

[ISA AND IAPS SPLIT]**PROPOSED INTERNATIONAL STANDARD ON AUDITING XXX
THE AUDIT OF GROUP FINANCIAL STATEMENTS**

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

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Appendix: Example of an “Except for” Opinion where the Group Auditor is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to base the Group Audit Opinion

International Standard on Auditing (ISA) XXX, “The 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 ISAs.

Introduction

1. This International Standard on Auditing (ISA) establishes standards and provides guidance on matters relating to the audit of group financial statements, in particular, the involvement of other auditors in the group audit. The group auditor also applies the standards and considers the guidance in the other ISAs.
2. The standards and guidance in this ISA, adapted as necessary in the circumstances, also apply where other auditors are involved in the audit of the financial statements of a single entity. For example, an auditor may plan to use the work of another auditor who observed the inventory count or inspected physical fixed assets at a remote location.
3. Group management is responsible for preparing and presenting the group financial statements in accordance with the applicable financial reporting framework. Group management is also responsible for designing and implementing group-wide controls.
4. **The group auditor should obtain sufficient appropriate audit evidence on which to base the group audit opinion. To obtain such audit evidence, the group auditor should determine (a) the audit procedures to be performed on the consolidation, and (b) the work to be performed by the group auditor or other auditors on the financial information of the components.**

Definitions

5. 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"¹ means the auditor² who signs the auditor's report on the group financial statements.

¹ 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.

² 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."

- (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.
- (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.³
- (l) “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). (See paragraphs 10-11.)
- (m) “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 ISA, 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.

³ 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.”

Acceptance and Continuance as Group Auditor

6. ISQC 1 and ISA 220, "Quality Control for Audits of Historical Financial Information" establish standards and provide guidance on accepting and continuing client relationships and specific audit engagements.
7. **In deciding whether to accept or continue an engagement to audit group financial statements, the group auditor should also determine whether the group auditor will be able to obtain sufficient appropriate audit evidence on which to base the group audit opinion.** Other auditors may perform work on the financial information of one or more components for purposes of the audit of the group financial statements. It is the group auditor, however, who takes responsibility for the group audit opinion and, consequently, has to obtain sufficient appropriate audit evidence on which to base that opinion.
8. **The group auditor should obtain 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.**
9. In the case of a new engagement, this preliminary understanding is obtained from information provided by group management, discussions with group management and, where applicable, discussions with the previous group auditor, component management and other auditors. In the case of a continuing engagement, this understanding is supplemented by previous experience with the group.
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.
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. As the individual financial significance of a component increases, the risks of material misstatement of the group financial statements ordinarily increase. Generally, a relatively small number of components will constitute a large portion of the group's operations and financial position, making them financially significant.
12. **To obtain sufficient appropriate audit evidence on which to base the group audit opinion, the group auditor or related auditors, at a minimum, should:**
 - (a) **Perform the work on the financial information of significant components, or**
 - (b) **Be involved in the work that unrelated auditors perform on the financial information of significant components.**
13. Ordinarily, the risk of not detecting a material misstatement of the group financial statements increases when the group auditor does not perform the work on the financial information of the components. This risk may be reduced when the group auditor, or a related auditor on behalf of the group auditor, is involved in the work that unrelated auditors perform on the financial information of significant components. A group may consist only of components that are not of individual financial significance to the group. In these circumstances, the group auditor and related auditors (a) perform the work on the financial information of some of these components, and (b) are involved in the work

performed by unrelated auditors on the financial information of other components to the extent the group auditor considers necessary to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

