

PROPOSED REVISED ISA 600
GROUP AUDITS – CONSIDERING THE WORK OF OTHER AUDITORS
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International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance when an auditor audits group financial statements that include financial information of components that are audited by other auditors.
2. Although written in the context of an audit of group financial statements, the basic principles, essential procedures and guidance in this standard also apply:
 - (a) to the audit of financial statements (prepared in accordance with an identified financial reporting framework or other suitable criteria) that combine the financial information of components, that is where a parent company does not exist. In this case, reference to group financial statements should be read as reference to the combined financial information, and reference to parent company management should be read as reference to those responsible for the preparation and presentation of the combined financial information; and
 - (b) when an auditor plans to use the work of another auditor in a context other than the audit of group financial statements, for example to obtain audit evidence in relation to inventory held at a remote location.
3. This ISA does not deal with those instances where two or more auditors are appointed as joint auditors. The auditor's procedures when the financial statements for the prior period were audited by another auditor are set out in ISA 510 "Initial Engagements – Opening Balances."
4. **When group financial statements include financial information of components that are audited by other auditors, the group auditor should determine how the work of the other auditor will affect the audit of the group financial statements.**
5. "Group auditor" means the auditor with responsibility for reporting on the group financial statements.
6. "Other auditor" means an auditor, other than the group auditor reporting on financial information of a component. Other auditors include network firms, whether using the same name or not, and correspondents, as well as unrelated auditors.
7. "Network firm" means an entity under control, ownership or management with the group auditor's firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the group auditor's firm nationally or internationally. *[Note to IAASB: This definition is in line with the definition as per the IFAC Code of Ethics for Professional Accountants. In addition, the term "networks of firms" is defined in TAC Practice Alert 2 as "those firms which practice nationally or internationally under the same name, or whose member firms are other wise closely identified with one another such as through common elements in their name or through reference to membership of the network in their promotional material or on their stationery ..." The Task Force prefers the following definition: "... means an entity with a similar name as the group auditor, or an entity under common ownership or management as the group auditor, or an entity bound by contractual terms to the group auditor such that a reasonable third party would conclude that the relationship was sufficiently close that the entity should be treated as if it were part of the group auditor."]*
8. "Group" means a parent company and its components.
9. "Component" means a division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in the group financial statements by means of consolidation or equity accounting.

Acceptance as Group Auditor

10. **Before an auditor accepts an engagement to audit group financial statements that include financial information of components that are audited by other auditors, the group auditor should consider the significance of the components that the group auditor does not audit, the likely risks of material misstatement in the group financial statements and the likely ability of the group auditor to obtain sufficient appropriate audit evidence to reduce those risks to an acceptably low level.** The group auditor's consideration is based on a preliminary understanding of the parent company, the business activities of the components, and the likely risks of material misstatement in the group financial statements. The group auditor also considers the likelihood of the group auditor being satisfied with the other auditors' work.
11. When the group auditor concludes that sufficient appropriate audit evidence on which to base the group auditor's opinion cannot be obtained, the group auditor communicates to parent company management the likely impact of this scope limitation on the report on the group financial statements or decides not to accept the engagement.

Access to Information

12. **The group auditor should request parent company management to arrange with component management for the group auditor to have access to the component, component management and the other auditor.**
13. In some circumstances there may be restrictions on the group auditor's access to information from the other auditor and/or component, for example when a subsidiary operates in a foreign jurisdiction or in the case of an associated company. If this difficulty cannot be resolved through the parent company management, the group auditor considers the effect that this may have on the report on the group financial statements.

The Group Auditor's Procedures in Relation to the Other Auditor's Work and Report

14. **The group auditor should assess whether the work of the other auditor provides sufficient appropriate audit evidence in relation to the component's financial information and, if not, perform additional audit procedures.**
15. The nature, timing and extent of the group auditor's procedures depends on:
 - (a) the group auditor's assessment of the independence, professional competence and quality control process of the other auditor;
 - (b) the group auditor's judgment concerning the materiality of the component and the level of risks of material misstatement in the group financial statements arising from that component; and
 - (c) whether, in the limited circumstances set out in paragraph 35, the group auditor's report refers to a division of responsibility.

