

**[Draft reflecting changes processed subsequent to October 2003 IAASB meeting]**

**Mark-up**

**PROPOSED INTERNATIONAL AUDITING PRACTICE STATEMENT**

**THE AUDIT OF GROUP FINANCIAL STATEMENTS**

**CONTENTS**

Paragraphs

Introduction

Purpose of IAPS ..... ~~4~~

Application of IAPS ..... ~~2-3~~

Responsibility ..... ~~4-5~~

Definitions ..... ~~6~~

Acceptance and Continuance as Group Auditor ..... ~~7-14~~

Acceptance .....

Continuance .....

Terms of Engagement ..... ~~15~~

Other Auditors .....

Professional Qualifications, Independence, Professional Competence,

Resources and Quality Control Process .....

Communications .....

Internal Audit .....

Materiality ..... ~~16-18~~

Obtaining an Understanding of the Components and the Consolidation .....

Risk Assessment Procedures to Obtain an Understanding of the

the Components and the Consolidation ..... ~~19-20~~

Matters About which the Group Auditor Obtains an Understanding ..... ~~21-29~~

Discussion Among Engagement Team Members Regarding the Risks of Material

Misstatement of the Group Financial Statements, Including Risks of Fraud ..... ~~30-32~~

Assessing the Risks of Material Misstatement of the Group Financial

Statements ..... ~~33-35~~

Responding to Assessed Risks ..... ~~36~~

Scoping the Work to be Performed on the Components' Financial Information.. ~~37-49~~

Internal Audit ..... ~~50-52~~

## Performing Further Audit Procedures

Testing Internal Controls.....	53
Components' Financial Information .....	54
Consolidation.....	55-63
Subsequent Events.....	64-67
Management Representations.....	68

## Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Updating the Risk Assessment at Group Level.....	69-70
<a href="#">Sufficiency and Appropriateness of</a> Audit Evidence .....	71-72

## Communication ~~w~~[W](#)ith Group Management and Those Charged ~~w~~[W](#)ith

Governance.....	
Communication <del>w</del> <a href="#">W</a> ith Group Management .....	73-74
Communication <del>w</del> <a href="#">W</a> ith Those Charged <del>w</del> <a href="#">W</a> ith Governance.....	75-76

## ~~Related Auditors and Other Auditors~~

<del>Professional Qualifications, Independence, Professional competence and Resources.....</del>	<del>77-80</del>
<del>Quality Control Process.....</del>	<del>81-82</del>
<del>Access to Information .....</del>	<del>83-84</del>
<del>Group Auditor's Communication with Related and Other Auditors .....</del>	<del>85-90</del>
<del>Related Auditor's and Other Auditor's Communication with the Group Auditor .....</del>	<del>91-92</del>
<del>Adequacy of the Work of the Related Auditor or Other Auditor.....</del>	<del>93-96</del>
<del>Considering the Findings.....</del>	<del>97-99</del>
<del>Reporting Considerations for the Related Auditor or Other Auditor.....</del>	<del>100-101</del>

## Communication with Related Auditor or Other Auditor who

is <del>Statutory Auditor</del> <a href="#">Required to Audit Component's Financial Information</a> .....	<del>102-103</del>
---	--------------------

<a href="#">Documentation</a> .....	104
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## Appendix 1: Definitions

## Appendix 2: Examples of Matters to be Included in the Group Auditor's ~~Communication~~ [Letter of Instruction](#)

## Appendix 3: Example of Related Auditor's or Other Auditor's [Acknowledgements and Confirmations](#) ~~s-Letter~~

<sup>1</sup>~~International Auditing Practice Statements (IAPSs) are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) to provide interpretive guidance and practical assistance to professional accountants in implementing International Standards on Auditing (ISAs) and to promote good practice. IAPSs do not establish new basic principles or essential procedures.~~

~~Professional accountants should be aware of and consider IAPSs applicable to the engagement. The extent to which the audit procedures described in this IAPS may be appropriate to a particular engagement requires the exercise of professional judgment. A professional accountant who does not consider and apply the guidance included in a relevant IAPS should be prepared to explain how the basic principles and essential procedures in the ISAs addressed by the IAPS have been complied with.~~

~~The IAASB approved this IAPS in [date] for publication in [date].~~

~~The Public Sector Perspective (PSP) issued by the Public Sector Committee of the IFAC is set out at the end of an IAPS. Where there is no PSP, the IAPS is applicable in all material respects to the public sector.~~

<sup>1</sup> To be revised based on new Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services

## Introduction

### PURPOSE OF IAPS

1. ~~Group financial statements give rise to a number of special audit considerations and~~ This International Auditing Practice Statement (IAPS) provides practical assistance to auditors in applying International Standards on Auditing (ISAs) to the audit of group financial statements. This IAPS does not establish new requirements for, or exemptions from, the requirements of ~~International Standards on Auditing (ISAs)~~.
2. Where the group auditor decides to use the work of a related auditor or other auditor in the audit of the group financial statements, this IAPS should be read in conjunction with proposed ISA 600, "The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements."

### APPLICATION OF IAPS

3. The guidance in this IAPS applies when the group auditor takes sole responsibility for the audit opinion on the group financial statements.
- ~~2.4.~~ Although written in the context of an audit of group financial statements, for example where a parent and subsidiaries exist, the guidance also applies to the audit of financial statements (prepared in accordance with an applicable financial reporting framework or other suitable criteria) that combine the financial information of components, i.e. where a parent does not exist. In this case, reference to group financial statements is read as reference to the combined financial information, and reference to group management is read as reference to those responsible for, among other matters, the preparation and presentation of the combined financial information.
- ~~3.5.~~ The guidance in this IAPS is applicable whether components are accounted for by the consolidation or equity methods of accounting. It also applies to a combination of components' financial information or an equivalent presentation. For purposes of this IAPS, financial statements that include the financial information of one or more components are referred to as "group financial statements," and the process by which the financial information is included in the group financial statements is referred to as the "consolidation process."

### RESPONSIBILITY

- ~~4.6.~~ Group management is responsible for the preparation and presentation of group financial statements that give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework. Group management is also responsible for designing and implementing internal controls over the preparation and presentation of the group financial statements.
- ~~5.7.~~ The group auditor is responsible for expressing an opinion on whether the group financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework. The group auditor is responsible for determining the work to be performed on the components' financial information and on the consolidation in order to obtain sufficient appropriate audit evidence to be able to express an opinion on the group financial statements.

## DEFINITIONS

~~6.8.~~ Appendix 1 contains definitions of important terms used in this IAPS.

