006)

**CONTENTS**

	Paragraph
Introduction.....	1-4
Definitions.....	5
Acceptance and Continuance as Group Auditor.....	3-7
Terms of Engagement.....	8
Communications with Another Auditor.....	9
Obtaining an Understanding of the Group, Its Components, and Their Environments, and of the Consolidation Process.....	10-12
Matters About which the Group Auditor Obtains an Understanding.....	13-19
Discussion Among Engagement Team Members Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud.....	20-22
Assessing the Risks of Material Misstatement of the Group Financial Statements.....	23-25
Responding to Assessed Risks.....	26-28
Performing Further Audit Procedures	
Consolidation.....	29-34
Management Representations.....	35
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained.....	36-37
Reporting Considerations.....	38-39
Communication with Group Management.....	40-41
Effective Date.....	42

Appendix 1: Examples of Matters to be Included in the Group Auditor’s Letter of Instruction

Appendix 2: Example of Another Auditor’s Confirmations

Appendix 3: Determining the Work to be Performed on the Financial Information of Components

---

International Auditing Practice Statement (IAPS) XXX, “The Application of ISAs in an Audit of Group Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of IAPSs.

## Introduction

1. This International Auditing Practice Statement (IAPS) provides practical assistance to auditors in applying International Standards on Auditing (ISAs) in an audit of group financial statements. This IAPS is to be read in conjunction with ISA XXX, "The Audit of Group Financial Statements."

## Definitions

2. The following terms have the meanings attributed below:
  - (a) "Applicable financial reporting framework" means the financial reporting framework applicable to the group financial statements.
  - (b) "Audit methodology" means the policies and procedures adopted by a firm and applied by the engagement team to perform audits of financial statements that are of a consistent quality.
  - (c) "Component" means a head office, parent, division, branch, subsidiary, joint venture, associated company, or other entity whose financial information is or should be included in the group financial statements.
  - (d) "Component management" means management responsible for preparing the financial information of a component.
  - (e) "Group auditor"<sup>1</sup> means the auditor<sup>2</sup> who signs the auditor's report on the group financial statements.
  - (f) "Group financial statements" means financial statements that include or should include financial information of more than one component. The term "group financial statements" also refers to combined financial information aggregating the financial information of components in circumstances where there is no parent.
  - (g) "Group management" means management responsible for the preparation and presentation of the group financial statements.
  - (h) "Group-wide controls" means internal controls established by group management over group financial reporting.
  - (i) "Other auditor" or "another auditor" means a related auditor and an unrelated auditor.
  - (j) "Parent" means the entity whose management prepares or should prepare group financial statements.

---

<sup>1</sup> Where the audit of the group financial statements is conducted by joint auditors, the joint auditors collectively constitute the group auditor. This ISA, however, does not establish standards or provide guidance on the relationship between joint auditors and the work that one joint auditor performs in relation to the work performed by the other joint auditor.

<sup>2</sup> The proposed revised "Glossary of Terms" (December 2004) defines auditor as follows: "... the term 'auditor' is used to describe either the engagement partner or the audit firm. Where it applies to the engagement partner, it describes the obligations or responsibilities of the engagement partner. Such obligations or responsibilities may be fulfilled by either the engagement partner or a member of the audit team. Where it is expressly intended that the obligation or responsibility be fulfilled by the engagement partner, the term 'engagement partner' rather than 'auditor' is used."

- (k) “Related auditor” means an auditor from the group auditor’s firm or from a network firm who (i) operates under common monitoring policies and procedures as provided for in paragraph 87 of International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” and (ii) performs work on one or more components for purposes of the audit of the group financial statements.<sup>3</sup>
- (l) “Reporting package” ordinarily consists of standard formats for providing financial information for incorporation in the group financial statements. Reporting packages generally do not take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework.
- (m) “Significant component” means a component that has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements. This could be due to (i) the nature of, and circumstances specific to, the component (risk), or (ii) the individual financial significance of the component to the group (size).
- (n) “Uniform accounting policies” means the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the components use to report similar transactions consistently.
- (o) “Unrelated auditor” means an auditor other than the group auditor or a related auditor who performs work on one or more component for purposes of the audit of the group financial statements.