14. Involvement in the work performed by an unrelated auditor ordinarily includes the group auditor, or a related auditor on behalf of the group auditor, undertaking some or all of the following actions:
 - Meeting with component management to obtain an understanding of the component and its environment.
 - Performing risk assessment procedures and participating in the assessment of risks of material misstatement. These may be performed with the unrelated auditor, or by the group auditor or a related auditor.
 - Determining and performing further audit procedures. These may be performed with the unrelated auditor, or by the group auditor or a related auditor.
 - Participating in the closing and other key meetings between the unrelated auditor and component management.
 - Reviewing the unrelated auditor's audit documentation.
15. The extent of this involvement is affected by matters such as the group auditor's evaluation of (a) the significance of the component, (b) the professional qualifications and professional competence of the other auditor, and (c) of the quality control system of the other auditor's firm. For example, the more significant the component, or the lower the level of the group auditor's satisfaction with the professional qualifications and professional competence of the other auditor, or with the quality control system of the other auditor's firm, the greater is the involvement of the group auditor, or related auditor on behalf of the group auditor, in the other auditor's work. Paragraphs 63-69 more fully describe such involvement.

ACCESS TO INFORMATION

16. **The group auditor should not accept an engagement to audit group financial statements if:**
 - (a) **The group auditor's access to component information, component management, or other auditors (including relevant parts of their audit documentation) will be restricted; and**
 - (b) **The possible effect of the group auditor's inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements.**
17. The group auditor may not have access to component information, component management, or other auditors (including relevant parts of their audit documentation) to the extent necessary to obtain sufficient appropriate audit evidence on which to base the group audit opinion. For example, the group auditor may not have access to a component accounted for by the equity method.

18. It may also not be practical for the group auditor to be involved in the work of another auditor (see paragraphs 12-15). For example, the group auditor, or a related auditor on behalf of the group auditor, may not be able to be involved in the work of an unrelated auditor in the case of (a) a significant component operating in a foreign jurisdiction, or (b) a tight timetable for completing the audit of the group financial statements.
19. Where restrictions on access cannot be overcome by group management or it is impractical for the group auditor to be involved in the work of another auditor, the group auditor considers whether sufficient appropriate audit evidence can be obtained by other means.
20. If the group auditor concludes that because of restrictions on access or impracticalities the group auditor will not be able to obtain sufficient appropriate audit evidence on which to base an unmodified group audit opinion, the group auditor considers the possible effect of this inability on the group financial statements. In some circumstances, the auditor may not have access to the management, information, or auditor (including relevant parts of the auditor's audit documentation) of a component that is accounted for by the equity method. The group auditor, however, may have a complete set of financial statements, including the auditor's report, of the component. Based on the auditor's consideration of (a) the significance of the component, (b) the professional qualifications, independence, and professional competence of the other auditor, and (c) the complete set of financial statements and the auditor's report, the group auditor may conclude that it is appropriate to express an "except for" opinion on the group financial statements. The Appendix contains an example of an "except for" opinion.
21. In other circumstances, the group auditor may not be able to express an "except for" opinion on the group financial statements because the possible effect of the inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements, thus requiring a disclaimer of opinion (see proposed ISA 701 (Revised), "Modifications to the Opinion in the Independent Auditor's Report"). In these circumstances, the group auditor informs group management that it is not possible for the group auditor to accept the engagement.
22. **If restrictions on access occur after accepting an engagement and these restrictions cannot be overcome by group management or by the group auditor obtaining sufficient appropriate audit evidence by other means, the group auditor should consider the possible effect of this inability to obtain sufficient appropriate audit evidence on the group financial statements.** When the possible effect of this inability is material and pervasive to the group financial statements, the group auditor considers resigning from the engagement. Where law or regulation does not permit resignation, the group auditor expresses a disclaimer of opinion on the group financial statements.
23. **The group auditor should state, in the terms of engagement, that restrictions on (a) the group auditor's access to component information, component management, or the other auditors (including relevant parts of their audit documentation), or (b) the work to be performed on the financial information of the components, imposed after the group auditor's acceptance of the engagement, constitute a scope limitation that may affect the group audit opinion.**

