

**PROPOSED INTERNATIONAL STANDARD ON AUDITING ISA 600  
(REVISED AND REDRAFTED)****THE AUDIT OF GROUP FINANCIAL STATEMENTS  
(Including the Work of Other Auditors)**

(Effective for audits of group financial statements for  
periods beginning on or after [date])

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International Standard on Auditing (ISA) 600 (Revised and Redrafted), “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**

### **Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with additional matters relating to the audit of group financial statements (“group audits”) and, in particular, the involvement of other auditors, as defined in paragraph 7(g), in group audits. The requirements, 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 other auditors who observed the inventory count or inspected physical fixed assets at remote locations.

### **The Effect on Audit Risk of Using the Work of Other Auditors**

2. ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” explains that audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements. In a group audit, this includes the risk that the other auditors may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that this misstatement is not detected by the group auditor. This risk can be reduced by the group auditor being involved in the work performed by the other auditors. Involvement in the work performed by the other auditors may include the group auditor undertaking some or all of the following actions:
  - Meeting with component management or the other auditors to obtain an understanding of the component and its environment.
  - Reviewing the other auditors’ overall audit strategy and audit plan.
  - Performing risk assessment procedures and participating in the assessment of risks of material misstatement. These may be performed with the other auditors, or by the group auditor.
  - Determining and performing further audit procedures. These may be performed with the other auditors, or by the group auditor.
  - Participating in the closing and other key meetings between the other auditors and component management.
  - Reviewing relevant parts of the other auditors’ audit documentation.
3. The nature, timing and extent of involvement in the work performed by the other auditors necessary to reduce audit risk for the group financial statements to an acceptably low level are affected by factors such as the significance of the components, identified risks of material misstatement of the group financial statements, and the group auditor’s understanding of the other auditors.
4. Although other auditors may perform work on the financial information of components for the group audit, the group auditor is solely responsible for the audit opinion on the group financial statements (“group audit opinion”).

### **Effective Date**

5. This ISA is effective for audits of group financial statements for periods beginning on or after [date].

### **Objective to be Achieved**

6. In relation to this ISA, the objective of the auditor is to determine whether the auditor is able to act as the group auditor and, if so, to:
  - (a) determine the audit procedures to be performed on the consolidation and the work to be performed by the group auditor or the other auditors on the financial information of the components;
  - (b) determine the group auditor's involvement in the work performed by the other auditors;
  - (c) establish appropriate communication with the other auditors; and
  - (d) evaluate the audit evidence obtained in relation to the financial information of the components where the other auditors performed the work

in order to obtain sufficient appropriate audit evidence to reduce audit risk in relation to the auditor's report on the group financial statements to an acceptably low level.

### **Definitions**

7. The following terms are introduced in this ISA:
  - (a) Component - 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.
  - (b) Component management - Management responsible for preparing the financial information of a component.
  - (c) Group auditor - The engagement partner who signs the auditor's report on the group financial statements. The obligations or responsibilities of the group auditor may be fulfilled by either the engagement partner or another member of the engagement team under the direct supervision of the engagement partner. Where it is expressly intended that the obligation or responsibility be fulfilled by the engagement partner, the term "group engagement partner" rather than "group auditor" is used.<sup>1</sup>
  - (d) Group financial statements - 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.

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<sup>1</sup> Where the group audit is conducted by joint auditors, the joint auditors collectively constitute the group auditor. This ISA, however, does not deal with the relationship between joint auditors and the work that one joint auditor performs in relation to the work performed by the other joint auditor.

- (e) Group management - Management responsible for preparing and presenting the group financial statements.
  - (f) Group-wide controls - Internal controls established by group management over group financial reporting.
  - (g) Other auditor or another auditor - An auditor other than the group auditor who performs work on the financial information of one or more components for the group audit.
  - (h) Significant component - A component that has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements (e., significant risks that require special audit consideration – see ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”). This could be due to the nature of and circumstances specific to the component, or the individual financial significance of the component to the group.
8. Reference to “the applicable financial reporting framework” means the financial reporting framework applicable to the group financial statements. Reference to “consolidation” 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.

## Requirements

### Acceptance and Continuance as Group Auditor

#### *Expectation to Obtain Sufficient Appropriate Audit Evidence*

9. The group engagement partner shall accept or continue an engagement to audit group financial statements only if the group engagement partner has reasonable expectation of obtaining sufficient appropriate audit evidence in relation to the financial information of components and the consolidation to reduce audit risk for the group financial statements to an acceptably low level by:
- (a) Performing the work on the consolidation, and
  - (b) Either performing the work on the financial information of significant components, or being involved in the work that the other auditors perform on the financial information of significant components to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para A4-A6)
10. To determine whether the group engagement partner can reasonably expect to obtain such audit evidence, the group auditor shall obtain an understanding of the group, its components, and their environments, sufficient to:
- (a) Identify components where other auditors will perform the work on the financial information; and
  - (b) Determine which of those components are likely to be significant. (Ref: Para. A1-A5)