In this IAPS, reference to “consolidation” also includes the application of the equity method of accounting, and the aggregation of the financial information of components in circumstances where there is no parent.

### Acceptance and Continuance as Group Auditor

- 3. According to proposed ISA XXX, paragraph 8, the group auditor obtains a preliminary understanding of the group, its components, and their environments, sufficient to (a) identify significant components and components where other auditors will perform the work on the financial information, and (b) determine whether those other auditors are related auditors.
- 4. The group auditor’s preliminary understanding includes:

<sup>3</sup> ISQC 1, paragraph 87 reads as follows:

“Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system:

- (a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms;
- (b) The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and
- (c) Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.”

- The group structure.
  - Components' business activities that are significant to the group, including the regulatory, economic and political environments in which those activities take place.
  - The use of service organizations, including shared service centers.
  - A description of group-wide controls.
  - The complexity of the group financial statements.
  - Whether other auditors will perform work on the financial information of any of the components, and the reason for engaging unrelated auditors.
  - Whether the group auditor (a) will have unrestricted access to those charged with governance of the group, group management, component management, component information, and other auditors (including relevant parts of their audit documentation), and (b) will be able to perform necessary work on the financial information of the components.
5. In the case of a continuing engagement, the group auditor's understanding also includes significant changes since the previous audit, for example:
- Changes in the group structure (e.g., acquisitions, disposals, or reorganizations).
  - Changes in components' business activities that are significant to the group.
  - Changes in the composition of those charged with governance of the group, group management, or key management of significant components.
  - Whether the group auditor has experienced difficulties with regard to the integrity and competence of group or component management.
  - Changes in group-wide controls.
6. According to proposed ISA XXX, paragraph 10, the group auditor may identify at the group level a component as likely to include one or more significant risks of material misstatement of the group financial statements due to the nature of, and circumstances specific to, that component. For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement even though the component is not of individual financial significance to the group.
7. According to proposed ISA XXX, paragraph 11, a component may also be likely to include significant risks of material misstatement of the group financial statements due to its individual financial significance to the group. The group auditor may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. Depending on the nature and circumstances of the group, appropriate benchmarks might include group assets, liabilities, cash flows, profit or turnover. Although in practice there are ranges of possible percentages, a component representing 20% or more of group assets, liabilities, cash flows, profit, or turnover is regarded as financially significant. The nature and circumstances of the group, however, may often make a lower percentage appropriate.

## TERMS OF ENGAGEMENT

8. ISA 210, "Terms of Audit Engagements" establishes standards and provides guidance on agreeing with a client on the terms of engagement. In an audit of group financial statements, the group auditor may wish to include the following additional matters in the terms of engagement:
- (a) The applicable financial reporting framework;
  - (b) The fact that the communication between the group auditor and other auditors should be unrestricted;
  - (c) The fact that important communications between other auditors and component management, including communications on material weaknesses in internal control, should be made available to the group auditor;
  - (d) The fact that important communications between regulatory authorities and components related to financial reporting matters should be made available to the group auditor; and
  - (e) The fact that, to the extent the group auditor considers necessary, the group auditor should be permitted (i) access to component information, component management, and the other auditors (including relevant parts of their audit documentation), and (ii) to perform work on the financial information of the components.

## Communications with Another Auditor

9. According to proposed ISA XXX, paragraph 35, when another auditor performs the work on the financial information of a component, the group auditor communicates the group auditor's requirements to the other auditor. Appendix 1 contains examples of matters to be included in the group auditor's letter of instruction. Appendix 2 contains an example of another auditor's confirmations.

## Obtaining an Understanding of the Group, Its Components, and Their Environments, and of the Consolidation Process

10. According to proposed ISA XXX, paragraph 45, the group auditor obtains an understanding of the group, its components, and their environments, and the consolidation process, sufficient to:
- (a) Perform a risk assessment at the group level;
  - (b) Determine the audit procedures to be performed on the consolidation; and
  - (c) Determine the work to be performed on the financial information of the components.
11. How the group auditor obtains an understanding of the group, its components, and their environments, and of the consolidation process, depends on the group auditor's preliminary understanding of these matters (see proposed ISA XXX, paragraphs 8-11, and this IAPS, paragraphs 3-7), and the group auditor's experience with the group. The group auditor's understanding is sufficient to confirm whether the group auditor's initial identification of significant components was appropriate. To obtain this understanding, the group auditor performs the following procedures:

- (a) Inquiries of group management, internal audit, and those responsible for consolidating and preparing the group financial statements.
- (b) Application of analytical procedures to financial information prepared at both the group and component level.
- (c) Observation and inspection of group-wide controls, and controls relevant to the consolidation.