Consideration of Other Auditors

24. **The group auditor should consider the professional qualifications, independence, and professional competence of the other auditors, and the quality control systems of their firms.**
25. The group auditor considers, for example, whether the other auditor:
- Possesses an understanding of the applicable financial reporting framework sufficient to fulfill the other auditor's responsibilities in the audit of the group financial statements (the group financial reporting procedures manual often describes the characteristics of the applicable financial reporting framework);
 - Possesses an understanding of auditing and 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;
 - Possesses the special skills necessary to perform the work on the financial information of a particular component; and
 - Operates in a regulatory environment that effectively monitors the professional qualifications, independence, and professional competence of auditors, and the quality control systems of their firms.
26. The group auditor's consideration of the professional qualifications, independence, and professional competence of other auditors, and the quality control systems of their firms will affect the nature, timing and extent of the group auditor's involvement in the other auditor's work.
27. In the case of a multinational group, there may be additional factors that affect the nature, timing and extent of the group auditor's involvement in the other auditor's work. Examples of these other factors include language issues (commonality of language) and cultural issues (commonality of culture).

RELATED AUDITORS

28. The group auditor can ordinarily rely on the quality control policies and procedures of a related auditor's firm regarding the related auditor's professional qualifications, independence, and professional competence, in the absence of contrary evidence. For example, the group auditor ordinarily will be able to rely on established policies and procedures to provide reasonable assurance of the independence of the firm, its personnel, and others who are subject to independence requirements (including experts contracted by the firm and network firm personnel), where independence is required by the relevant ethical requirements (see ISQC 1, paragraph 18).
29. The group auditor considers the results of the related auditor's quality control monitoring process that is found in the latest information circulated in accordance with ISQC 1, paragraph 87. The group auditor considers whether any noted deficiencies (a) could affect the audit of the group financial statements, and (b) if so, whether measures taken by the related auditor's firm to rectify such deficiencies appear to be sufficient in the audit of the group financial statements.

30. Where the group auditor and related auditor apply the same audit methodology, the group auditor ordinarily will be able to rely to a greater extent on the procedures applied by the related auditor in performing the work on the financial information of a component, in the absence of contrary evidence. For example, having common quality control and monitoring policies and procedures and applying the same audit methodology ordinarily will result in lower audit risk than having common quality control and monitoring policies and procedures alone. However, the increased audit risk associated with quality control policies and procedures or audit methodologies that are less alike may often be mitigated by the group auditor increasing the group auditor's involvement in the work of the other auditor.
31. When a related auditor will perform the work, or will be involved in the work to be performed by an unrelated auditor, on the financial information of a significant component, and the related auditor's professional competence is not personally known to the group auditor, the group auditor working with the related auditor's firm determines whether the related auditor possesses the necessary professional competence.

UNRELATED AUDITORS

32. The group auditor uses a number of sources to obtain information about the professional qualifications, independence, and professional competence of an unrelated auditor, and the quality control system of that auditor's firm. For example the group auditor may:
 - Visit the unrelated auditor;
 - Request the unrelated auditor to complete a questionnaire or written representation;
 - Discuss the unrelated auditor with colleagues in the group auditor's firm, or with a network firm who has dealt with the unrelated auditor;
 - Obtain confirmations from the professional body to which the unrelated auditor belongs, the authority by which the unrelated auditor is licensed, or other third parties; or
 - Consider the results of previous contacts with the unrelated auditor.
33. **The group auditor should obtain a confirmation from the engagement partner who will be responsible for the work to be performed on the financial information of the component, or from the person assigned operational responsibility for the unrelated auditor's firm's quality control system, whether:**
 - (a) **The unrelated auditor's firm's quality control system complies with ISQC 1; and**
 - (b) **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.**

The group auditor obtains a copy of any report of the unrelated auditor's latest review that is published by the body responsible for conducting external quality control reviews, and is publicly available.

34. When the unrelated auditor is not independent, or the group auditor has serious concerns about the professional qualifications or professional competence of the unrelated auditor, or

the quality control system of the unrelated auditor's firm, the group auditor obtains audit evidence relating to the financial information of the component without using the work of the unrelated auditor. Where the group auditor is unable to obtain sufficient appropriate audit evidence relating to the financial information of the component, the group auditor considers the effect of this scope limitation on the group audit opinion.