### *Access to Information*

11. The group auditor's access to component information, those charged with governance of components, component management, or the other auditors (including relevant audit documentation sought by the group auditor) may be restricted. Where restrictions cannot be overcome by group management, or it is impractical for the group auditor to be involved in the work performed by the other auditors, the group auditor shall consider whether sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level can be obtained by other means. In the case of a significant component, however, it is unlikely that the group auditor will be able to obtain such audit evidence by other means. (Ref: Para. A7-A9)
12. If the group auditor concludes that it will not be possible to obtain such audit evidence, the group auditor shall consider the possible effect of this inability on the group financial statements. If, in the group auditor's judgment, the possible effect is material and pervasive to the group financial statements, thus requiring a disclaimer of opinion, the group auditor shall inform group management, or those charged with governance of the group, that it is not possible to accept the engagement.
13. If the restrictions occurred after accepting the engagement, the group auditor shall consider resigning from the engagement. Where law or regulation does not permit an auditor not to accept or resign from an engagement, the group auditor shall express a disclaimer of opinion on the group financial statements. (Ref: Para. A10)

### **Obtaining an Understanding of the Other Auditors**

14. To determine the extent to which the group auditor will be able to use the work performed by the other auditors, the group auditor shall obtain an understanding of the following:
  - (a) The professional qualifications of the other auditors;
  - (b) The other auditors' compliance with applicable ethical requirements and, in particular, their independence and professional competence;
  - (c) The quality control systems of the other auditors' firms; and
  - (d) Other factors that may affect the ability of the group auditor to use the work of the other auditors. (Ref: Para. A12-A15)

This requirement does not apply to members of the engagement team under direct supervision of the group engagement partner. Such individuals are subject to the requirements of ISA 220, "Quality Control for Audits of Historical Financial Information."

15. In the case of other auditors that operate under and comply with common monitoring policies and procedures as provided for in 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,"<sup>2</sup> the

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<sup>2</sup> Paragraph 87 of ISQC 1 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

group auditor shall evaluate any deficiencies communicated in accordance with ISQC 1 that could affect the group audit.

16. In all other cases, the group auditor shall obtain confirmations from the other auditors whether:
  - (a) Their firms' quality control systems comply with ISQC 1;
  - (b) Remedial action is taken promptly in relation to issues identified from their firms' monitoring process; and
  - (c) There are any outstanding issues resulting from their firms' monitoring processes that are likely to affect significantly the work that the other auditors will perform on the financial information of the components.
17. When bodies external to the other auditors' firms have conducted quality control reviews of the other auditors' firms, the group auditor shall obtain confirmations from the other auditors whether there are any outstanding issues resulting from the reviews that are likely to affect significantly the work that the other auditors will perform on the financial information of the components.
18. When another auditor is not independent of the client, or based on the group auditor's understanding of another auditor, the group auditor has serious concerns about that auditor's:
  - (a) professional qualifications;
  - (b) compliance with applicable ethical requirements, including the other auditor's professional competence; or
  - (c) firm's quality control system,the group auditor shall obtain audit evidence relating to the financial information of the component without using the work of that auditor.

### **Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements**

19. The group auditor shall:

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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.

- (a) Enhance the understanding of the group, its components, and their environments, obtained during the acceptance or continuance stage; and
  - (b) Obtain an understanding of the consolidation process, including the group financial reporting procedures manual, proposed reporting package, and related instructions issued by group management to components. (Ref: Para. A15a-A25)
20. The group auditor's understanding shall be sufficient to:
- (a) Identify risks of material misstatement of the group financial statements;
  - (b) Confirm the group auditor's initial identification of significant components; and
  - (c) Assess the risks of material misstatement of the group financial statements. (Ref: Para. A26-A27)

As part of the risk assessment, the group auditor shall determine which of the risks identified are significant risks.

### **Materiality**

21. In addition to materiality determined for the group financial statements as a whole when establishing the overall audit strategy for the group audit, the group auditor shall determine the materiality to be used by the other auditors in planning and performing the work on the financial information of the components for the group audit. To allow for aggregation of uncorrected misstatements and possible undetected misstatements, the component materiality is lower than the group materiality. The structure of the group may affect the group auditor's determination of materiality for individual components.
22. When planning the work to be performed on the financial information of a component for the group audit, the auditor responsible for performing that work shall determine an amount lower than component materiality for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks.

### **Responding to Assessed Risks**

23. The group auditor shall determine the work to be performed by the group auditor or the other auditors on the financial information of the components, and the group auditor's involvement in the work performed by the other auditors, to respond to the assessed risks of material misstatement of the group financial statements. Factors that affect this determination include:
- The significance of the component;
  - The identified significant risks;
  - The group auditor's evaluation of the design of group-wide controls and determination whether they have been implemented; and
  - The group auditor's understanding of the other auditors.
24. If the nature, timing and extent of the work to be performed on the financial information of the components, or the group auditor's involvement in the work to be performed by the

other auditors, are based on an expectation that group-wide controls are operating effectively, the group auditor shall test the operating effectiveness of those controls.