#### MATTERS ABOUT WHICH THE GROUP AUDITOR OBTAINS AN UNDERSTANDING

##### *Group Control Environment*

12. The group auditor obtains an understanding of the group control environment. The group control environment includes the attitude, awareness, and actions of those charged with governance and management that relate to the group-wide controls and their importance.

##### *Group-wide Controls*

13. The group auditor obtains an understanding of the group-wide controls. Group-wide controls may include a combination of the following:
  - Regular meetings between group and component management to discuss business developments and to review performance.
  - Monitoring of components' operations and their results, including regular reporting routines, which enables group management to monitor components' performance against budgets, and to take appropriate action.
  - Group management's risk assessment process, i.e., the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.
  - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at the group level.
  - A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components.
  - A central IT system controlled by the same general IT controls for all or part of the group.
  - Control activities within an IT system that is common for all or some components.
  - Monitoring of controls, including activities of internal audit and self-assessment programs.
  - Consistent policies and procedures, including a group financial reporting procedures manual.
  - Group-wide programs, such as codes of conduct and fraud prevention programs.
  - Arrangements for assigning authority and responsibility to component management.
14. Where internal audit is regarded as part of group-wide controls, for example when the internal audit function is centralized, and the group auditor plans to use the work of internal audit, the group auditor evaluates the competence and objectivity of the internal auditors.

### *Consolidation Process*

15. The group auditor obtains an understanding of the consolidation process, including relevant controls. The group auditor's understanding includes:

Matters relating to the applicable financial reporting framework, including the following:

- The extent to which component management has an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for components in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with components with financial year-ends different from the group's.

Matters relating to the consolidation process, including the following:

- Group management's process for obtaining an understanding of the accounting policies used by components, and ensuring that uniform accounting policies are used to prepare the financial information of the components for purposes of the group financial statements, and that differences in accounting policies are identified, and adjusted (where required in terms of the applicable financial reporting framework).
- Group management's process for ensuring complete, accurate and timely financial reporting by the components for purposes of the consolidation.
- The process for translating the financial information of foreign components into the currency of the group financial statements.
- How IT is organized for purposes of the consolidation, including the manual and automated stages of the process, and the manual and programmed controls in place at the various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments, including the following:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.

- Business rationale for the events and transactions that gave rise to the consolidation adjustments.
  - Frequency, nature and size of transactions between components.
  - Procedures for monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
  - Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
  - Arrangements with a majority owner or minority interests regarding losses incurred by a component (for example, an obligation of the minority interest to make good such losses).
16. To achieve uniformity and comparability of financial information, group management may issue financial reporting procedures manuals, reporting packages, and related instructions to components, specifying the requirements for financial information of the components to be included in the group financial statements. The instructions ordinarily cover (a) the accounting policies to be applied; (b) statutory and other disclosure requirements applicable to the group financial statements, including (i) the identification and reporting of segments, (ii) related party relationships and transactions, (iii) intra-group transactions and unrealized profits, and (iv) intra-group account balances; and (c) a reporting timetable.
17. The group auditor ordinarily considers the proposed reporting package for components at an early stage of the audit of the group financial statements, to determine whether it will provide sufficient appropriate information to prepare and present the group financial statements. The group auditor's consideration may include the following:
- The clarity and practicality of the instructions for completing the reporting package.
  - Whether the reporting package:
    - Adequately describes the characteristics of the applicable financial reporting framework;
    - Provides for disclosures sufficient to comply with the requirements of the applicable financial reporting framework, for example disclosure of related party relationships and transactions, and segment information;
    - Provides for the identification of consolidation adjustments, for example intra-group transactions and unrealized profits, and intra-group account balances; and
    - Provides for the approval of the completed package by component management.