Communications with Another Auditor

35. **When another auditor performs the work on the financial information of a component, the group auditor should communicate the group auditor's requirements to the other auditor.** The group auditor issues this communication as early as possible, ordinarily in the form of a letter of instruction that sets out (a) the work to be performed, (b) the nature of the other auditor's report or memorandum of work performed, and (c) the confirmations required by the group auditor.
36. The group auditor requests the other auditor to confirm (a) receipt of the group auditor's letter of instruction, (b) whether the other auditor will undertake the requested work, and (c) 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.
37. In the case of an unrelated auditor, the group auditor requests confirmation whether (a) the unrelated auditor's firm's quality control system complies with ISQC 1, and (b) 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 (see paragraph 29).
38. **The group auditor's confirmation requirements should include the following:**
- (a) **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.**
 - (b) **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.** (The group financial reporting procedures manual often describes the characteristics of the applicable financial reporting framework.)
 - (c) **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.**

It is important to obtain these confirmations as early as possible in the audit process to enable the group auditor to consider their possible effect on the audit of the group financial statements.

39. **The group auditor should communicate the following to the other auditor:**
- (a) **The work to be performed on the financial information of the component.**

- (b) **The materiality level for the component and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.**
 - (c) **Significant risks, including fraud risks, identified at the group level that are relevant to the work of the other auditor.** This communication occurs when the group auditor, or a related auditor on behalf of the group auditor, is not involved in the other auditor's risk assessment procedures (see paragraphs 63-66). **The group auditor should request the other auditor to inform the group auditor of any other identified significant risks that may affect the group financial statements.**
40. The group auditor also communicates to the other auditor laws and regulations applicable to the parent that are relevant to the other auditor's work. The group auditor requests the other auditor to communicate any non-compliance with laws and regulations applicable to the component that could materially affect the group financial statements.
41. **The group auditor should provide the other auditor with a list of related parties prepared by group management, and request the other auditor to be alert for transactions that appear unusual in the circumstances and that may indicate the existence of previously unidentified related parties. The group auditor should request the other auditor to communicate the names of any additional related parties, and the types of transactions with such related parties.**
42. **The group auditor should request timely communication of material weaknesses in controls that have come to the attention of the other auditor during the performance of the work on the financial information of the component, and information that indicates that a fraud may exist.**
43. **The other auditor's report or memorandum of work performed should be obtained at the conclusion of the work performed on the financial information of the component and:**
- (a) **State whether the other auditor has complied with the quality control policies and procedures of that auditor's firm;**
 - (b) **State whether the other auditor has complied with the relevant ethical requirements, including independence;**
 - (c) **State whether the other auditor has complied with auditing or other standards applicable to the audit of the group financial statements;**
 - (d) **State whether the other auditor has complied with the group auditor's other instructions;**
 - (e) **Identify the financial information of the component on which the other auditor is reporting;**
 - (f) **Set out the work performed by the other auditor;**
 - (g) **List uncorrected misstatements of the financial information of the component (the list does not include misstatements that were below the threshold communicated by the group auditor for clearly trivial misstatements);**

- (h) **Explain material weaknesses in internal control over financial reporting;**
 - (i) **Set out information on any significant final conclusions that are inconsistent with or contradict the other auditor's initial conclusions** (see proposed ISA 230 (Revised), paragraph 11);
 - (j) **Set out other significant matters that the other auditor communicated or expects to communicate to those charged with governance of the component;**
 - (k) **Set out any other matters that the other auditor wishes to draw to the attention of the group auditor; and**
 - (l) **Set out the other auditor's findings, conclusions or opinion.**
44. Where the group auditor is unable to obtain the other auditor's report or memorandum of work performed, the group auditor considers the effect of this scope limitation on the group audit opinion.