### *Determining the Work to be Performed on the Financial Information of Components*

#### Significant Components

25. For a component that is significant due to its nature and circumstances, the group auditor, or another auditor at the request of the group auditor, shall perform one of the following:
  - (a) An audit performed 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 32 apply.
  - (b) An audit of specified account balances relating to the identified significant risks.
  - (c) Specified audit procedures relating to the identified significant risks. (Ref: Para. A28)
26. For a component that is significant due to its individual financial significance to the group, the group auditor, or another auditor at the request of the group auditor, shall perform an audit 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 32 apply.

#### Components that are Not Individually Significant

27. The remaining components are referred to as components that are not individually significant. To obtain sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level, the group auditor shall select components that are not individually significant for which the group auditor, or another auditor at the request of the group auditor, shall perform one of the following on the financial information of the individual components selected:
  - (a) An audit performed 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 32 apply.
  - (b) An audit of specified account balances.
  - (c) Specified audit procedures.
  - (d) A review of the financial information of the component performed in accordance with standards determined by the group auditor. (Ref: Para. A28-A30)
28. For components not selected, the group auditor shall perform analytical procedures at the group level.

#### *Involvement in the Work Performed by the Other Auditors*

29. The group auditor's involvement in the work performed by another auditor may include some or all of the following:
  - Meeting with component management or the other auditor to obtain an understanding of the component and its environment.

- Reviewing the other auditor's overall audit strategy and audit plan.
- Performing risk assessment procedures and participating in the assessment of risks of material misstatement. These may be performed with the other auditor, or by the group auditor.
- Determining and performing further audit procedures. These may be performed with the other auditor, or by the group auditor.
- Participating in the closing and other key meetings between the other auditor and component management.
- Reviewing relevant parts of the other auditor's audit documentation.

#### Significant Components—Risk Assessment

30. When another auditor is requested to perform the work on the financial information of a significant component, the group auditor shall be involved in the other auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The group auditor shall:
- (a) Discuss with the other auditor or 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) Discuss with the other auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and
  - (c) Review the other auditor's documentation of the identified and assessed risks of material misstatement. Such documentation may be in the form of a memorandum, reflecting the other auditor's conclusion with regard to the identified and assessed risks of material misstatement.

#### Identified Significant Risks of Material Misstatement—Further Audit Procedures

31. 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 together with the other auditor shall determine the further audit procedures to be performed to respond to the identified significant risks. The group auditor shall consider whether, based on the circumstances, it is necessary to be involved in performing further audit procedures.

#### Components Subject to Audit by Statute, Regulation or Other Reason

32. The other auditor may be required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component. The group auditor may decide to use this audit to provide audit evidence for the group audit. In these circumstances, the group auditor shall:
- (a) Evaluate 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; and

- (b) Consider whether the audit of the financial statements of the component will be completed in time to meet the group reporting timetable.

If the component has been recently acquired by the group and the risk assessment procedures and further audit procedures therefore have already been performed by the other auditor at the component, the group auditor shall determine whether additional audit procedures are necessary to meet the requirements of this ISA.

### **Consolidation**

33. The group auditor shall 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.
34. 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 shall:
- (a) Consider the appropriateness and completeness of the adjustments, as well as the accuracy of calculations;
  - (b) Consider whether significant adjustments appropriately reflect the events and transactions underlying them;
  - (c) Determine whether significant adjustments have been correctly processed and authorized by group management and, where applicable, by component management;
  - (d) Determine whether significant adjustments are properly supported and sufficiently documented;
  - (e) Check the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances; and
  - (f) Consider whether indicators of possible management bias exist.
35. Components may use different accounting policies. If required by the applicable financial reporting framework, group management will ordinarily eliminate such differences by requiring:
- (a) Components to prepare financial information consistent with the accounting policies applied to the group financial statements; or
  - (b) 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 shall evaluate whether the component's financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

36. The group auditor shall determine whether the financial information identified in the other auditor's memorandum or report of work performed is the financial information that is incorporated in the group financial statements.
37. 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 shall:
  - (a) Determines whether this is acceptable under the applicable financial reporting framework; and
  - (b) Consider the component's results between its financial year-end and the date of the group financial statements, and identify 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.

### **Subsequent Events**

38. For significant components, the group auditor shall perform, or request the 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.
39. For components that are not individually significant, the group auditor shall require the other auditors to communicate to the group auditor whether they are aware of subsequent events that may require an adjustment to or a disclosure in the group financial statements.

### **Communication with the Other Auditors**

40. When another auditor performs the work on the financial information of a component, the group auditor shall communicate, as early as possible, the group auditor's requirements to the other auditor. This communication, ordinarily in the form of a letter of instruction, sets out:
  - (a) The confirmations required by the group auditor;
  - (b) The work to be performed; and
  - (c) The form and content of the other auditor's memorandum or report of work performed.
41. The group auditor's required confirmations, which are obtained as early as possible in the audit process to enable the group auditor to consider their possible effect on the group audit, shall include the following:
  - (a) Confirmation of receipt of the group auditor's letter of instruction.
  - (b) Confirmation whether the other auditor will be able to comply with the instructions.
  - (c) Confirmation whether the instructions are clear and understood by the other auditor.
  - (d) Acknowledgement that the group auditor may consider it necessary to be involved in the other auditor's work.