**Acceptance and Continuance as Group Auditor**

~~7.9.~~ ~~Proposed International Standard on Quality Control (ISQC) 1, “Quality Control for Audit, Assurance and Related Services Practices” and proposed ISA 220, “Quality Control for Audit Engagements” contains standards and guidance on the acceptance and continuance of audit engagements. In the case of an engagement to audit group financial statements, Proposed ISA 600 requires~~ the group auditor ~~also to~~ considers whether the group auditor’s ~~participation involvement~~, including the ~~participation involvement~~ of related auditors, in the audit of the group financial statements is sufficient to be able to act as group auditor.

ACCEPTANCE

~~8.10.~~ In order to decide whether to *accept* an engagement to audit group financial statements, the group auditor ordinarily considers information provided by group management, and holds discussions with group management and, where applicable, the previous group auditor to obtain a *preliminary* understanding of the following:

- Group structure.
- Business activities of the components.
- Regulatory, economic and political environments in which the components’ business activities take place.
- Individual financial significance of the components.
- Existence of group-wide controls (see paragraph 35).
- Whether other auditors will perform work on components’ financial information and, if so, the individual financial significance of those components.
- Professional qualifications, independence, professional competence, resources and quality control processes of ~~related auditors and~~ other auditors (~~refer~~ paragraphs ~~7819-21~~).
- Extent to which the group auditor will have access to component information, component management and the related auditors and other auditors, including their working papers.
- Where applicable, reasons for the previous group auditor’s departure, or for a related auditor or other auditor’s departure where there has been a change of auditor for a component.
- Whether group management has experienced difficulties in the past with regard to the integrity and competence of component management.

~~9.~~ ~~The group auditor applies professional judgment in determining whether to accept an engagement. The group auditor’s decision is impacted by factors such as:~~

- ~~The magnitude of the portion of the group financial statements that the group auditor audits;~~
- ~~The magnitude of the portion of the group financial statements that related auditors audit;~~
- ~~The risks of material misstatement of the group financial statements arising from the components, including the significance of risks arising from components audited by other auditors;~~

- ~~The group auditor's preliminary understanding of the professional qualifications, independence, professional competence, resources and quality control processes of related auditors and other auditors; and~~
- ~~Whether group management and component management will permit the group auditor to have unrestricted access to component information, component management and the other auditor, and to perform such additional work on components' financial information as the group auditor may consider necessary.~~ [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]

~~10.~~ 11. The group auditor applies professional judgment in considering the sufficiency of the group auditor's involvement in the audit of the group financial statements. In most cases the group auditor will wish to directly perform, or for related auditors to directly perform, the work on the financial information of components that are of individual financial significance and components that ~~are likely to~~ may include significant risks of material misstatement of the group financial statements.

~~11. Where other auditors are appointed to audit some of the components, the group auditor considers how this affects the group auditor's obligation to obtain sufficient appropriate audit evidence to be able to express an opinion on the group financial statements.~~

12. ~~It will be very rare for the group auditor to accept an engagement to audit group financial statements where the group auditor and related auditors directly perform work on only a small portion, for example 25%, of the group assets, liabilities, cash flows, profit or turnover. Even if the group auditor is invited to accept an engagement where the group auditor and related auditors will directly perform work on a significant portion, for example 75%, of the group assets, liabilities, cash flows, profit or turnover, the components representing the remaining portion of the group may have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. In such a case, the group auditor may conclude that the group auditor's participation is insufficient to accept the engagement, unless the group auditor is able to participate to a significant extent in the work to be performed by the other auditors on the components' financial information. It will be unusual for a group auditor to accept an engagement to audit group financial statements where the group auditor and related auditors directly perform work on less than approximately 50% of the group assets, liabilities, cash flows, profit or turnover, unless the group auditor will be able to resolve this insufficiency by participating appropriately in the work to be performed by the other auditors on the components' financial information (see paragraph 10 of proposed ISA 600).~~

13. It will also be unusual for a group auditor to accept an engagement where components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements are audited by other auditors, unless the group auditor will be able to participate appropriately in the work to be performed by the other auditors on the components' financial information (see paragraph 10 of proposed ISA 600).

~~13. The participation that the group auditor may request in the other auditors' work in order to accept the engagement may include some or all of the following:~~

- ~~Meeting with component management.~~

- ~~Performing planning and risk assessment procedures. These may be performed jointly with the other auditor, or directly by the group auditor.~~
- ~~Performing further audit procedures. These may be performed jointly with the other auditor, or directly by the group auditor.~~
- ~~Participating in the other auditors' evaluation of audit evidence.~~
- ~~Participating in the closing and other key meetings between the other auditor and component management.~~
- ~~Reviewing the other auditors' working papers.~~ [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]

14. The extent of the group auditor's participation in the other auditor's work is a matter of professional judgment and depends on the circumstances of the engagement. For example, the smaller the portion of the group assets, liabilities, cash flows, profit or turnover on which the group auditor and related auditors directly perform work, the greater the extent of the group auditor's participation in the work other auditor's work.

15. The group auditor considers the practicality of participating in the other auditor's work. For example, in the case of a component operating in a foreign jurisdiction, or in the case of a tight timetable for completing the audit, the group auditor may not be able to perform some of the procedures described in paragraph 10 of proposed ISA 600 that the group auditor considers necessary. Where the group auditor is unable to participate in the work of the other auditor to the extent considered necessary, the group auditor does not accept the engagement.

#### CONTINUANCE

14.16. The group auditor's decision as to whether to *continue* an engagement to audit group financial statements will be based on the group auditor's previous experience with the group, and will be impacted by factors such as the following:

- Changes in the group structure since the previous audit, for example acquisitions, disposals or reorganizations, and the impact of these changes on the group auditor's participation involvement, including the ~~participation involvement~~ of related auditors, in the audit of the group financial statements.
- Changes in the business activities of the components; and in the regulatory, economic and political environments in which they take place.
- Changes in group management or component management.
- The gGroup auditor's past experience with regard to the integrity and competence of group management and component management.
- Risks of material misstatement, fraud risks and misstatements identified during prior audits of the group financial statements.
- Any changes that affect the group auditor's ability to participate in the other auditor's work (see paragraphs 13-15).

#### **Terms of Engagement**

15.17. ISA 210, "Terms of Audit Engagements" contains standards and guidance on agreeing the terms of engagement with a client. In the ~~context case~~ of an audit of group financial statements, the financial reporting framework applicable to the group financial statements and arrangements to obtain access to component information, component management and related auditors and other auditors, including their working papers, are established in the group

auditor's terms of engagement. In addition, the terms of engagement letter ordinarily specifies that:

- (a) Communication between the group auditor, related auditors and other auditors will be unrestricted;
- (b) Any limitations imposed by group management, component management or circumstances on the scope of the work to be performed by related auditors or other auditors will be communicated promptly to the group auditor;
- (c) ~~Copies of related auditor's and other auditors' i~~Important communications ~~to~~ between related auditors or other auditors and component management, including communications on material weaknesses in internal control, will be made available to the group auditor;
- (d) ~~Copies of i~~Important communications ~~from between~~ regulatory authorities to and components related to financial reporting matters will be made available to the group auditor; and
- (e) To the extent that the group auditor considers it necessary, the group auditor will be permitted to have access to component information, component management and the related auditors and other auditors, including their working papers, and to perform audit procedures on the components' financial information.