THE OTHER AUDITOR'S INDEPENDENCE, COMPETENCE AND QUALITY CONTROL PROCESS

16. **The group auditor should obtain information about:**
 - (a) **the professional qualifications, independence, professional competence and resources of the other auditor; and**
 - (b) **the other auditor's quality control process.**

17. The group auditor obtains this information from various sources, for example from the other auditor (by way of questionnaire or representation), professional colleagues, the professional body to which the other auditor belongs and/or the authority that the other auditor is licensed with. Previous contacts with the other auditor and reviews of the other auditor's work will provide the group auditor with information about the professional competence of the other auditor. Of particular importance in the context of an audit of group financial statements, is the other auditor's competence in relation to the financial reporting framework applicable to the parent company.
18. The group auditor considers obtaining a representation as to whether the other auditor's quality control process complies with the quality control standards of the International Federation of Accountants.
19. If the other auditor is from a network firm, the group auditor and the other auditor may have a continuing, formal relationship that provides assurance to the group auditor that acceptable quality control policies and procedures are complied with in the conduct of the other auditor's work, for example periodic inter-firm review, tests of operating policies and procedures and review of working papers of selected audits. In addition, network firms may also have common policies on recruitment, training, advancement, audit methodology and auditor independence. The existence of such a relationship may impact the nature, timing and extent of the group auditor's procedures.

COMMUNICATIONS WITH THE OTHER AUDITOR

20. **To the extent that the group auditor intends obtaining audit evidence from the other auditor, the group auditor should communicate with the other auditor to provide the other auditor with the group auditor's requirements.**
21. Communications are established between the auditors during the initial stage of their respective engagements and further communications take place as necessary throughout the engagement.
22. The group auditor communicates to the other auditor matters relevant to the other auditor's work and report, for example the group structure, business activities of the group, related parties, etc.
23. The other auditor is made aware of the group auditor's requirements and communicates any anticipated problems or other audit matters with the group auditor on a timely basis.
24. The group auditor's requirements ordinarily are communicated in a letter of instruction sent to the other auditor. The letter of instruction includes matters such as:

Matters relevant to the planning of the other auditor's work

- (a) The timetable for completion of the audit.
- (b) The use that is to be made of the other auditor's work and report, the scope of work to be performed, and arrangements for the coordination of efforts at the initial stage of the audit.
- (c) Planning materiality that the group auditor expects the other auditor to use.
- (d) The threshold for reporting to the group auditor identified uncorrected misstatements in the component's financial information, that is the amount below which misstatements need not be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

- (e) Guidance on other statutory reporting responsibilities, for example reporting on internal control.
- (f) Areas requiring special consideration, such as significant risks of material misstatement in the group financial statements that require special audit consideration.

Matters relevant to the conduct of the other auditor's work

- (g) The application of ISAs, requesting written representation as to compliance with them.
- (h) The applicable financial reporting framework, including statutory or other disclosure and financial reporting requirements, requesting written representation as to the component's compliance with them.

Matters relevant to the other auditor's report

- (i) The content of a summary memorandum, if required by the group auditor.
- (j) The form of the other auditor's report to be provided to the group auditor.
- (k) Procedures for reporting material weaknesses in internal control, fraud and irregularities to the group auditor.
- (l) Procedures for notifying the group auditor of any significant or unusual event as early as possible.

Other information and representations required

- (m) A request for a list of any other related parties identified by the other auditor during the conduct of the work (refer paragraph 22).
- (n) A request for written representation as to compliance with the *Code of Ethics for Professional Accountants* of the International Federation of Accountants (IFAC), including the independence requirements regarding both the parent company and the component.

25. When a letter of instruction is received from the group auditor, the group auditor requests the other auditor to:

- (a) acknowledge receipt of the instructions;
- (b) advise the group auditor if the other auditor cannot comply with specific instructions for any reason, or lack information;
- (c) seek clarification from the group auditor if anything in the letter of instruction or, where applicable, the questionnaire is unclear; and
- (d) request the group auditor to reconsider any instructions or, where applicable, questions that the other auditor believes may not be needed or justified in the circumstances.

PARTICIPATION IN THE AUDIT PROCESS

26. Where, in the group auditor's judgment, the component is material to the group financial statements or significant risks of material misstatement in the group financial statements arise from that component, the group auditor considers the impact that this may have on the nature,

timing and extent of the group auditor's procedures. For example, the group auditor considers:

- meeting with component management;
- participating in the other auditor's planning and risk assessment;
- participating in the other auditor's evaluation of audit evidence;
- attending the closing and other key meetings of the other auditor and component management; and/or
- reviewing the other auditor's working papers.

27. However, in the case of a network firm, where the group auditor is satisfied with the professional competence and quality control process of the other auditor, the group auditor may conclude that it is not necessary to perform all of the above procedures.