- (e) Acknowledgement that the group auditor will evaluate and may use the other auditor's work for the group audit.
  - (f) Confirmation whether the other auditor sufficiently understands, and will comply with, the relevant ethical requirements, including independence and professional competence, to fulfill the other auditor's responsibilities in the group audit.<sup>3</sup>
  - (g) Confirmation whether the other auditor sufficiently understands the applicable financial reporting framework to fulfill the other auditor's responsibilities in the group audit. (The group financial reporting procedures manual often describes the characteristics of the applicable financial reporting framework.)
  - (h) Confirmation whether the other auditor sufficiently understands the auditing or other standards applicable to the group audit to fulfill the other auditor's responsibilities in the group audit. (Ref: Para. A31)
42. The group auditor's communication about the work to be performed shall include the following:
- (a) The materiality for the component and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.
  - (b) Identified significant risks, including fraud risks, that are relevant to the work of the other auditor. This communication occurs when the group auditor is not involved in the other auditor's risk assessment procedures. The group auditor shall request the other auditor to inform the group auditor of any other identified significant risks that may affect the group financial statements.
  - (c) Laws and regulations applicable to the parent that are relevant to the other auditor's work. The group auditor shall request the other auditor to communicate any non-compliance with laws and regulations applicable to the component that could materially affect the group financial statements.
  - (d) A list of related parties prepared by group management, and any other related parties the group auditor is aware of. The group auditor shall 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 shall request the other auditor to communicate the names of any additional related parties, and the types of transactions with such related parties. The group auditor shall communicate such additional related parties to the other auditors.
  - (e) The fact that 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, have to be communicated to the group auditor without undue delay. (Ref: Para. A32)

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<sup>3</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.

43. The other auditor's memorandum or report of work performed shall contain matters relevant to the group auditor's conclusion with regard the group audit. In particular, it shall:
- (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 and professional competence;
  - (c) State whether the other auditor has complied with the group auditor's other instructions;
  - (d) Identify the financial information of the component on which the other auditor is reporting;
  - (e) Describe the work performed by the other auditor, including, where applicable, materiality used to plan and perform the work, a list of identified significant risks, the other auditor's response to such risks, and the results of further audit procedures;
  - (f) Lists corrected and 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), and note identified indicators of possible management bias;
  - (g) Explain any identified material weaknesses in internal control over financial reporting at the component level;
  - (h) Set out other significant matters that the other auditor communicated or expects to communicate to those charged with governance of the component;
  - (i) Set out any other matters that the other auditor wishes to draw to the attention of the group auditor; and
  - (j) Set out the other auditor's overall findings, conclusions or opinion.

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

#### *Obtaining and Reading the Other Auditors' Memorandums or Reports of Work Performed*

44. The group auditor shall obtain and read the other auditors' memorandums or reports of work performed on the financial information of the components.
45. Where the group auditor is unable to obtain another auditor's memorandum or report of work performed, the group auditor shall consider the effect of this scope limitation on the group audit opinion.
46. The group auditor shall consider whether it is necessary to discuss significant matters arising from another auditor's memorandum or report of work performed with the other auditor, component management or group management.
47. Based on the group auditor's reading of the other auditors' memorandums or reports of work performed, the group auditor shall consider whether it is necessary to review other relevant parts of another auditor's audit documentation. (Ref: Para. A33)

48. If the group auditor concludes that the work of another auditor is inadequate for the group auditor's purposes, the group auditor shall determine:
- (a) Additional procedures to be performed; and
  - (b) Whether such additional procedures are to be performed by the other auditor or by the group auditor.

#### *Sufficiency and Appropriateness of Audit Evidence*

49. The group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation and the work performed by the group auditor and the other auditors on the financial information of the components, on which to base the group audit opinion.
50. If the group auditor concludes that sufficient appropriate audit evidence has not been obtained, the group auditor shall obtain further audit evidence, if possible. If the group auditor has not been able to perform sufficient additional audit procedures, the group auditor shall consider the effect of this scope limitation on the group audit opinion.

#### **Considering the Effect of the Other Auditors' Memorandums' or Reports' of Work Performed on the Auditor's Report on the Group Financial Statements**

51. The group auditor shall consider the effect of any disagreement with component management or inability to obtain sufficient appropriate audit evidence communicated by another auditor on the auditor's report on the group financial statements.
52. The group auditor shall consider the aggregate effect of the uncorrected immaterial misstatements of the financial information of the components on the group audit opinion.
53. The group auditor shall not refer to the involvement of the other auditors in the auditor's report on the group financial statements.

#### **Communication with Group Management and Those Charged with Governance**

##### *Communication with Group Management*

54. The group auditor shall make group management aware, without undue delay and at an appropriate level of responsibility, of:
- (a) Material weaknesses in the design or operation of group-wide controls, including controls over the preparation and presentation of the group financial statements;
  - (b) 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 the other auditors, that the group auditor judges are of significance to the group.
55. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor shall communicate this as soon as practicable to group management. If the group auditor believes or suspects that group or component management may be involved in the fraud, the group auditor shall communicate this to those charged with governance of the group.