18. The group auditor considers including in the terms of engagement the fact that restrictions on the group auditor's access to component information, component management or the other auditors (see paragraphs 13 and 14 of proposed ISA 600), or on the work to be performed on a component's financial information (see paragraph 13), will constitute a scope limitation that may impact the auditor's report on the group financial statements.

#### **~~Related Auditors and Other Auditors~~**

PROFESSIONAL QUALIFICATIONS, INDEPENDENCE, PROFESSIONAL COMPETENCE, ~~AND~~ RESOURCES AND QUALITY CONTROL PROCESS

~~77. When planning to use the work of a related auditor or an other auditor, the group auditor considers the professional qualifications, independence, professional competence and resources of the related auditor or other auditor in the context of the work to be performed by the related auditor or other auditor. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~78. In the case of a related auditor, the group auditor will ordinarily be able to rely on common policies and procedures on recruitment, training, advancement, audit methodology and auditor independence. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~79~~ 19. The group auditor ordinarily obtains information about an other auditor 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 or the authority by which the other auditor is licensed or references from third parties. A visit or previous contacts with the other auditor and reviews of the other auditor's work may provide the group auditor with information about the professional competence of the other auditor. In the context of an audit of group financial statements, the other auditor's ~~competence in relation to~~ familiarity with the financial reporting framework applied in the preparation of the group financial statements is especially important. With regard to the other auditor's quality control process, the group auditor obtains a representation that the other auditor's quality control process complies with



the proposed International Standard on Quality Control (ISQC) 1, “Quality Control for Audit, Assurance and Related Services Practices.”

- 80-20. The group auditor’s level of satisfaction with the professional qualifications, ~~independence~~, professional competence, ~~and~~ resources and quality control process of the ~~related auditor or~~ other auditor will impact the nature, timing and extent of the group auditor’s participation in the other auditor’s work (see paragraph 13) or the procedures performed in relation to the ~~related auditor’s or~~ other auditor’s work (~~refer see~~ paragraphs 93 22-25 of proposed ISA 600). ~~When the group auditor overall is not satisfied with the professional qualifications, independence, professional competence and resources of the related auditor or other auditor, the group auditor plans to obtain audit evidence relating to the component’s financial information without using the work of the related auditor or other auditor. For example, the greater the group auditor’s concerns over these matters, the greater the extent of the group auditor’s participation in the other auditor’s work.~~
21. When the other auditor is not independent or the group auditor overall is not satisfied with the professional qualifications, professional competence, resources and quality control process of the other auditor, the group auditor plans to obtain audit evidence relating to the component’s financial information without using the work of the other auditor.

#### QUALITY CONTROL PROCESS

~~81. When planning to use the work of an other auditor, the group auditor obtains a representation from the other auditor that the other auditor’s quality control process complies with ISQC 1. In the case of a related auditor, the group auditor may rely on the annual communication of the results of the firm’s monitoring process of its system of quality control (refer paragraph ... of ISQC 1).~~ [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]

~~82. The group auditor’s consideration of the documents referred to in paragraph 81 will impact the nature, timing and extent of the group auditor’s procedures performed in relation to the related auditor’s or other auditor’s work (refer paragraph 93). When the group auditor overall is not satisfied with these documents, the group auditor plans to obtain audit evidence relating to the component’s financial information without using the work of the related auditor or other auditor.~~ [CONCEPT COVERED IN PARAGRAPH 21 ABOVE.]

#### ACCESS TO INFORMATION

~~83. Where the right to access to component information, component management or the related auditors or other auditors is not provided for in national law or regulation, the group auditor requests group management to arrange with component management for the group auditor to have access.~~ [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]

~~84. In some circumstances there may be restrictions on the group auditor’s access to component information, component management or the related auditors or other auditors, for example in the case of components that are accounted for by the equity method and to which the auditor does not have access. When this difficulty cannot be resolved through group management or other means, the group auditor considers the impact of this scope limitation on the auditor’s report on the group financial statements.~~ [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]

~~GROUP AUDITOR'S COMMUNICATION WITH RELATED AUDITORS AND OTHER AUDITORS~~

~~85. The group auditor communicates with the related auditor or other auditor to provide them with the group auditor's requirements and to obtain evidence that their work on the component's financial information is adequate for the group auditor's purposes. The nature, timing and extent of the group auditor's communication with related auditors and other auditors are matters of professional judgment and may be impacted by factors such as whether the communication is with a related auditor and the scope of work to be performed on the component's financial information. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~86. The group auditor's communication sets out the scope of work to be performed by, and the confirmations to be obtained from, the related auditor or other auditor. Such confirmations include the following: [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

- ~~• An acknowledgement of receipt of the group auditor's requirements, which includes advising the group auditor if the related auditor or other auditor cannot comply with specific instructions for any reason, or seeking clarification from the group auditor if the requirements is unclear.~~
- ~~• The related auditor or other auditor is aware that the component's financial information will be included in the group financial statements.~~
- ~~• The related auditor or other auditor is familiar and has complied with the IFAC *Code of Ethics for Professional Accountants*, including the independence requirements.~~
- ~~• The related auditor or other auditor is familiar with the financial reporting framework and other statutory requirements applicable to the group financial statements.~~
- ~~• The related auditor or other auditor is familiar with ISAs and national requirements applicable to the audit of the group financial statements, and will perform the work on the component's financial information in accordance therewith. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~Appendix 2 contains examples of matters to be included in the group auditor's communication and Appendix 3 contains an illustrative confirmation letter.~~

~~87. The group auditor ordinarily communicates to the related auditor or other auditor the results of the risk assessment performed at group level that are relevant to the work of the related auditor or other auditor, including identified fraud risks. As the risk assessment is performed at the group level, the group auditor ordinarily requests the related auditor or other auditor to confirm the assumptions inherent in the assessment. The group auditor ordinarily also requests the related auditor or other auditor to communicate to the group auditor, in a timely manner, risks of material misstatement of the group financial statements that the related auditor or other auditor became aware of in performing the work on the component's financial information and the results of the related auditor's or other auditor's procedures in response to these risks. [NOW DEALT WITH IN PARAGRAPH 52.]~~