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

45. **The group auditor should obtain 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.**
46. ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" establishes standards and provides guidance on the understanding the auditor is to obtain of an entity and its environment, and the assessment of risks of material misstatement. The application of ISA 315 to an audit of group financial statements is affected by the fact that the group auditor's understanding and risk assessment include a number of components, and that other auditors may perform the work on the financial information of some of these components.
47. 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 paragraphs 8-11), 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.

Materiality

48. Proposed ISA 320 (Revised), "Audit Materiality in the Identification and Evaluation of Misstatements" establishes standards and provides guidance on materiality and the evaluation of misstatements.
49. The group auditor determines materiality level(s) for the group financial statements as a whole when establishing the overall audit strategy for the audit of the group financial statements.

50. **The group auditor should also determine the materiality level(s) to be used by other auditors in performing the work on the financial information of the components for purposes of the audit of the group financial statements.** To allow for aggregation of identified misstatements and possible undetected misstatements, the component materiality level(s) is lower than the group materiality level(s).
51. The structure of the group may affect the group auditor's determination of materiality level(s) for individual components. For example, it is likely that the greater the number of components that are of similar financial significance, the lower the materiality level(s) for components will be.
52. When planning the work to be performed on the financial information of a component for purposes of the audit of the group financial statements, the auditor responsible for performing that work ordinarily establishes one or more levels of tolerable error lower than the materiality level(s) referred to in paragraph 50. This will allow for the possibility that some misstatements of lesser amounts than the materiality level(s) for the component could be material in the aggregate.

Assessing the Risks of Material Misstatement of the Group Financial Statements

53. **The group auditor should assess the risks of material misstatement of the group financial statements at the group level.**
54. 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.

Responding to Assessed Risks

55. **The group auditor should determine 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.**

DETERMINING THE WORK TO BE PERFORMED ON THE FINANCIAL INFORMATION OF COMPONENTS

56. The work to be performed on the financial information of a component will be affected by matters such as the significance of the component, and the group auditor's evaluation of the design and implementation of group-wide controls.

Significant Components

57. For a component that, due to the nature of and circumstances specific to that component, has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph 10), the group auditor ordinarily performs or requests other auditors to perform one of the following:
 - An audit in accordance with ISAs using either a materiality level determined by the group auditor; or a lower materiality level determined by the other auditor where the circumstances in paragraph 61 apply.

- An audit of specified account balances relating to the identified significant risks.
 - Specified audit procedures relating to the identified significant risks.
58. For a component that, due to its individual financial significance to the group, is likely to include significant risks of material misstatement of the group financial statements (see paragraph 11), the group auditor ordinarily performs or requests other auditors to perform an audit in accordance with ISAs, using either a materiality level determined by the group auditor; or a lower materiality level determined by the other auditor where the circumstances in paragraph 61 apply.

Components that are Not Significant in the Aggregate

59. After determining the work to be performed on the financial information of significant components (see paragraphs 57-58), the group auditor identifies components that are not significant in the aggregate. The group auditor may consider it appropriate not to perform audit or review procedures at components that are not significant in the aggregate. For these components, the group auditor's procedures ordinarily are limited to the analytical procedures performed at the group level.

Components that are Significant in the Aggregate

60. The work to be performed on the financial information of the remaining components could include one of the following:
- An audit 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 where the circumstances in paragraph 61 apply.
 - An audit of specified account balances.
 - Specified audit procedures.
 - A review of the financial information of the component.

The work to be performed on the financial information of these components is affected by matters such as the following:

- Whether it has been newly formed or acquired.
- Whether significant changes have taken place in the component.
- Whether internal audit has performed work at the component.
- The effectiveness of group-wide controls.
- The risks posed by, or the individual financial significance of, the component in comparison with other components within this category.