56. 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 shall request group management to inform component management of such matters for the purpose of the component audit. When group management refuses to communicate the matter to component management, the group auditor shall discuss the matter with those charged with governance of the group. (Ref: Para. A35)

*Communication with Those Charged with Governance*

57. In a group audit, the group auditor shall communicate with those charged with governance of the group the following matters in addition to those required by [proposed] ISA 260, "Communications with Those Charged with Governance:"
- (a) The planned work to be performed on the financial information of the components.
  - (b) The group auditor's planned involvement in the work to be performed by the other auditors on the financial information of significant components.
  - (c) Instances where the group auditor's evaluation of the work of another auditor gave rise to a concern about the quality of the work performed by that other auditor.
  - (d) Any limitations on the group audit. For example, the group auditor's access to component information, those charged with governance of components, component management, or the other auditors (including relevant audit documentation sought by the group auditor) may have been restricted. (Ref: Para. A36)

**Documentation**

58. In a group audit, the group auditor shall document the following matters in addition to those required by ISA 230 (Revised), "Audit Documentation" and the other ISAs:
- (a) The group auditor's understanding of the other auditors, and the nature, timing and extent of the group auditor's involvement in the work performed by the other auditors.
  - (b) The group auditor's communications with the other auditors about the group auditor's requirements.
  - (c) The group auditor's evaluation whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation and the work performed by the group auditor and the other auditors on the financial information of the components, on which to base the group audit opinion.
  - (d) Discussions of significant accounting, auditing and financial reporting matters with those charged with governance of the group, group management, component management, or the other auditors.

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## **Application Material**

### **Acceptance and Continuance as Group Auditor**

*Obtaining an Understanding at the Acceptance or Continuance Stage* (Ref: Para. 10)

- A1. In the case of a new engagement, the group auditor's understanding of the group, its components, and their environments may be 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.
- A2. The group auditor's understanding may include matters such as the following:
- 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.
  - Whether the group auditor:
    - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information, and the other auditors (including relevant audit documentation sought by the group auditor); and
    - Will be able to perform necessary work on the financial information of the components.
- A3. In the case of a continuing engagement, the group auditor's ability to obtain sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level may be affected by significant changes, 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.
  - Difficulties experienced by the group auditor with regard to the integrity and competence of group or component management.

- Changes in group-wide controls.

*Identifying Significant Components* (Ref: Para. 9(b)-10(b))

- A4. The group auditor may identify 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 otherwise of individual financial significance to the group.
- A5. 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. 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. For example, after identifying components that are likely to include significant risks of material misstatement of the group financial statements, the group auditor may decide that other components, which exceed 10% of the chosen benchmark, are also significant. A higher or lower percentage, however, may be appropriate in the circumstances.

*Expectation to Obtain Sufficient Appropriate Audit Evidence* (Ref: Para. 9)

- A6. A group may consist only of components that are not likely to be significant. In these circumstances, the engagement partner can reasonably expect to obtain sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level if the group auditor will be able to:
- (a) Perform the work on the financial information of some of these components; and
  - (b) Be involved in the work performed by the other auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.

*Access to Information* (Ref: Para. 11-13)

- A7. The group auditor may not have access to component information, those charged with governance of components, component management, or the other auditors (including relevant audit documentation sought by the group auditor). The group auditor's access may be restricted by circumstances or group management.
- A8. Where access is restricted by circumstances, the group auditor nevertheless may be able to obtain sufficient appropriate audit evidence by other means. For example, the group auditor may not have access to those charged with governance, the management, or auditor

(including relevant audit documentation sought by the group auditor) of a component that is accounted for by the equity method. The group auditor, however, may have a complete set of financial statements of the component, including the auditor's report thereon, and information retained by group management in relation to that component. The group auditor may conclude that, based on the relative insignificance of the component, this information constitutes sufficient appropriate audit evidence. As the significance of the component increases, however, this is less likely to constitute sufficient appropriate audit evidence.

- A9. Where access is restricted by group management, it is unlikely that the group auditor will be able to obtain sufficient appropriate audit evidence by other means. Where this is the case, the requirements in paragraphs 12-13 apply.
- A10. Appendix 1 contains an example of an auditor's report containing a qualified opinion based on the group auditor's inability to obtain sufficient appropriate audit evidence in relation to a component accounted for by the equity method where, in the group auditor's judgment, the effect is material but not pervasive.

#### *Terms of Engagement*

- A11. In a group audit, matters such as the following may be included in the terms of engagement in addition to those required by ISA 210, "Terms of Audit Engagements:"
- The applicable financial reporting framework.
  - The fact that the communication between the group auditor and the other auditors should be unrestricted.
  - The fact that important communications between the other auditors, those charged with governance of the component, and component management, including communications on material weaknesses in internal control, should be made available to the group auditor.
  - The fact that important communications between regulatory authorities and components related to financial reporting matters should be made available to the group auditor.
  - The fact that, to the extent the group auditor considers necessary, the group auditor should be permitted:
    - Access to component information, those charged with governance of components, component management, and the other auditors (including relevant audit documentation sought by the group auditor); and
    - To perform work on the financial information of the components.
  - The fact that restrictions on:
    - the group auditor's access to component information, those charged with governance of components, component management, or the other auditors (including relevant audit documentation sought by the group auditor); or

- 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. In exceptional circumstances, it may even give rise to resignation from the engagement, i.e., where permitted by law or regulation.