~~88. The group auditor ordinarily also communicates other matters relevant to the work of the related auditor or other auditor, for example information regarding the group structure, group-wide controls and related party relationships. Where the related auditor or other auditor is not familiar with the financial reporting framework applicable to the group financial statements or the auditing standards applicable to the audit of the group financial statements, the group auditor may consider it necessary to make the related auditor or other auditor aware of~~

~~significant differences between the frameworks applicable to the group financial statements, and IFRSs and ISAs. This will enable the related auditor or other auditor to compare the frameworks applicable in the component's jurisdictions to IFRSs and ISAs, and to determine significant differences to attend to while performing the work on the component's financial information. [NOW DEALT WITH IN APPENDIX 2 AND PARAGRAPH 48.]~~

~~89. Where internal audit is organized on a group level, the group auditor ordinarily communicates the arrangements for the related auditor's or other auditor's liaison with internal audit in connection with the group audit. The group auditor may also consider it necessary to inform the related auditor or other auditor of visits to components planned by group management or internal audit that are relevant to the work performed on the component's financial information. [NOW DEALT WITH IN PARAGRAPH 27.]~~

~~90. Where the group auditor has limited the scope of work performed on a component's financial information to a special purpose audit of specified account balances, specified audit procedures or a review, and has considered it necessary to perform audit procedures to address risks of material misstatement of the group financial statements due to fraud caused by improper revenue recognition or by management override of controls (refer paragraph 47), the group auditor requests the related auditor or other auditor to perform related procedures.~~

#### ~~RELATED AUDITOR'S OR OTHER AUDITOR'S COMMUNICATION WITH THE GROUP AUDITOR~~

~~91. The group auditor obtains a written communication from the related auditor or other auditor that: [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

- ~~(a) Identifies the component's financial information on which the related auditor or other auditor is reporting;~~
- ~~(b) Sets out the scope of work performed by the related auditor or other auditor, and the related auditor's or other auditor's findings, conclusions or opinion;~~
- ~~(c) Sets out the confirmations required by the group auditor;~~
- ~~(d) Lists identified misstatements of the component's financial information, distinguishing between corrected and uncorrected misstatements. The list does not include misstatements that were not corrected because they are below the threshold set by the group auditor for clearly trifling misstatements, even when aggregated with other clearly trifling misstatements; and~~
- ~~(e) Acknowledges that the group auditor intends to consider and use the related auditor's or other auditor's work for purposes of the audit of the group financial statements. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~92. The form of the communication of the related auditor or other auditor may vary. For example, it may be in the form of a confirmation letter (refer illustrative example in Appendix 3) and an auditor's report, or a memorandum that addresses the above matters under separate headings. The related auditor's or other auditor's communication ordinarily is addressed to the group auditor and not intended for distribution to third parties. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

#### ~~ADEQUACY OF THE WORK OF THE RELATED AUDITOR OR OTHER AUDITOR~~

~~93. The group auditor has to obtain sufficient appropriate audit evidence to be able to express an opinion, for which the group auditor takes sole responsibility, on the group financial statements.~~

~~As a result, the group auditor determines whether the work of the related auditor or other auditor is adequate for the group auditor's purposes. The nature, timing and extent of the group auditor's procedures in relation to the related auditor's or other auditor's work are matters of professional judgment and may be impacted by factors such as the following: [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

- ~~• The individual significance of the component.~~
- ~~• Whether the component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements, and the nature of the significant risks, for example risks of fraud.~~
- ~~• Matters that came to the group auditor's attention during the audit of the group financial statements.~~
- ~~• Previous experience with the related auditor or other auditor and the group auditor's evaluation of the related auditor's and other auditor's professional qualifications, independence, professional competence, resources and quality control process.~~
- ~~• The extent of the group auditor's participation in the work of the related auditor or the other auditor (refer paragraph 13). [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~94. When other auditors have performed work on the financial information of components that are of individual significance and components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements, the group auditor ordinarily reviews the other auditors' working papers. For other components, including components on which related auditors performed work on, the group auditor may consider it appropriate to limit the procedures to a consideration of the communications of related auditors or other auditors (refer paragraph 91). [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~95. Although the other auditor's working papers may be most effectively reviewed by meeting with the other auditor, when such a meeting is impractical, the group auditor may obtain and review copies of the other auditor's working papers and supplement this review with discussion or correspondence with the other auditor. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~96. If the group auditor concludes that the work of a related auditor or other auditor is inadequate for the group auditor's purposes, the group auditor ordinarily requests the related auditor or other auditor to perform additional procedures. Depending on the circumstances, the group auditor may consider it necessary to perform such additional procedures jointly with the related auditor or other auditor, or directly. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

#### CONSIDERING THE FINDINGS

~~97. The group auditor considers those findings of the related auditors and other auditors that may have an impact on the auditor's report on the group financial statements. The group auditor may consider it appropriate to discuss with a related auditor or other auditor and component management, significant matters affecting the component's financial information and may also conclude that additional audit procedures are necessary. Such additional audit procedures may, depending on the circumstances, be performed jointly with the related auditor or other auditor, or directly by the group auditor. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~98. Where a related auditor or an other auditor issued an auditor's report on the component's financial information that contains a qualified, adverse or disclaimer of opinion (other than that referred to in paragraph 100), or an emphasis of matter paragraph referring to a significant uncertainty, the group auditor considers whether the subject of the qualified, adverse or disclaimer of opinion, or the significant uncertainty, is of such nature or significance that it needs to be reflected in the group financial statements, and the auditor's report on the group financial statements. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

~~99. Misstatements that are material to the component's financial information may be immaterial when aggregated at the group level and, as a result, may not impact the group auditor's report on the group financial statements. However, misstatements that are immaterial to the component's financial information may be material when aggregated with immaterial misstatements of other components' financial information, and the group auditor considers the impact of the aggregated immaterial misstatements of components' financial information on the auditor's report on the group financial statements. [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]~~

#### ~~REPORTING CONSIDERATIONS FOR THE RELATED AUDITOR OR OTHER AUDITOR~~

~~42. When the scope of work performed by the related auditor or other auditor on a component's financial information was limited to a an audit planned in the context of planning materiality determined by the group auditor for the component, the audit procedures applied to the component's financial information may enable the group auditor to express an opinion on the group financial statements. However, they will ordinarily not be sufficient to express an opinion on the component's financial information. Accordingly, the related auditor or other auditor ordinarily disclaims an opinion on the component's financial information.~~

~~The components' financial information ordinarily is prepared on the basis of the applicable financial reporting framework and in accordance with group management's instructions for the inclusion in the group financial statements. Accordingly, the related auditors' or other auditor's reports do not state that the components' financial information gives a true and fair view (or is fairly presented, in all material respects) in accordance with the applicable financial reporting framework.~~

#### **Internal Audit**

22. ISA 610, "Considering the Work of Internal Audit" contains standards and guidance on the external auditor's consideration of the work of internal audit. Effective co-operation with a properly organized internal audit function can result in a reduction in the extent of work to be performed by the group auditor, related auditors and other auditors. Where internal audit is regarded as part of group-wide controls (see paragraph 35), and the group auditor plans to use the work of internal audit, the group auditor evaluates the competence and objectivity of the internal auditors.