### *Fraud*

18. ISA 240 (Revised), "The Auditor's Responsibility to Consider Fraud in the Audit of Financial Statements" establishes standards and provides guidance on the auditor's responsibility with regard to fraud. In an audit of group financial statements, the group auditor obtains an understanding of the following:

- Group management's assessment of the risks that the group financial statements may be materially misstated as a result of fraud.
  - Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or account balances, classes of transactions, or disclosures for which a risk of fraud is likely.
  - Whether there are particular components for which a risk of fraud is likely.
  - How those charged with governance of the group monitors group management's processes for identifying and responding to the risks of fraud in the group, and the controls that group management has established to mitigate these risks.
19. The group auditor inquires of those charged with governance of the group, group management, internal audit (and if considered appropriate, component management, other auditors, and others), whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

DISCUSSION AMONG ENGAGEMENT TEAM MEMBERS REGARDING THE RISKS OF MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS, INCLUDING RISKS OF FRAUD

20. ISA 315 and ISA 240 (Revised) require the members of the engagement team to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, with a specific emphasis on the risks due to fraud. The group auditor determines, based on prior experience with the group and knowledge of current developments, who to include in the discussions, how and when they occur, and their extent. In an audit of group financial statements, these matters may also be discussed by the group auditor and other auditors.
21. The group auditor, or a related auditor on behalf of the group auditor, holds discussions with other auditors who perform work on the financial information of significant components.
22. These discussions provide an opportunity to:
- Share knowledge of the components and their environments, including group-wide controls.
  - Exchange information about the business risks of the components or the group.
  - Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error, how group management and component management could perpetrate and conceal fraudulent financial reporting, and how assets of the components could be misappropriated.
  - Identify practices followed by group or component management that may be biased or to manage earnings that could lead to fraudulent financial reporting, for example revenue recognition practices that do not comply with the applicable financial reporting framework.
  - Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to

commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.

- Consider the risk that group or component management may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for purposes of the group financial statements, and whether differences in accounting policies are identified, and adjusted (where required in terms of the applicable financial reporting framework).
- Discuss fraud that has been identified in components, or information that indicates existence of a fraud in a component.
- Share information that may indicate non-compliance with national laws or regulations, for example payments of bribes and improper transfer pricing practices.

### **Assessing the Risks of Material Misstatement of the Group Financial Statements**

23. According to proposed ISA XXX, paragraph 53, the group auditor assesses the risks of material misstatement of the group financial statements at the group level.

24. In assessing the risks of material misstatement of the group financial statements at the group level, the group auditor uses (a) information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls relevant to the consolidation, and (b) information obtained through discussions with other auditors. Examples of conditions or events that may indicate risks of material misstatement of the group financial statements, including risks due to fraud, are set out below.

- A complex group structure, especially where there are frequent acquisitions, disposals, or reorganizations.
- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective group-wide controls, including inadequate group management information on monitoring of components' operations and their results.
- **Components operating in foreign jurisdictions that may be exposed to factors such as unusual government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.**
- **Business activities of components that involve high risk, such as long-term contracts or trading in innovative or complex financial instruments.**
- Uncertainties regarding which components require incorporation in the group financial statements in accordance with the applicable financial reporting framework, for example whether any special purpose entities or non-trading entities exist and require incorporation.
- Related party relationships and transactions.

- Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
  - Components' application of accounting policies that differ from those applied in the group financial statements.
  - Components with different financial year-ends, which may be utilized to manipulate the timing of transactions.
  - Prior occurrences of unauthorized or incomplete consolidation adjustments.
  - Aggressive tax planning within the group or large cash transactions with entities in tax havens.
  - More than one other auditor engaged to audit the financial statements of the components, and frequent changes of these auditors within the group.
25. ISA 550, "Related Parties" establishes standards and provides guidance on the auditor's responsibilities regarding related parties and transactions with such parties. In a complex group structure, there is heightened risk of not identifying related parties and related party transactions. It is therefore important that, in assessing the risks of material misstatement of the group financial statements, the group auditor and other auditors are alert for transactions that appear unusual in the circumstances, and that may indicate the existence of previously unidentified related parties.