**Obtaining an Understanding of the Other Auditors** (Ref: Para. 14)

A12. The group auditor's understanding of the other auditors' professional competence may include, for example, whether they:

- Possess an understanding of the applicable financial reporting framework sufficient to fulfill their responsibilities in the group audit (the group financial reporting procedures manual often describes the characteristics of the applicable financial reporting framework);
- Possess an understanding of auditing and other standards applicable to the group audit, sufficient to fulfill their responsibilities in the audit of the group financial statements; and
- Possess the special skills necessary to perform the work on the financial information of the particular components.

A.13 The group auditor's understanding also may include whether the other auditors operates in a regulatory environment that actively oversees and enforces the professional qualifications, independence, and professional competence of auditors, and the quality control systems of their firms.

A14. The group auditor's ability to use the work of the other auditors may also be affected by the following:

- Previous experience with or knowledge of the other auditors.
- The degree to which the group auditor and the other auditors perform, or are subject to, common policies and procedures. For example, whether the group auditor and another auditor share:
  - Common policies and procedures for performing the work (e.g., audit methodologies);
  - Common quality control policies and procedures; or
  - Common monitoring policies.
- Commonality of:
  - Laws and regulations or legal system;
  - Professional oversight and discipline;
  - Education and training;
  - Professional organizations and standards;

- Language and culture.

A15. A number of sources may provide information about the other auditors. For example, the group auditor may:

- Visit the other auditors;
- Request the other auditors to complete questionnaires or written representations;
- Discuss the other auditors with colleagues in the group auditor's firm, or with a network firm who has dealt with them;
- Obtain confirmations from the professional bodies to which the other auditors belong, the authorities by which they are licensed, or other third parties; or
- Consider the results of previous contacts with the other auditors.

### **Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements**

*Matters About Which the Group Auditor Obtains an Understanding* (Ref: Para. 19)

A15a. ISA 315 contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance. Paragraphs A16-A18 contains guidance on matters specific to a group, including the consolidation process.

#### Group-wide Controls

A16. 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.

A17. Internal audit may be regarded as part of group-wide controls, for example, when the internal audit function is centralized. ISA 620, “Using the Work of Internal Audit” deals with the group auditor’s evaluation of the competence and objectivity of the internal auditors where the group auditor plans to use their work.

#### Consolidation Process

A18. The group auditor’s understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- 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:

- Group management’s process for obtaining an understanding of the accounting policies used by components, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the components for the group financial statements, and that differences in accounting policies are identified, and adjusted (where required in terms of the applicable financial reporting framework). Uniform accounting policies are 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. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the components for 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 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:

- 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).

*Financial Reporting Procedures Manual* (Ref: Para. 19)

A19. To achieve uniformity and comparability of financial information, group management ordinarily issue financial reporting procedures manuals, a reporting package, and related instructions to components, specifying the requirements for financial information of the components to be included in the group financial statements.

A20. The 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.

A21. The instructions ordinarily cover:

- The accounting policies to be applied;

- Statutory and other disclosure requirements applicable to the group financial statements, including:
    - The identification and reporting of segments;
    - Related party relationships and transactions;
    - Intra-group transactions and unrealized profits; and
    - Intra-group account balances; and
  - A reporting timetable.
- A22. The group auditor's evaluation of the financial reporting procedures manual, reporting package, and related instructions 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* (Ref: Para. 19)

- A23. Information used to identify the risks of material misstatement due to fraud may include 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 monitor 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.
  - Responses of those charged with governance of the group, group management, internal audit (and if considered appropriate, component management, the other auditors, and others) to the group auditor's inquiry 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* (Ref: Para. 19)

A24. ISA 315 and ISA 240, “The Auditor’s Responsibility to Consider Fraud in the Audit of Financial Statements” require the key 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. In a group audit, these discussions may also include the other auditors. The group engagement partner’s determination of who to include in the discussions, how and when they occur, and their extent is affected by factors such as prior experience with the group and knowledge of current developments. The discussions, however, ordinarily include the other auditors who perform work on the financial information of significant components.

A25. The 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 designed 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 the group financial statements, and whether differences in accounting policies are identified, and adjusted (where required by 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.

*Risk Factors* (Ref: Para. 20)

A26. Examples of conditions or events that may indicate risks of material misstatement of the group financial statements, including risks due to fraud, include the following:

- 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.
- The existence of complex transactions that are accounted for in more than one component.
- 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.

*Risk Assessment* (Ref: Para. 20)

A27. The group auditor's assessment of the risks of material misstatement of the group financial statements is based on information such as the following:

- 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.

- Information obtained through discussions with the other auditors.

### **Responding to Assessed Risks**

*Determining the Work to be Performed on the Financial Information of Components* (Ref: Para. 25-28)

A28. Appendix 2 illustrates how the group auditor may decide on the work to be performed on the financial information of the components.