50.23. The group auditor considers how the activities of internal audit affect the scope of the work to be performed on the components' financial information. This involves considering whether findings from the work of internal audit affect the risk assessment performed at group level (see paragraph 49), and whether the group auditor intends to use the work of internal audit as audit evidence in relation to a component's financial information. For example, material weaknesses in internal control ~~weaknesses~~ at a component identified by internal audit may

affect the group auditor's risk assessment ~~of the risks of material misstatement of the group financial statements performed at group level.~~

~~51-24.~~ Although the group auditor may determine it appropriate to use some of the work of internal audit as audit evidence for components that are of individual significance ~~financial significance~~ or components identified at group level as likely to include significant risks of material misstatement of the group financial statements, the group auditor ordinarily obtains most of the audit evidence from the group auditor's own procedures and procedures performed by, or performed jointly with, related auditors and other auditors.

25. ~~However, t~~The group auditor may determine it appropriate to use the work of internal audit related to ~~some~~ components that are not of individual significance ~~financial significance or that were not identified at group level as likely to include significant risks of material misstatement of the group financial statements. In making this determination, the group auditor considers the operating effectiveness of group-wide controls and the work performed by the group auditor, related auditors and other auditors on such components.~~

~~52-26.~~ ~~When planning to use the work of internal audit as audit evidence, t~~The group auditor discusses with internal audit the scope of the work to be performed on the component. The group auditor agrees in advance the timing of the work, the extent of audit coverage, test levels and proposed methods of sample selection, documentation of the work performed and review and reporting procedures. The group auditor ~~also~~ evaluates ~~and tests~~ the work of internal audit to confirm its adequacy for the group auditor's purposes. ~~ISA 610, "Considering the Work of Internal Audit" contains additional guidance.~~

27. Where the work on a component's financial information will be performed by a related auditor or other auditor, the group auditor's ordinarily communicates the following to the related auditor or other auditor:

- The extent to which the group auditor has evaluated the competence and objectivity of the internal auditors, and has evaluated the work of internal audit.
- Any additional evaluation the related auditor or other auditor is to perform.
- The nature, timing and extent of the work performed or to be performed by internal audit at the component and procedures for coordinating the work of internal audit and that of the related auditor or other auditor.

### Materiality

~~16-28.~~ ISA 320, "Audit Materiality" contains standards and guidance on materiality and its relationship with audit ~~risks of material misstatement of the financial statements~~. The group auditor establishes group materiality to evaluate the effect of misstatements of the components' financial information and the consolidation on the group financial statements. Group materiality is based on the group financial statements.

~~17-29.~~ The group auditor also establishes group planning materiality to determine the nature, timing and extent of audit procedures to be performed on the group financial statements. Group planning materiality is also based on the group financial statements. In order to allow for the aggregation of misstatements which, although individually immaterial to the group, become material when aggregated, group planning materiality is lower than group materiality established to evaluate the effect of misstatements (see paragraph 28).



18.30. The group auditor uses group planning materiality to determine planning materiality to be used when performing work on the components' financial information. The group auditor's determination of planning materiality for components is a matter of professional judgment and may be impacted by factors such as the individual financial significance of a component and whether a component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements. ~~In order to allow for the aggregation of misstatements which, although individually immaterial to the group, become material when aggregated, planning materiality for a component is lower than group planning materiality.~~ Planning materiality for a component ordinarily is lower than group planning materiality.

31. Where the work on a component will be performed by a related auditor or other auditor, the group auditor communicates the planning materiality determined by the group auditor for the component. The group auditor also communicates a threshold below which misstatements are regarded as clearly inconsequential.

### **Obtaining an Understanding of the Components and the Consolidation**

32. ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" contains standards and guidance on the understanding to be obtained of an entity and its environment and the assessment of risks of material misstatement. The application of ISA 315 in an audit of group financial statements is impacted by the fact that the group auditor's understanding and risk assessment are not limited to a single component. It is also impacted by components that are audited by related auditors or other auditors.

### **RISK ASSESSMENT PROCEDURES TO OBTAIN AN UNDERSTANDING OF THE COMPONENTS AND THE CONSOLIDATION**

19.33. The nature, timing and extent of the risk assessment procedures to obtain an understanding of the components and the consolidation (see paragraphs 38 and 39) depend on factors such as the individual financial significance of the components, significant risks identified at group level, and the auditor's experience with the group. The group auditor performs the following risk assessment procedures:

- (a) Inquiries of group management, internal audit, and those responsible for the consolidation and preparation of the group financial statements.
- (b) Application of analytical procedures to financial information prepared at the group level and at the component level.
- (c) Observation and inspection of group-wide controls (refer see paragraph ~~21~~ 35) and controls relevant to the consolidation.

20.34. In the case of components that are of individual financial significance or components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements, the group auditor may consider directing inquiries to component management and, where applicable, the related auditors or other auditors. In addition, the group auditor may consider it necessary to visit the components. Visits enable the group auditor to meet with component management, observe the components' business activities underlying the financial information to be included in the group financial statements, and to consider regulatory, economic and political environments as they relate to the components.

## MATTERS ABOUT WHICH THE GROUP AUDITOR OBTAINS AN UNDERSTANDING

### *Group-wide Controls*

21~~35~~. The group auditor obtains an understanding of internal controls relevant to an audit of group financial statements (for purposes of this IAPS referred to as “group-wide controls”) sufficient in order to perform a risk assessment at group level (see paragraph 49) and to determine the scope of work to be performed on components’ financial information and on the consolidation. Group-wide controls may include a combination of the following:

- 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 the assignment of authority and responsibility to component management.
- Regular meetings between group management and component management to discuss business developments and to review performance.
- Group management’s process for identifying, analyzing and managing business risks that may impact the components, including the risk of fraud.
- A central IT system controlled by the same general IT controls for all or part of the group.
- Control activities of a processing system that is common for all or some components.
- Monitoring components’ operations and the results thereof, including regular reporting routines, enabling group management to monitor components’ performance against budgets, and to take appropriate action.
- Monitoring of controls, including activities of internal audit and self-assessment programs.
- A process for assessing the accuracy and completeness of financial information received from components, especially those received from components accounted for by the equity method.
- Monitoring, controlling, reconciling and eliminating intra-group transactions and intra-group account balances at group level.