### **Responding to Assessed Risks**

26. According to proposed ISA XXX, paragraph 55, the group auditor determines the work to be performed by the group auditor or other auditors on the financial information of the components to respond to the assessed risks of material misstatement of the group financial statements. The diagram in Appendix 3 illustrates how the group auditor may decide on the work to be performed on the financial information of the components.
27. Paragraphs 6-7 provide guidance on the identification of significant components. To identify components that are not significant in the aggregate, the group auditor may apply a percentage to a chosen benchmark as an aid to determine the individual financial significance of components to the group. While in practice there are ranges of possible percentages, components that in the aggregate represent less than 5% of group assets, liabilities, cash flows, profit or turnover will ordinarily be regarded as not significant in the aggregate.
28. The remaining components, although not individually significant (i.e., due to risk or size), may be significant in the aggregate. For example, analytical procedures performed at the group level might have indicated a significant increase in revenue and accounts receivables. Discussions with group management may have revealed that the increase is due to the establishment of a new market for one of the group's products. The new market may have been established in a country with severe economic problems, which might affect the collection of the accounts receivables. In this example, the group auditor determined that the product is manufactured and sold by three subsidiaries in the group. Although these subsidiaries are not individually significant, they might be significant in the aggregate. Based on the risk assessment performed at the group level, the group auditor

performs, or requests the other auditors to perform, an audit of the accounts receivables at these three components.

## Performing Further Audit Procedures

### CONSOLIDATION

29. According to proposed ISA XXX, paragraph 70, the group auditor determines the work to be performed on the consolidation to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process.
30. The consolidation process may require adjustments to amounts reported in the group financial statements that do not pass through the usual transaction processing systems, and that may not be subject to the same internal controls to which other financial information is subject. These adjustments typically consist of consolidation adjustments and reclassifications. The group auditor:
  - (a) Considers the appropriateness and completeness of the consolidation adjustments, as well as the accuracy of calculations;
  - (b) Considers whether the consolidation adjustments appropriately reflect the events and transactions underlying the adjustments;
  - (c) Determines whether significant adjustments have been correctly processed, authorized by group management and, where applicable, by component management, and are supported by sufficient appropriate documentation; and
  - (d) Checks the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.
31. Components that operate in diverse industry segments, or are located in jurisdictions that require different financial reporting frameworks, may use inconsistent accounting policies. If required by the applicable financial reporting framework, group management will ordinarily eliminate such inconsistencies by (a) requiring components to prepare financial information consistent with the accounting policies applied to the group financial statements, or (b) requiring component management to disclose the differences between the accounting policies applied to the component's financial information and those applied to the group financial statements and making the adjustment on consolidation. In these circumstances, the group auditor considers whether group or component management has appropriately adjusted the component's financial information for purposes of preparing and presenting the group financial statements. Where another auditor performs the work on the financial information of a component, and such adjustments have been made by component management, the group auditor requests the other auditor to confirm to the group auditor that such adjustments have been made.
32. According to proposed ISA XXX, paragraph 72, the group auditor determines whether the financial information identified in the communication of the other auditor is the financial information that is incorporated in the group financial statements.
33. If the group financial statements include the financial statements of any components with year-ends that differ from that of the group, the group auditor determines whether this is acceptable under the applicable financial reporting framework. The group auditor also

considers the component's results between its financial year-end and the date of the group financial statements, and identifies significant transactions, including intra-group transactions and unrealized profits, or other events and disclosures that need to be reflected in or eliminated from the group financial statements. Where another auditor performs the work on the financial information of a component, the group auditor requests the other auditor to perform the procedures the group auditor considers necessary for that consideration and identification.

34. Sometimes adjustments that are processed on consolidation relate to misstatements. Where these adjustments have not been processed in the relevant components' accounting records, the group auditor requests group management to have them processed appropriately and, if applicable and not prohibited by confidentiality requirements, informs the other auditor.

#### MANAGEMENT REPRESENTATIONS

35. ISA 580, "Management Representations" and other ISAs, for example ISA 240 (Revised), establish standards and provide guidance on management representations. In an audit of group financial statements, the group auditor also obtains written representations from group management, acknowledging its responsibility for:

- The establishment and maintenance of internal controls, including controls over the preparation and presentation of the group financial statements;
- The fair presentation of the group financial statements in accordance with the applicable financial reporting framework;
- Including all components in the group financial statements in accordance with the applicable financial reporting framework;
- The appropriateness and completeness of the disclosures in the group financial statements, including the disclosures of related party relationships and transactions and reportable segments in accordance with the applicable financial reporting framework;
- Obtaining accurate and complete financial information from components; and
- The appropriateness and completeness of the consolidation adjustments, including the elimination of intra-group transactions and unrealized profits, and intra-group account balances and, where required by the applicable financial reporting framework, adjustments for inconsistent accounting policies.