CONSIDERING THE OTHER AUDITOR'S WORK AND REPORT

28. When the other auditor has completed the work on the financial information of the component, the group auditor should obtain a written communication from the other auditor:

- (a) **identifying the other auditor's report and the financial information to which it relates;**
- (b) **except in the limited circumstances set out in paragraph 35, acknowledging that the group auditor intends to rely on that report;**
- (c) **setting out the representations required by the group auditor, as communicated to the other auditor in the instructions;**
- (d) **listing the identified uncorrected misstatements in the component's financial information, as per the group auditor's requirements; and**
- (e) **listing any other matters which the other auditor wishes to communicate to the group auditor.**

29. The group auditor should consider the significant findings arising from the work of the other auditor.

30. The group auditor may require further audit evidence on which to base the group auditor's opinion. The group auditor requests the other auditor to perform additional audit procedures or, if this is not feasible, seeks permission to perform audit procedures on the financial information of the component.

31. The fact that the group auditor, in reporting on the group financial statements, relies on the other auditor's work and report, instructs the other auditor to carry out additional audit procedures or performs additional audit procedures on the component, does not in any way diminish the other auditor's responsibility for the other auditor's report on the component's financial statements, that is where the other auditor is required by statute or requested by component management to audit the financial statements of the component.

Reporting Considerations

32. When the group auditor concludes that the work of the other auditor does not provide sufficient appropriate audit evidence, and the group auditor has not been able to perform sufficient additional audit procedures regarding the financial information of the component audited by the other auditor, the group auditor should express a

qualified opinion or disclaimer of opinion because there is a limitation in the scope of the audit.

33. **Except in the limited circumstances set out in paragraph 35, when expressing an unqualified opinion, the group auditor should not refer to the other auditor in the group auditor's report.** As the group auditor has overall responsibility for the report on the group financial statements, such reference may be misunderstood and interpreted as a qualification of the group auditor's opinion or a division of responsibility. However, when expressing a qualified opinion as a result of the circumstances set out in paragraph 32, the group auditor may refer to the group auditor's inability to rely on the other auditor's work and report, if the group auditor believes that this disclosure will help to explain the reason for the qualified opinion.
34. **If the other auditor issues, or intends to issue, a modified auditor's report on a component's financial statements, the group auditor should consider whether the subject of the modification is of such a nature and significance, in relation to the group financial statements, that a modification of the report on the group financial statements is required.**

DIVISION OF RESPONSIBILITY

35. The local regulations of some countries permit a group auditor to base the report on the group financial statements solely upon the report of another auditor regarding the audit of one or more components. **When the group auditor does so, the group auditor's report should state this fact clearly and should indicate the magnitude of the portion of the financial statements audited by the other auditor.** When the group auditor makes such a reference in the group auditor's report, audit procedures are ordinarily limited to those described in paragraph 16.
36. If the results of inquiries and procedures by the group auditor with respect to matters described in paragraph 16 lead the group auditor to the conclusion that the group auditor cannot report in the manner set forth in 34, the group auditor appropriately qualifies the group auditor's opinion or disclaims an opinion on the group financial statements. The group auditor's reasons therefor are stated, and the magnitude of the portion of the financial statements audited by the other auditor.

Documentation

37. In addition to matters set out in other ISAs, the group auditor documents the following:
- (a) The components whose financial information was audited by other auditors, their significance to the group financial statements, the names of the other auditors.
 - (b) Any conclusions reached that individual components are immaterial.
 - (c) Conclusions reached with regard to the nature, timing and extent of procedures performed by the group auditor to determine whether the work of the other auditor provides sufficient appropriate audit evidence on which to base the group auditor's opinion. This includes the group auditor's consideration of the matters referred to in paragraph 15.
 - (d) The procedures performed by the group auditor in relation to components audited by other auditors and the conclusions reached. For example, working papers of the other auditor that have been reviewed by the group auditor are identified and the results of discussions with the other auditor recorded.

- (e) Notes of meetings with component management and other auditors.
- (f) The group auditor's resolution of significant or unusual events reported by the other auditor.

Public Sector Perspective

1. *The basic principles in this ISA apply to the audit of financial statements in the public sector, however, supplementary guidance on additional considerations when using the work of other auditors in the public sector is needed. For example, the group auditor in the public sector has to ensure that, where legislation has prescribed compliance with a particular set of auditing standards, the other auditor has complied with those standards. In respect to public sector entities, the Public Sector Committee has supplemented the guidance included in this ISA in its Study 4 "Using the Work of Other Auditors—A Public Sector Perspective."*