Components Subject to Audit by Statute, Regulation or Other Reason

61. Statute, regulation or other authority may require the audit of the financial statements of a component. The group auditor may decide to use this audit to provide audit evidence for the purposes of the audit of the group financial statements. In these circumstances, the group auditor evaluates the effect of the financial reporting framework applied in preparing the financial statements of the component, and the auditing standards applied by the other auditors. The group auditor also considers whether the audit of the financial statements of

the component will be performed in time to communicate the other auditor's report or memorandum of work performed to the group auditor (see paragraph 43).

62. When the group auditor decides to use the audit of the financial statements of a component performed by another auditor to provide audit evidence for purposes of the audit of the group financial statements, the risk assessment procedures and further audit procedures may have already been performed by the other auditor at the component (for example a component acquired close to the group reporting date). To meet the requirements described in paragraphs 63-69, the group auditor reviews the risk assessment procedures and further audit procedures already performed, and determines the additional audit procedures to be performed.

INVOLVEMENT IN THE WORK OF OTHER AUDITORS

Significant Components

63. **When another auditor is requested to perform the work on the financial information of a significant component, the group auditor should be involved in the work of the other auditor to identify significant risks of material misstatement of the group financial statements.**
64. When a related auditor performs the work on the financial information of a significant component, the group auditor reviews the related auditor's documentation of the identified and assessed risks of material misstatement. Such documentation may be in the form of a memorandum, reflecting the related auditor's conclusion with regard to the identified and assessed risks of material misstatement.
65. When an unrelated auditor performs the work on the financial information of a significant component, the group auditor, or a related auditor on behalf of the group auditor, is involved in the unrelated auditor's risk assessment procedures. As part of this involvement, the group auditor or the related auditor:
- (a) Discusses with component management the component's business activities that are significant to the group, including the regulatory, economic and political environments in which those activities take place;
 - (b) Discusses with the unrelated auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and
 - (c) Reviews the unrelated auditor's documentation of the identified and assessed risks of material misstatement. Such documentation may be in the form of a memorandum, reflecting the related auditor's conclusion with regard to the identified and assessed risks of material misstatement.
66. When a related auditor performed the review described in paragraph 65(c), the group auditor ordinarily reviews the related auditor's review memorandum, reflecting the related auditor's conclusion with regard to the identified and assessed risks of material misstatement.
67. **When significant risks of material misstatement of the group financial statements have been identified in a component on which another auditor performs the work, the group auditor and the other auditor together should determine the further audit**

procedures to be performed to respond to the identified significant risks. In certain circumstances the group auditor may want to be involved, or to involve a related auditor, in performing further audit procedures. The nature, timing and extent of this involvement will be affected by the group auditor's assessment of the significant risks to which the component is subject, its individual financial significance, and the group auditor's evaluation of the professional qualifications and professional competence of the other auditor, and the quality control system of that auditor's firm.

68. **When a related auditor (on behalf of the group auditor) has been involved in the risk assessment or further audit procedures of an unrelated auditor, the group auditor should review the related auditor's documentation of that involvement.** Such documentation may be in the form of a memorandum.

Components that are Significant in the Aggregate

69. To obtain sufficient appropriate audit evidence on which to base the group audit opinion, it may be necessary for the group auditor, or a related auditor on behalf of the group auditor, to be involved in the work to be performed by an unrelated auditor on the financial information of a component that are significant in the aggregate. This involvement may include some or all of the procedures described in paragraph 14, a review of the financial information of the component, or analytical procedures performed at the group level.

Performing Further Audit Procedures

70. **The group auditor should determine 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.**
71. 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.
72. **The group auditor should determine whether the financial information identified in the communication of the other auditor is the financial information that is incorporated in the group financial statements.** (See paragraph 43(e).)
73. **For significant components, the group auditor should perform, or request other auditors to perform, procedures designed to identify events at those components between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.** The group auditor determines the date up to which subsequent events reviews at components are performed, i.e., the date of the auditor's report on the group financial statements.
74. For components that are significant in the aggregate, the group auditor ordinarily inquires from other auditors whether they are aware of subsequent events that may require an adjustment to or a disclosure in the group financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