#### **Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained**

36. The group auditor evaluates whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation, and the work performed on the financial information of the components on which to base the group audit opinion. This evaluation includes the work performed by other auditors.
37. If the group auditor concludes that sufficient appropriate audit evidence has not been obtained, the group auditor obtains further audit evidence, if possible. In the case of components on which other auditors performed the work, the group auditor may request the other auditors to perform additional procedures. If this is not feasible, the group auditor performs the group auditor's own procedures on the financial information of the

components. When the group auditor has not been able to perform sufficient additional audit procedures, the group auditor considers the effect of this scope limitation on the group audit opinion.

### **Reporting Considerations**

38. The group auditor considers whether matters communicated by another auditor are of such a nature and significance in relation to the group financial statements that a modification of the auditor's opinion on the group financial statements is required.
39. Uncorrected misstatements that are material to the financial information of the component may be immaterial when aggregated at the group level. As a result, they may not affect the group auditor's opinion on the group financial statements. Conversely, uncorrected misstatements that are immaterial to the financial information of the component may be material when aggregated with uncorrected immaterial misstatements of the financial information of other components. The group auditor considers the aggregated effect of the uncorrected immaterial misstatements of the financial information of the components on the group audit opinion.

### **Communication with Group Management**

40. The group auditor makes group management aware, as soon as practicable and at an appropriate level of responsibility, of material weaknesses in the design or operation of group-wide controls, including controls over the preparation and presentation of the group financial statements. The group auditor also makes group management aware of material weaknesses in internal controls at components that have been identified by the group auditor, or that have been brought to the attention of the group auditor by other auditors, that the group auditor judges are of significance to the group.
41. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor communicates this as soon as practicable to group management. If the group auditor believes or suspects that group management may be involved in the fraud, the group auditor communicates this to those charged with governance.

### **Effective Date**

42. This IAPS is effective for audits of group financial statements for periods beginning on or after December 15, 2006.

## Appendix 1

### Examples of Matters to be Included in the Group Auditor's Letter of Instruction (See paragraph 9)

#### REQUIRED CONFIRMATIONS

- A request that the following confirmations are, whenever possible, submitted to the group auditor before the work on the financial information of the component is commenced:
  - In the case of an unrelated auditor, confirmation whether the unrelated auditor's firm's quality control system complies with ISQC 1, and there are any issues noted in recent monitoring reports that are likely to significantly affect the work that the unrelated auditor will perform on the financial information of the component.
  - Confirmation of receipt of the group auditor's letter of instruction and confirmation whether the other auditor will undertake the requested work.
  - Confirmation whether the other auditor understands and will comply with the relevant ethical requirements, including independence, sufficient to fulfill the other auditor's responsibilities in the audit of the group financial statements.<sup>4</sup>
  - Confirmation whether the other auditor understands the applicable financial reporting framework, sufficient to fulfill the other auditor's responsibilities in the audit of the group financial statements.
  - Confirmation whether the other auditor understands the auditing or other standards applicable to the audit of the group financial statements, sufficient to fulfill the other auditor's responsibilities in the audit of the group financial statements.
  - Confirmation whether the other auditor understands that the group auditor will consider and may use the other auditor's work for purposes of the audit of the group financial statements.

#### MATTERS RELEVANT TO THE PLANNING OF THE OTHER AUDITOR'S WORK

- The timetable for completing the audit.
- Dates of planned visits by group management and the group auditor, and dates of planned meetings with component management and the other auditor.
- A list of key contacts.
- The use to be made of the other auditor's work, the work to be performed, and arrangements for the coordination of efforts at the initial stage of and during the audit, including the group auditor's or related auditor's planned involvement in the work of the other auditor.
- Laws and regulations applicable to the parent that are relevant to the work to be performed by the other auditor.

---

<sup>4</sup> When there are several components in the group and their names may not be known to the other auditor, it is advisable for the group auditor to list them in the letter of instruction to facilitate the other auditor's assessment of compliance with the relevant independence requirements.