Components that are not Individually Significant (Ref: Para. 27)

A29. The group auditor's selection of components that are not individually significant and work to be performed on the financial information of the individual components selected may be affected by factors such as the following:

- The extent of audit evidence expected to be obtained on the financial information of the significant components (see paragraphs 25-26).
- Whether the component has been newly formed or acquired.
- Whether significant changes have taken place in the component.
- Whether internal audit has performed work at the component and the effect, if any, it has on the group audit.
- The commonality of systems and processes applied by the components.
- The operating effectiveness of group-wide controls.
- Abnormal fluctuations identified by analytical procedures performed at the group level.
- The risks posed by, or the individual financial significance of, the component in comparison with other components within this category.
- Whether the component is subject to audit required by statute, regulation or for another reason.

The group auditor may vary the selection of components and work to be performed on their financial information over a period of time.

A30. For example, analytical procedures performed at the group level might have indicated a significant increase in revenue and accounts receivable. 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 receivable. 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 may decide to include the subsidiaries in

the selection of components on which to perform, or require the other auditors to perform, work and the group auditor may decide that an audit of the accounts receivable at these three components may be the appropriate work.

## **Communication with the Other Auditors**

### *Confirmations* (Ref: Para. 41)

A31. Appendix 3 contains an example of confirmations by another auditor, which are, whenever possible, submitted to the group auditor before the work on the financial information of the component commences.

### *Letter of Instruction* (Ref: Para. 42)

A32. In addition to the matters listed in paragraph 42, the group auditor's letter of instruction may include matter such as the following:

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 planned involvement in the work of the other auditor.
- Work to be performed on intra-group transactions and unrealized profits and intra-group account balances.
- 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.

Other information

- A request for a list of corrected and uncorrected misstatements of the financial information of the component, and identified indicators of possible management bias. 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.
  - Matters relating to the going concern status of the component.
  - Matters relating to litigation and claims.
- A request that the group auditor be notified of any significant or unusual events as early as possible.

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

### *Reviewing Another Auditor’s Audit Documentation* (Ref: Para. 47)

A33. The parts of another auditor’s audit documentation that will be relevant to the group audit may vary depending on the circumstances. Ordinarily the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review ordinarily is affected by the fact that the other auditor’s documentation has been subjected to the other auditor’s firm’s review procedures.

### *Performing Analytical Procedures in the Overall Review at the End of the Group Audit*

A34. In accordance with ISA 520, “Analytical Procedures,” analytical procedures are performed at group level at or near the end of the group audit when forming an overall conclusion as to whether the group financial statements as a whole are consistent with the group auditor’s understanding of the entity. The conclusions drawn from the results of such audit procedures are intended to corroborate conclusions formed during the work performed on the financial information of the components or elements of the group financial statements. For example, the group auditor may consider whether information obtained from the components about complex transactions between them, reflect the group auditor’s understanding of such transactions when consolidated.

## **Communication with Group Management and Those Charged with Governance**

*Communication with Group Management* (Ref: Para. 56)

A35. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.
- Significant legal agreements.

*Communication with Those Charged with Governance* (Ref: Para. 57)

A36. The matters that the group auditor communicates to those charged with governance of the group may include those matters brought to the attention of the group auditor by other auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group takes place at various times during the group audit. For example, the matters referred to in paragraph 57(a)-(b) may 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 to in paragraph 57(c) may be communicated at the end of the audit, and the matter referred to in paragraph 57(d) may be communicated when it occurs.

### **Public Sector Perspective [To be revised and incorporated in body of ISA.]**

1. *Some terms in this ISA, such as “engagement partner” and “firm,” are to be read as referring to their public sector equivalents.*
2. *In some jurisdictions, legislation provides for the appointment of different auditors for different tiers of government or classes of public sector entity. In addition, in auditing a combination of public sector entities, the group management may not be structured in the manner envisaged by the ISA. Such factors may result in additional complexity that affect, for example, the group auditor’s approach to audit planning and risk assessment.*
3. *Where, in accordance with the mandate, the scope of the group audit is wider than that envisaged by this ISA, and the group auditor intends to use the work of another auditor, the group auditor will need to ensure that the other auditor has a proper understanding of the affect of this wider scope on the other auditor’s work and report.*

**Appendix 1****Example of a Qualified Opinion where the Group Auditor is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion (Paragraph A10)**

In this example, the group auditor is unable to obtain sufficient appropriate audit evidence in relation to a significant component accounted for by the equity method because the group auditor did not have access to the accounting records, management, or auditor of the component.

The group auditor has read the audited financial statements of the component as of June 30, 20X5, including the auditor's report thereon, and considered related financial information retained by group management in relation to the component. The group auditor, however, was not able to obtain more recent audited financial statements of that component. The consolidated financial statements are for the year ended December 31, 20X5.

In the auditor's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.

**INDEPENDENT AUDITOR'S REPORT**

*[Appropriate Addressee]*

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 20X5, and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and the fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except for the matter described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>4</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Basis for Qualified Opinion*

ABC Company's investment in XYZ Company, a foreign associate accounted for by the equity method, is recognized at \$15 million in the balance sheet as at December 31, 20X1, and ABC Company's share of profit of XYZ Company is recognized at \$1 million in the income statement for the year ended December 31, 20X5. We were unable to obtain sufficient appropriate audit evidence in relation to the financial information of XYZ Company because we were unable to obtain access to the accounting records, management, or auditor of XYZ Company.