22~~36~~. Obtaining an understanding of group-wide controls involves evaluating the design of these controls and determining whether they have been implemented. When the group auditor intends to use information about group-wide controls obtained in prior periods, the group auditor inquires from group management and performs other audit procedures, such as walk-through tests, to determine whether changes have occurred that may affect the relevance of such information in the current audit of the group financial statements.

### *Components and Their Environments*

23~~37~~. The group auditor extends the *preliminary* understanding of the components and their environments that was obtained as part of the acceptance or ~~continuation~~ continuance procedures (refer see paragraphs 8 10 and 14 16).

24~~38~~. ~~The application of proposed ISA XX, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” in an audit of group financial statements is impacted by the fact that the group auditor’s understanding is not limited to a single component, and that it may include components that are audited by related auditors or other auditors.~~ The group auditor uses professional judgment to determine the extent of the understanding required of the components and their environments. The group auditor’s



primary consideration is whether the group auditor's own understanding is sufficient to ~~assess the risks of material misstatement of the group financial statements~~ identify components that are of individual financial significance, components that are likely to include significant risks of material misstatement of the group financial statements, and the risks associated with the consolidation and the presentation of the group financial statements (see paragraph 39. Accordingly, ~~the~~ group auditor then obtains, or requires the related auditor or other auditor to obtain, an ~~in-depth~~ understanding of components that are of individual ~~significance~~ financial significance and of components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. For example, where a ~~segment of a group component~~ is manufacturing and selling toxic chemicals, which could give rise to environmental liabilities, the group auditor may consider it appropriate to focus on the business activities of the component, which that give rise to such business risks, and the aspects of such risks that may give rise to risks of material misstatement of the group financial statements.

### *Consolidation*

25.39. The group auditor obtains an understanding of the consolidation, including controls relevant to the consolidation. The group auditor's understanding includes the following:

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

- Extent to which component management is familiar with the financial reporting framework and statutory requirements applicable to the group financial statements.
- Process for identifying and accounting for components in accordance with the applicable financial reporting framework.
- Process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- Process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- Accounting policies applied in the group financial statements, changes from those of the previous financial year, and changes as a result of new or revised standards under the applicable financial reporting framework.
- Procedures for dealing with components that have financial year-ends different from that of the group.

Matters relating to the *consolidation process*, including the following:

- ~~Process for ensuring that uniform accounting policies are used to prepare the components' financial information for purposes of the group financial statements, or for identifying, disclosing and adjusting differences in accounting policies. Group management's process for obtaining an understanding of the accounting policies used by components, and for ensuring that either uniform accounting policies are used to prepare the components' financial information for purposes of the group financial statements, or that differences in accounting policies are identified, disclosed and adjusted.~~
- Group management's process for ensuring complete, accurate and timely financial reporting by the components for purposes of the consolidation.
- Process for translating the financial information of foreign components into the currency of the group financial statements.

- 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 organization of IT for purposes of the consolidation, including the automated and manual stages of the process and the manual and programmed controls in place at the various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events.

Matters relating to *consolidation adjustments*, including the following:

- Business rational for consolidation adjustments.
- Frequency, nature and size of transactions between components.
- Procedures for monitoring, controlling, reconciling and eliminating intra-group transactions 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 minority interests regarding losses incurred by a component (for example, an obligation of the minority interest to make good such losses).

26/40. In order to achieve uniformity and comparability of financial information, group management may issue financial reporting procedures manuals, reporting packages and related instructions to components, specifying the requirements relating to the components' financial information to be included in the group financial statements. 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 parties relationships and transactions, intra-group transactions and account balances, and a reporting timetable.

27/41. The group auditor ordinarily considers the proposed reporting package at an early stage of the audit of the group financial statements to determine whether it will provide group management with sufficient appropriate information ~~to group management for preparing and presenting to prepare and present~~ the group financial statements, ~~and to the group auditor for expressing an opinion on the group financial statements~~. The group auditor's consideration may include the following:

- The clarity and practicality of the instructions for completion of the reporting package.
- Component management's understanding of the financial reporting framework and statutory requirements applicable to the group financial statements.
- Whether the reporting package provides for:
  - Disclosures sufficient to comply with the requirements of the financial reporting framework and statutory requirements applicable to the group financial statements, for example disclosure of related party relationships and transactions, and segment information;
  - The identification of consolidation adjustments, for example intra-group transactions and balances, and
  - Approval of the completed package by component management.

*Fraud*

28.42. Proposed ISA 240, “The Auditor’s Responsibility to Consider Fraud in the Audit of Financial Statements” contains standards and guidance on the auditor’s responsibility with regard to fraud. In the context of an audit of group financial statements, the group auditor obtains an understanding of the following:

- (a) Group management’s assessment of the risks that the group financial statements may be materially misstated as a result of fraud.
- (b) Group management’s process for identifying and responding to the risks of fraud in the group, including any specific fraud risks that group management has identified or account balances, classes of transactions or disclosures for which a risk of fraud may be likely to exist.
- (c) Whether there are particular components for which a risk of fraud may be more likely to exist.
- (d) How those charged with governance of the group exercise oversight of group management’s processes for identifying and responding to the risks of fraud in the group, and of the controls that group management has established to mitigate these risks.

29.43. The group auditor inquires of those charged with governance of the group, group management, internal audit and, if considered appropriate, component management, related auditors, other auditors and others whether they have knowledge of any actual, suspected or alleged fraud affecting a component or the group.

*Laws and Regulations*

44. ISA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” contains standards and guidance on the auditor’s responsibility to consider laws and regulations in an audit of financial statements. In the case of an audit of group financial statements, the group auditor obtains a general understanding of the laws and regulations applicable to the parent that may have an impact on the group financial statements.

**Discussion Among Engagement Team Members Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud**

30.45. ~~Proposed~~ ~~ISA XX 315~~ and proposed ISA 240 require the members of the engagement team to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, with a specific emphasis on the risks of material misstatement due to fraud. The group auditor uses professional judgment, prior experience with the group and knowledge of current developments to determine who is included in the discussions, how and when they occur, and the extent of the discussions. In the ~~context~~ case of an audit of group financial statements there may also be discussions that involve the group auditor and:

- Related auditors ~~and or~~ key members of the related auditors’ teams; and
- Other auditors ~~and or~~ key members of the other auditors’ teams.

31.46. The group auditor holds discussions with related auditors and other auditors, ~~and or~~ key members of their teams, who perform work on the financial information of components that are of individual ~~significance~~ financial significance and components that have been identified at group level as likely to include significant risks of material misstatement of the group

financial statements. The group auditor may also consider it appropriate to participate in their risks assessments.