- Work to be performed on intra-group transactions and unrealized profits and intra-group account balances.
- Results of the group auditor's risks assessment performed at the group level that are relevant to the other auditor's work.
- The materiality level that the group auditor expects the other auditor to use.
- The threshold for clearly trivial misstatements.
- Guidance on other statutory reporting responsibilities, for example reporting on group management's assertion on the effectiveness of internal control.
- Where there is likely to be a time lag between completion of the work on the financial information of the components and the group auditor's conclusion on the group financial statements, specific instructions for a subsequent events review.

#### MATTERS RELEVANT TO THE CONDUCT OF THE OTHER AUDITOR'S WORK

- The findings of the group auditor's tests of control activities of a processing system that is common for all or some components, and tests of controls to be performed by the other auditor.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- A request for timely communication of audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which the group auditor originally based the risk assessment performed at the group level.
- A request for written representation on component management's compliance with the applicable financial reporting framework, or a statement that differences between the accounting policies applied to the financial information of the component and those applied to the group financial statements have been disclosed.
- Matters to be documented by the other auditor.

#### MATTERS RELEVANT TO THE OTHER AUDITOR'S COMMUNICATION

- The form and content of the report or memorandum of work performed to be provided to the group auditor.

#### OTHER INFORMATION

- A request for a list of uncorrected misstatements of the financial information of the component. The list does not include uncorrected misstatements that are below the threshold set by the group auditor for clearly trivial misstatements.
- A request that the following are reported to the group auditor in a timely manner:
  - Significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.
  - Material weaknesses in internal control
  - Actual fraud, or information obtained that indicates that a fraud may exist, including any suspected or alleged fraud affecting the component.

- Instances of non-compliance with laws and regulations applicable to the component that could have a material effect on the group financial statements.
- Matters relating to the going concern status of the component.
- Matters relating to litigation and claims.
- Matters relating to compliance with laws and regulations.
- A request that the group auditor be notified of any significant or unusual events as early as possible.
- A request for the names of related parties that were not listed by group management, and the types of related party transactions.

## Appendix 2

### Example of Another Auditor's Confirmations (See paragraphs 9)

The following letter is not intended to be a standard letter. Confirmations may vary from one auditor to another (for example, whether the other auditor is a related auditor or an unrelated auditor) and from one period to the next.

The group auditor ordinarily requests the other auditor, whenever possible, to submit the confirmations before the work on the financial information of the component is commenced.

[Other Auditor Letterhead]

[To Group Auditor]

[Date]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements give a true and fair view of (present fairly, in all material respects) the financial position of the group as of [date] and of its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].

We acknowledge receipt of your instructions dated [date], requesting us to perform the specified work on the financial information of [name of component] for the year ended [date].

We confirm that:

1. We will be able to comply with the instructions. / We advise you that we will not be able to comply with the following instructions [specify instructions] for the following reasons [specify reasons].
2. The instructions are clear and that we understand them. / We would appreciate it if you could clarify the following instructions [specify instructions].

We also acknowledge that:

1. The financial information of [name of component] for the year ended [date] will be included in the group financial statements of [name of parent] for the year ended [date].
2. You intend to review and, if considered appropriate, use our work performed on the financial information of [name of component] for the year ended [date] for purposes of the audit of the group financial statements of [name of parent] for the year ended [date].

In connection with the work that we will perform on the financial information for the year ended [date] of [name of component], a [describe component, e.g. wholly-owned subsidiary, subsidiary, joint venture, associate company] of [name of parent], we confirm the following:

1. Our firm's quality control system complies with ISQC 1, and there are no issues noted in recent monitoring reports that are likely to significantly affect the work that we will perform on the above.
2. We have an understanding of, and will comply with [indicate relevant ethical requirements], sufficient to fulfill our responsibilities in the audit of the group financial statements. In particular, and with respect to [name of parent] and the other components in the group, we are independent within the meaning of [indicate relevant ethical

requirements] and are in compliance with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].

3. We have an understanding of International Standards on Auditing and [indicate other national standards applicable to the audit of the group financial statements], sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of [name of component] for the year ended [date] in accordance therewith.
4. We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual], sufficient to fulfill our responsibilities in the audit of the group financial statements.