75. **The group auditor should evaluate the adequacy of the work of another auditor for the group auditor's purposes.**
76. The nature, timing and extent of the group auditor's evaluation may be affected by matters such as the following:
- Whether a component is significant.
 - Whether the other auditor is a related auditor or an unrelated auditor and, if a related auditor, whether the group auditor and the related auditor applies the same audit methodology (see paragraph 30).
 - The group auditor's evaluation of the professional qualifications, independence, and professional competence of the other auditor, and the quality control system of that auditor's firm.
 - The extent of the group auditor's or, in the case of an unrelated auditor, a related auditor's involvement in the work of the other auditor.
77. When other auditors performed the work on the financial information of significant components or components that are significant in the aggregate, the group auditor reads the other auditors' reports or memorandums of work performed, including the other auditors' lists of uncorrected misstatements. (See paragraph 43.)
78. **When an unrelated auditor performed the work on the financial information of a significant component, the group auditor, or a related auditor on behalf of the group auditor, should review the unrelated auditor's audit documentation.**
79. When a related auditor performed the work on the financial information of a significant component, the group auditor considers whether to review the related auditor's audit documentation.
80. The extent of the review of another auditor's audit documentation may vary depending on the circumstances, and is focused on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements.
81. **When a related auditor (on behalf of the group auditor) has reviewed an unrelated auditor's audit documentation, the group auditor should review the documentation of that review, including the conclusions reached on the adequacy of the work of the unrelated auditor for the group auditor's purposes.**
82. If the group auditor concludes that the work of another auditor is inadequate for the group auditor's purposes, the group auditor determines additional procedures to be performed. Depending on the circumstances, such additional procedures are performed by the other auditor or by the group auditor.

Considering the Other Auditor's Report or Memorandum of Work Performed

83. **The group auditor should consider the effect of the other auditor's report or memorandum of work performed on the auditor's report on the group financial statements.**
84. The group auditor may consider it appropriate to discuss significant matters arising from the other auditor's report or memorandum of work performed (see paragraph 43) with the

other auditor, component management or group management. The group auditor may also conclude that additional audit procedures are necessary. Depending on the circumstances, such additional audit procedures are performed by the other auditor or by the group auditor.

Communication with Those Charged with Governance

85. ISA 260, "Communication with Those Charged with Governance" and other ISAs, for example ISA 240 (Revised), establish standards and provide guidance on communication with those charged with governance. The matters that the group auditor communicates to those charged with governance of the group include those matters brought to the attention of the group auditor by other auditors that the group auditor judges to be of governance significance to the group.
86. **In an audit of group financial statements, the group auditor should also communicate the following to those charged with governance of the group:**
- (a) **The portion of the group financial statements on which the group auditor and related auditors will perform the work, and the portion of the group financial statements on which unrelated auditors will perform the work.**
 - (b) **The components that have been identified as significant.**
 - (c) **The results of the group auditor's consideration of the professional qualifications, independence, and professional competence of the unrelated auditors and the related effect on (i) the work to be performed on the financial information of the components, and (b) the group auditor's and related auditors' involvement in the work to be performed by unrelated auditors.**
 - (d) **The planned work to be performed on the financial information of the components.**
 - (e) **The group auditor's and related auditors' planned involvement in the work to be performed by unrelated auditors on the financial information of significant components.**
 - (f) **The results of the group auditor's evaluation whether the work of the other auditors is adequate for the group auditor's purposes.**
 - (g) **Any limitations on the audit of the group financial statements.** For example, the group auditor's access to component information, component management, or other auditors (including relevant parts of their audit documentation) may have been restricted.
87. Communication with those charged with governance of the group takes place at various times during the audit of the group financial statements. For example, the matters referred to in paragraph 87(a)-(e) will be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred in paragraph 87(f) will be communicated at the end of the audit, and the matter referred to in paragraph 87(g) will be communicated when it occurs.

