

Illustration of Independent Auditor's Report Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

~~Note: Throughout this illustrative auditor's report, the Opinion section has been positioned first in accordance with ISA 700 (Revised), and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new Basis for Opinion section.~~

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.
- The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a ~~significant~~ component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.
- The group engagement team has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.¹
- The International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the ~~group's entity's~~ ability to continue as a going concern in accordance with ISA 570 (Revised).²
- The auditor is not required, and has otherwise not decided, to communicate key audit

¹ If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

² ISA 570 (Revised), *Going Concern*

matters in accordance with ISA 701.³

- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁴

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects (or give a true and fair view of), the consolidated financial position of the Group as at December 31, 20X1, and (of) their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient

³ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

⁴ The sub-title, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.

and appropriate to provide a basis for our qualified audit opinion.

Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised)⁵ – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁶

[Reporting in accordance with ISA 700 (Revised)⁷ – see Illustration 2 in ISA 700 (Revised).]

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

If, in the group engagement partner’s judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

⁵ ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

⁶ Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

The Task Force linked all matters included in Appendix 2 of extant ISA 600 to the components of internal control and made some initial changes to align Appendix 2 with ISA 315 (Revised 2019). The Task Force will discuss, in its January 2020 Task Force meeting, whether other matters may be added to this Appendix and will further align the appendix with ISA 315 (Revised). The Task Force welcomes the Board's suggestions in this regard.

Appendix 2

(Ref: Para. A23)

Examples of Matters about Which the Group Engagement Team Obtains an Understanding

The examples provided cover a broad range of matters; however, not all matters are relevant to every group audit engagement and the list of examples is not necessarily complete.

Group-Wide Controls

Group-wide controls may include a combination of the following:

Understanding the Group's System of Internal Control

1. This appendix provides examples of controls that may be helpful in obtaining an understanding of the system of internal control in a group environment, and expands on how ISA 315 (Revised 2019) is to be applied in relation to an audit of group financial statements.⁸ The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group engagement team's understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management's oversight responsibilities, including aArrangements for assigning authority and responsibility to component management.
 - How oversight over the group's system of internal control by those charged with governance is structured and organised;
 - How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g. gGroup-wide programs, such as codes of conduct and fraud prevention programs-);
 - Regular meetings between group and component management to discuss business developments and to review performance.
 - The cConsistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Entity's Risk Assessment Process

- 4.3. The group engagement team's understanding of the entity's risk assessment process may include matters such as the following:
 - Group management's risk assessment process, that is, the process for identifying,

⁸ ISA 315 (Revised 2019), Appendix 3

analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.

The Entity's Process to Monitor the System of Internal Control

2.4. The group engagement team's understanding of the entity's process to monitor the system of internal control may include matters such as the following:-

- Monitoring of controls, including how the controls are monitored in across the group and, where relevant, activities of the internal audit function across the group and self-assessment programs. The entity's internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at component level; (Ref: Para. A118) 2. The internal audit function may be regarded as part of group-wide controls, for example, when the function is centralized. ISA 610 (Revised 2013)⁹ deals with the group engagement team's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

The Information System and Communication

5. The group engagement team's understanding of the entity's information system and communication may include matters such as the following:

- Monitoring of components' operations and their financial results, including regular reporting routines, which enables group management to monitor components' performance against budgets, and to take appropriate action.
- Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
- A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components.

Consolidation Process

3.6. The group engagement team'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

⁹—ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

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 year-end.

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 various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments and reclassifications:

- 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.
- The bBusiness rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between components.
- The pProcedures 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).

Control Activities

7. The group engagement team's understanding of the control activities may include matters such as the following:

- 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.~~

Appendix 3
(Ref: Para. A30)

Examples of Characteristics of Events or Conditions that May Give Rise to Indicate Risks of Material Misstatement of the Group Financial Statements

The examples provided cover a broad range of characteristics of events or conditions that affect susceptibility of an assertion about a class of transactions, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. However, not all conditions or events are relevant to every group audit engagement and the list of examples is not necessarily complete. Also, see ISA 315 (Revised 2019), Appendix 2.