#### *Qualified Opinion*

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion 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, 20X5, and of their financial performance and 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]*

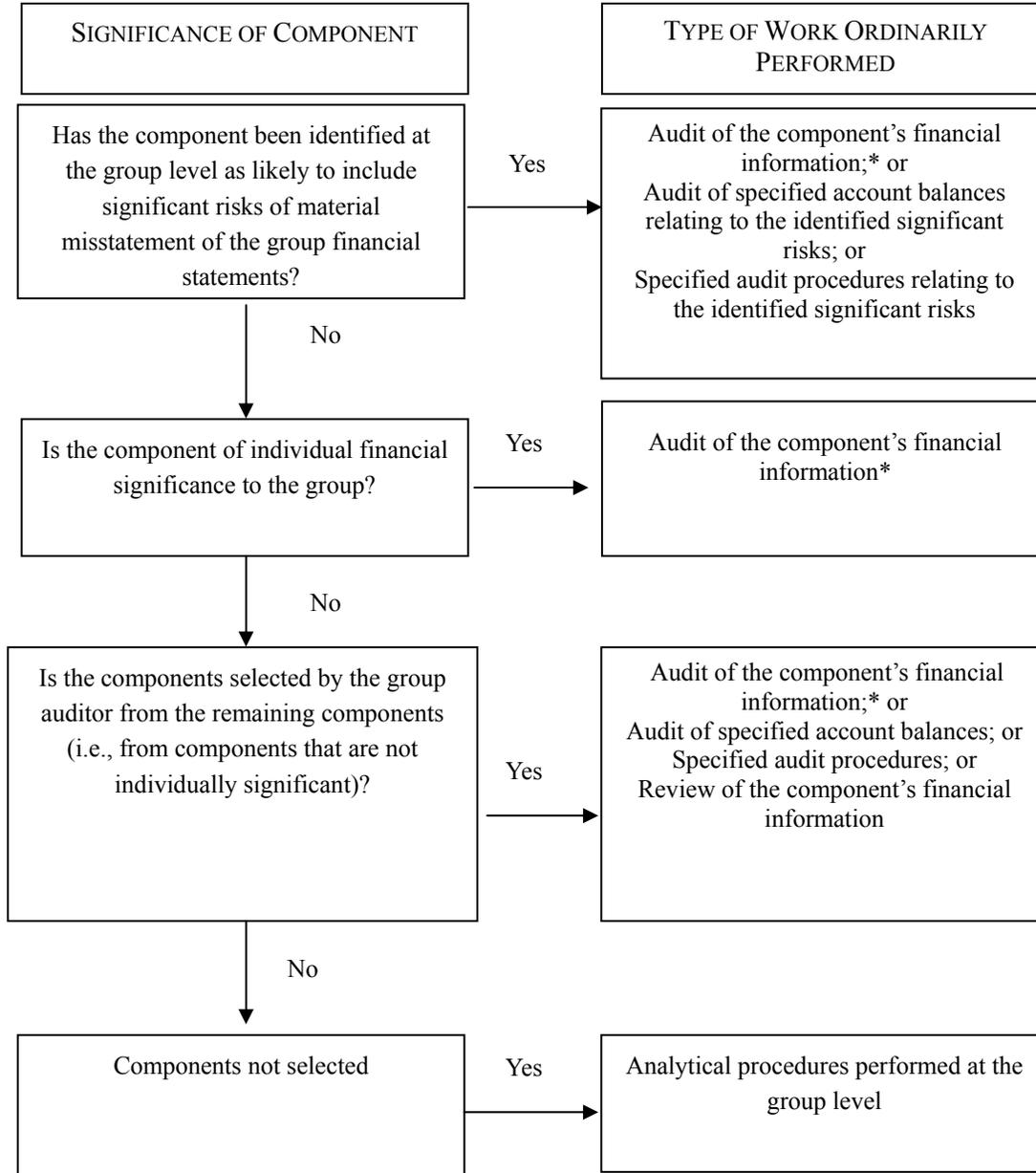
*[Auditor's address]*

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<sup>4</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances."

**Appendix 2**

**Determining the Work to be Performed on the Financial Information of Components (Paragraph A28)**



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

## Appendix 3

### Example of Another Auditor's Confirmations (Paragraphs A31)

The following letter is not intended to be a standard letter. Confirmations may vary from one auditor to another 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] will be included in the group financial statements of [name of parent].
2. You may consider it necessary to be involved in the work you have requested us to perform on the financial information of [name of component] for the year ended [date].
3. You intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of [name of parent].

In connection with the work that we will perform on the financial information 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, remedial action is taken promptly in relation to issues identified from the firm's monitoring process, and there are not outstanding issues noted resulting from the firm's monitoring process that are likely to affect significantly the work that we will perform in connection with this engagement.

2. A quality control review of our firm has been conducted by [name of body external to the firm]. There are no outstanding issues resulting from the review that are likely to affect significantly the work that we will perform in connection with this engagement.
3. 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].
4. 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.
5. 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].

[Auditor's signature]

[Date]

[Auditor's address]

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