Communication with Another Auditor Who is Required to Audit the Financial Statements of a Component

88. **Where another auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the group auditor becomes aware of matters that may be significant to the financial statements of the component of which component management may be unaware, the group auditor should request group management to inform component management of such matters.** Examples of such matters include the following:
- Potential litigation.
 - Plans for abandonment of material operating assets.
 - Subsequent events.
 - Significant legal agreements.
89. Group management may need to keep certain material sensitive information confidential. In these circumstances, the group auditor ordinarily discusses with group management the risk of component management issuing misleading financial statements, and requests group management to require component management not to issue the financial statements of the components. In addition, the group auditor may consider it necessary to direct the other auditor not to issue the auditor's report on the financial statements of the component until group management has resolved the outstanding matter. When group management remains of the opinion that the matter should not be communicated to component management, the group auditor considers resigning from the engagement.

Documentation

90. Proposed ISA 230 (Revised), "Audit Documentation" and other ISAs establish standards and provide guidance on audit documentation. **In an audit of group financial statements, the group auditor should also document the following:**
- (a) **The basis for the group auditor's conclusion to accept or continue the engagement as regards the group auditor's ability to obtain sufficient appropriate audit evidence on which to base the group audit opinion where other auditors will perform the work on the financial information of some components.**
 - (b) **The results of the consideration of the professional qualifications, independence, and professional competence of the other auditors, and the quality control systems of their firms, and the nature, timing and extent of the group auditor's or related auditors' involvement in the work performed by the other auditors.**
 - (c) **The results of the risk assessment performed at the group level, and a description of the audit procedures to be performed on the consolidation and the work to be performed on the financial information of the components.**
 - (d) **Identified and assessed significant risks of material misstatement of the group financial statements, the further audit procedures performed to respond to such risks, and the related results.**
 - (e) **The group auditor's communications with other auditors about the group auditor's requirements.**

- (f) **The group auditor's conclusion as to whether the group auditor has obtained sufficient appropriate audit evidence of the adequacy of the work of the group auditor and other auditors for the group auditor's purposes.**
- (g) **The group auditor's conclusion on uncorrected misstatements, and the effect of the other auditors' reports or memorandums of work performed on the group audit opinion.**
- (h) **Discussions of significant accounting, auditing and financial reporting matters with those charged with governance, group management, component management, or other auditors.**

Effective Date

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

Appendix

Example of an "Except for" Opinion where the Group Auditor is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion (See paragraph 22)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited ... (remaining words are as illustrated in the introductory paragraph of the example auditor's report in paragraph 60 of ISA 700 (Revised) (adapted as necessary for consolidated financial statements))

Management's Responsibility for the Financial Statements

Management is responsible for ... (remaining words are as illustrated in the management's responsibility paragraph of the example auditor's report in paragraph 60 of ISA 700 (Revised) (adapted as necessary for consolidated financial statements))

Auditor's Responsibility

Our responsibility is ... (remaining words of the first two paragraphs are as illustrated in the first two paragraphs of the auditor's responsibility in the example auditor's report in paragraph 60 of ISA 700 (Revised) (adapted as necessary for consolidated financial statements))

Except for the matter described in the following paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Modified Opinion

We were unable to obtain access to the accounting records, management, and the auditor of XYZ Company, a foreign associate accounted for by the equity method. Consequently, we were unable to perform the planned procedures on the financial information of XYZ Company. Our procedures were limited to reading the audited financial statements of XYZ Company as at December 31, 20X1, including the auditor's report of PQR Accounting Firm. ABC Company's investment in XYZ Company is stated at \$15 million as at December 31, 20X1, and ABC Company's share of profit of XYZ Company is stated at \$1 million for the year ended December 31, 20X1. On this basis we modify our opinion as described below.

Modified Opinion

In our opinion, except for the possible effects of the matters described in the preceding paragraph, the consolidated financial statements give a true and fair view of (or "present fairly, in all material respects") the financial position of ABC Company and its subsidiaries as of December 31, 20X1, and of their financial

performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]