<u>Inherent Risk Factor</u>	<u>Characteristics of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements</u>
<u>Complexity</u>	<ul style="list-style-type: none"> The existence of complex transactions that are accounted for in more than one component. Components' application of accounting policies that differ from those applied to the group financial statements. Business activities of components that <u>involve high risk</u> have a higher inherent risk, such as <u>long-term contracts or trading in innovative or complex financial instruments</u>. <u>Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or components that operate in multiple industries that are subject to different types of regulation.</u>
<u>Subjectivity</u>	<ul style="list-style-type: none"> <u>Judgments</u> Uncertainties regarding which components' financial information 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. <u>Judgments regarding the correct application of the requirements of the applicable financial reporting framework by components.</u>
<u>Change</u>	<ul style="list-style-type: none"> A complex group structure, especially where there are frequent acquisitions, disposals or reorganizations.
<u>Uncertainty</u>	<ul style="list-style-type: none"> 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.
<u>Susceptibility to Misstatement</u>	<ul style="list-style-type: none"> Unusual related party relationships and transactions. Components with different financial year-ends, which may be utilized to

<p><u>Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</u></p>	<p>manipulate the timing of transactions.</p> <ul style="list-style-type: none"> • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
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- ~~Frequent changes of auditors engaged to audit the financial statements of components.~~

Indicators that the control environment, the group's risk assessment process or the group's process to monitor the system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

- Poor corporate governance structures, including decision-making processes, that are not transparent.
- Non-existent or ineffective ~~group-wide~~ controls over the group's financial reporting process, including inadequate group management information on monitoring of components' operations and their results.

Appendix 4
(Ref: Para. A35)

Examples of a Component Auditor's Confirmations

~~The following is not intended to be a standard letter. Confirmations may vary from one component auditor to another and from one period to the next.~~

~~Confirmations often are obtained before work on the financial information of the component commences.~~

~~[Component Auditor Letterhead]~~

~~[Date]~~

~~[To Group Engagement Partner]~~

~~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 present fairly, in all material respects (give a true and fair view of) the financial position of the group as at [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 we understand them. / We would appreciate it if you could clarify the following instructions [specify instructions].~~
- ~~3. We will cooperate with you and provide you with access to relevant audit documentation.~~

~~We 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, for example, wholly owned subsidiary, subsidiary, joint venture, investee accounted for by the equity or cost methods of accounting] of [name of parent], we confirm the following:~~

- ~~1. We have an understanding of [indicate relevant ethical requirements] that is sufficient to fulfill our responsibilities in the audit of the group financial statements, and will comply therewith. 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 comply with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].~~
- ~~2. We have an understanding of International Standards on Auditing and [indicate other national standards applicable to the audit of the group financial statements] that is 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 with those standards.~~

- ~~3. We possess the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the particular component.~~
- ~~4. We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual] that is 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]~~

Appendix 5

(Ref: Para. A58)

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this ISA to be communicated to the component auditor are shown in italicized text.

Matters that are relevant to the planning of the work of the component auditor:

- ~~A request for the component auditor, knowing the context in which the group engagement team will use the work of the component auditor, to confirm that the component auditor will cooperate with the group engagement team.~~
- ~~The timetable for completing the audit.~~
- ~~Dates of planned visits by group management and the group engagement team, and dates of planned meetings with component management and the component auditor.~~
- ~~A list of key contacts.~~
- ~~The work to be performed by the component auditor, the use to be made of that work, and arrangements for coordinating efforts at the initial stage of and during the audit, including the group engagement team's planned involvement in the work of the component auditor.~~
- ~~The ethical requirements that are relevant to the group audit and, in particular, the independence requirements, for example, where the group auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant for the group auditor to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.¹⁰~~
- ~~In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures), and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.~~
- ~~A list of related parties prepared by group management, and any other related parties that the group engagement team is aware of, and a request that the component auditor communicates on a timely basis to the group engagement team related parties not previously identified by group management or the group engagement team.~~
- ~~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 time lag between completion of the work on the financial information of the components and the group engagement team's conclusion on the group financial statements is likely, specific instructions for a subsequent events review.~~
- ~~Matters that are relevant to the conduct of the work of the component auditor:~~
- ~~The findings of the group engagement team'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 component auditor.~~

¹⁰—ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph A34

- ~~Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor, and a request that the component auditor communicates on a timely basis any other significant risks of material misstatement of the group financial statements, due to fraud or error, identified in the component and the component auditor's response to such risks.~~
- ~~The findings of the internal audit function, 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 engagement team originally based the risk assessment performed at group level.~~
- ~~A request for a 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 component auditor.~~

Other information

- ~~A request that the following be reported to the group engagement team on a timely basis:~~
 - ~~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.~~
 - ~~Significant deficiencies in internal control that the component auditor has identified during the performance of the work on the financial information of the component, and information that indicates the existence of fraud.~~
- ~~A request that the group engagement team be notified of any significant or unusual events as early as possible.~~
- ~~A request that the matters listed in paragraph 41 be communicated to the group engagement team when the work on the financial information of the component is completed~~