We will inform you of any changes in the above representations during the course of our work on the financial information of [name of component] for the year ended [date].

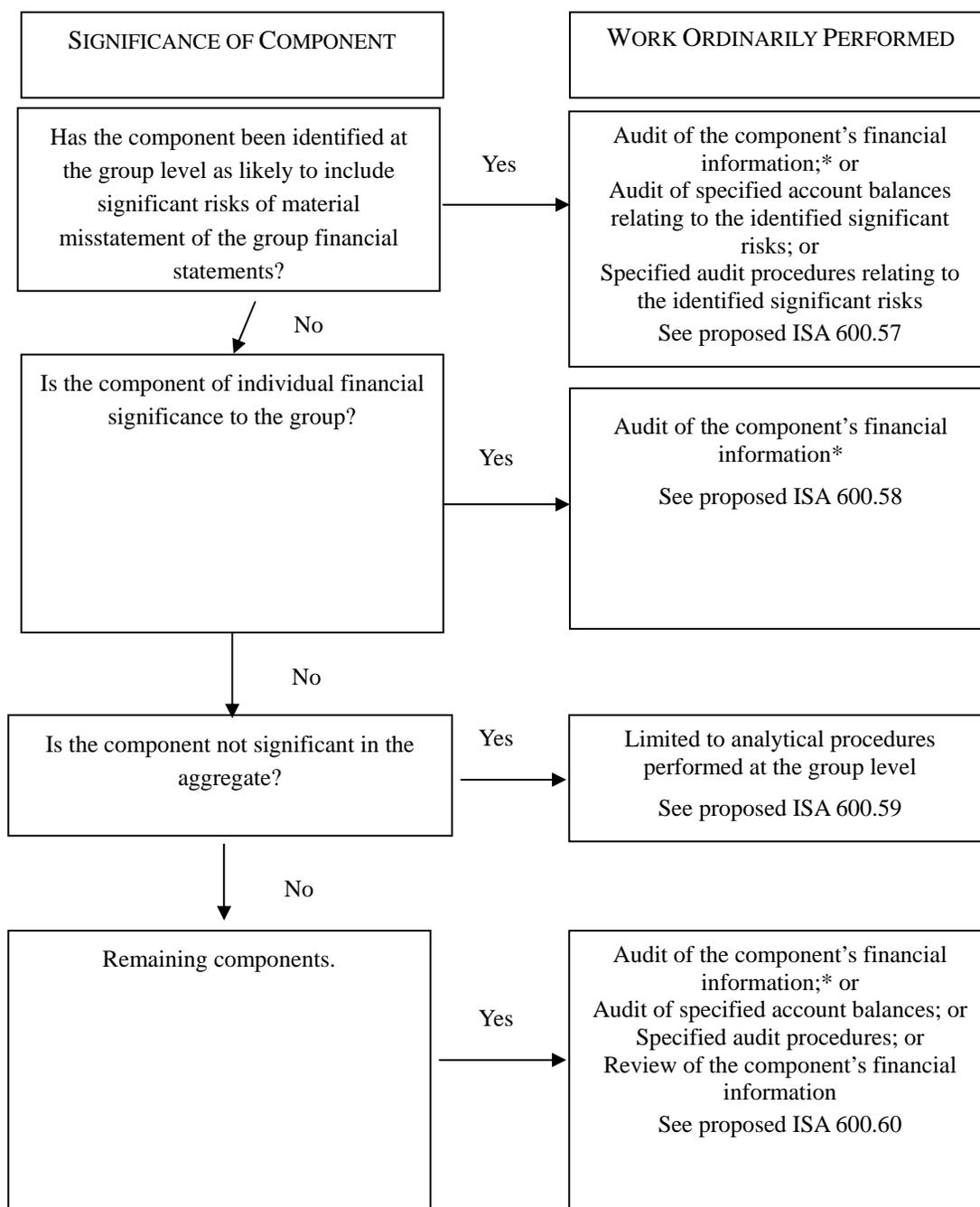
[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

**Appendix 3**

**Determining the Work to be Performed on the Financial Information of Components (See paragraph 26)**



\* Performed in accordance with ISAs using either a materiality level determined by the group auditor or a lower materiality level determined by the other auditor.

[Blank Page]