32/47. These discussions provide an opportunity to:

- Share knowledge of the components and their environments, including group-wide controls;
- Exchange information about the business risks to which the components or the group are subject;
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud and error, how group management and component management could perpetrate and conceal fraudulent financial reporting, and how assets of the components could be misappropriated;
- Consider practices followed by group management or component management to manage earnings that could lead to fraudulent financial reporting, for example revenue recognition practices that are not in accordance with the applicable financial reporting framework;
- Consider the 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 of group management or component management overriding controls;
- Address the application of the applicable financial reporting framework to the components' facts and circumstances;
- Discuss fraud that has been identified in components or information that has been obtained that indicates that a fraud may exist in a component; and
- Share information that may indicate non-compliance with national laws or regulations, for example payments of bribes and transfer pricing practices.

48. Where the related auditor or other auditor is not familiar with the financial reporting framework applicable to the group financial statements or the auditing standards applicable to the audit of the group financial statements, the group auditor may consider it necessary to make the related auditor or other auditor aware of significant differences between the frameworks applicable to the group financial statements, International Financial Reporting Standards (IFRSs) and ISAs. This will enable the related auditor or other auditor to compare the frameworks applicable in the component's jurisdictions to IFRSs and ISAs, and to determine significant differences to consider while performing the work on the component's financial information.

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

33/49. The group auditor uses the information obtained from the understanding of the components and the consolidation, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls relevant to the consolidation and information obtained through discussions with related auditors and other auditors (see paragraphs (see paragraphs 46-48)), to assess the risks of material misstatement of the group financial statements.

34.50. Examples of conditions or events that may indicate risks of material misstatement of the group financial statements include the following:

- A complex group structure, especially where there are frequent acquisitions, disposals or reorganisations.
- A group that is operationally or geographically dispersed and has inadequate flow of management information.
- Group-wide controls do not exist or are not operating effectively.
- Components operating in foreign jurisdictions that may be exposed to factors such as government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; fluctuations in exchange rates; and a lack of understanding in the group of local conditions generated by cultural, political or sociological influences, and the impact of local legislation, for example on matters such as product liability.
- Business activities of components that involve high risk, such as long-term contracts or trading in futures.
- Uncertainties regarding which components require incorporation in the group financial statements in accordance with the applicable financial reporting framework, for example, the existence of special purpose entities.
- Related party relationships and transactions ([see paragraph 51](#)).
- Intra-group account balances that do not balance or reconcile on consolidation.
- Components' application of accounting policies that are not uniform with those applied in the group financial statements.
- Components with different financial year-ends, which may be utilized to manipulate the timing of transactions.
- Unauthorized or incomplete consolidation adjustments.

35.51. ISA 550, "Related Parties" contains standards and guidance on the auditor's responsibilities regarding related parties and transactions with such parties. In the ~~context~~ [case](#) of an audit of group financial statements, it is especially important that, in assessing the risks of material misstatement of the group financial statements, the group auditor is alert for transactions that appear unusual in the circumstances and may indicate the existence of previously unidentified related parties. Examples of such transactions include:

- Transactions which have abnormal terms of trade, such as unusual prices, interest rates, guarantees, and repayment terms.
- Transactions which lack an apparent logical business reason for their occurrence.
- Transactions in which substance differs from form.
- Transactions processed in an unusual manner.
- Unrecorded transactions such as the receipt or provision of management services at no charge.

52. [Where the work on a component's financial information will be performed by a related auditor or other auditor, the group auditor ordinarily communicates to the related auditor or other auditor the results of the risk assessment performed at group level \(see paragraph 49\) that are relevant to the work of the related auditor or other auditor, including identified fraud risks. The group auditor ordinarily requests the related auditor or other auditor to inform the group auditor if information comes to the attention of the related auditor or other auditor that](#)

differs significantly from the information on which the group auditor's risk assessment was based.

### **Responding to Assessed Risks**

- 36-53. ISA 320, "Auditor's Procedures in Response to Assessed Risks" contains standards and guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement. In the case of an audit of group financial statements, the group auditor determines the scope of work to be performed directly, or by related auditors or other auditors, on the components' financial information and on the consolidation to respond to the assessed risks of material misstatement of the group financial statements.

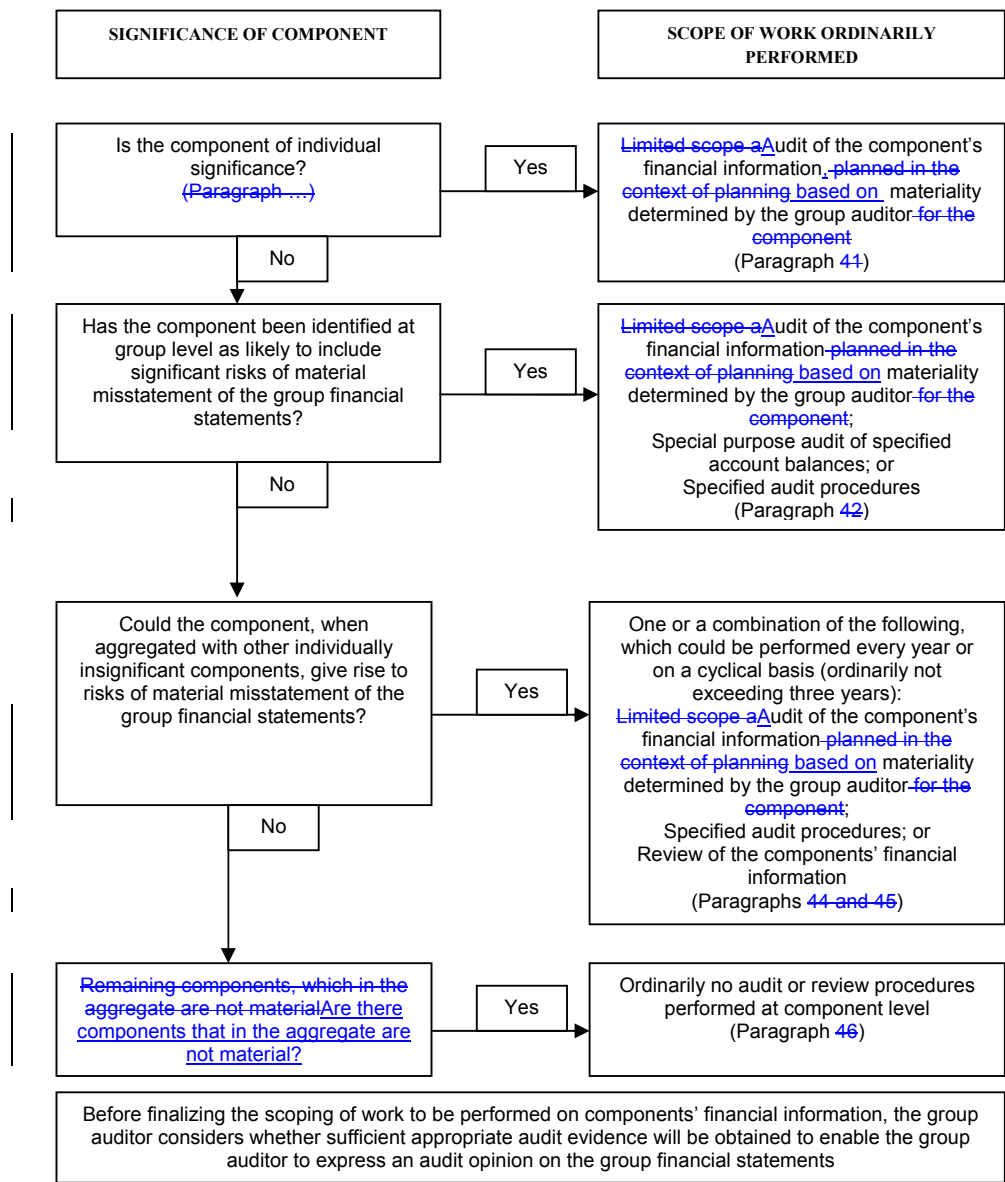
### **SCOPING THE WORK TO BE PERFORMED ON THE COMPONENTS' FINANCIAL INFORMATION**

54. The group auditor may decide to perform, or require the related auditor or other auditor to perform, an audit of a component's financial information based on materiality determined by the group auditor for the component (see paragraph 30). Such materiality ordinarily is higher than materiality determined in the context of the component's financial information (see paragraph 56) and, as a result, the nature, timing and extent of the audit procedures will be different.
55. The group auditor may also decide to perform, or to require the related or other auditor to perform, a limited scope engagement. The group auditor establishes the objectives of a limited scope engagement and, where applicable, communicates this to the related auditor or other auditor. Limited scope engagements may include one or a combination of the following:
- A special purpose audit of particular account balances or classes of transactions performed in accordance with the group auditor's instructions.
  - Specified audit procedures performed in accordance with the group auditor's instructions. (Although similar to agreed-upon procedures dealt with in ISA 920, "Engagements to Perform Agreed-upon Procedures Regarding Financial Information," the specified audit procedures are not agreed with group management, component management or any third parties.)
  - A review of the component's financial information performed in accordance with ISA 910, "Engagement to Review Financial Statements" and the group auditor's instructions.
  - Analytical procedures performed by the group auditor on the component's financial information.
56. The group auditor's decision on the scope of work to be performed on a component's financial information may be impacted when, in addition to the audit of the group financial statements, the group auditor, related auditor or other auditor is required by statute, group management or component management to express an audit opinion on a component's financial statements. (In this case, materiality is determined by the auditor who expresses the audit opinion on the component's financial information, based on the component's financial statements.) The group auditor may decide that it is efficient and cost-effective to use the audit evidence obtained in the audit of the component's financial statements for purposes of the audit of the group financial statements. However, the component's financial statements

may have been prepared in accordance with national accounting standards or the audit may have been conducted in accordance with national auditing standards. In this case, the group auditor considers whether group management or component management has made appropriate adjustments to the component's financial information for purposes of preparing and presenting the group financial statements. The group auditor also performs, or requires the related auditor or other auditor to perform, the audit procedures necessary to enable full compliance with the ISAs relevant to the audit of the group financial statements. In addition, the group auditor determines whether the planning materiality used in the audit of the component's financial statements was less than group planning materiality.

37.57. The diagram below illustrates how the group auditor may decide on the scope of work to be performed on the components' financial information. The group auditor's decision is based on the group auditor's understanding of the components and their environments, including group-wide controls. The diagram below illustrates how the group auditor may decide on the scope of work to be performed on the financial information of components other than those components where the group auditor decides to use the audit evidence obtained in the audit of the component's financial statements in those situations described in paragraph 56. The scope of work to be performed on a component's financial information will be impacted by factors such as the individual financial significance of the component, whether the component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements, and the group auditor's evaluation of the design and determination of the implementation of group-wide controls (see paragraph 35).





38. The scope of work to be performed on a component's financial information will be impacted by factors such as the individual significance of the component and whether the component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements.

39. There are a number of options available to the group auditor to obtain audit evidence in relation to a component's financial information, including one or a combination of the following: [NOW DEALT WITH IN PARAGRAPH 55.]



- ~~A full scope audit planned in the context of planning materiality based on the component's financial information and performed in accordance with ISAs. For example, where an audit of the component's financial statements is required by statute, or by group management or component management. (Refer paragraph 40.)~~
- ~~A limited scope audit planned in the context of planning materiality determined by the group auditor for the component (refer paragraph 18) and performed in accordance with ISAs.~~
- ~~A special purpose audit of particular account balances or classes of transactions performed in accordance with ISA 800, "The Auditor's Report on Special Purpose Audit Engagements" and the group auditor's requirements.~~
- ~~Specified audit procedures performed in accordance with the group auditor's requirements.~~
- ~~A review of the component's financial information performed in accordance with ISA 910 "Engagements to Review Financial Statements" and the group auditor's requirements.~~
- ~~Analytical procedures performed by the group auditor on the component's financial information.~~ [NOW DEALT WITH IN PARAGRAPH 55.]

~~40. A component's financial statements may have been prepared in accordance with national accounting standards and audited in accordance with national auditing standards. In the case of a full scope audit (refer first option in paragraph 39), the group auditor considers the appropriateness of the component's financial statements and the related auditor's or other auditor's report for the group auditor's purposes. The group auditor also determines whether the planning and evaluation materiality used in the audit of the component's financial information were less than group planning and evaluation materiality.~~ [NOW DEALT WITH IN PARAGRAPH 56.]

41.58. ~~Individually significant~~ Some components may encompass a large portion of a group's operations and financial position. Because of the individual ~~significance~~ financial significance of these components, ~~an limited scope~~ an limited scope audit of the components' financial information, ~~planned in the context of planning based on~~ planned in the context of planning based on materiality determined by the group auditor ~~for the component~~, is ordinarily performed ~~(unless a full scope audit, planned in the context of planning materiality based on the component's financial information has been performed).~~

42.59. Although a component may not be of individual ~~significance~~ financial significance, it may have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. (For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement even though the component is not of individual ~~significance~~ financial significance.) For such a component, one of the following is ordinarily performed:

- ~~An limited scope~~ An limited scope audit of the component's financial information, ~~planned in the context of planning based on~~ planned in the context of planning based on materiality determined by the group auditor ~~for the component~~;
- A special purpose audit of specified account balances relating to the identified significant risks; or
- Specified audit procedures relating to the identified significant risks.

~~44~~60. Components that are not of individual ~~significance~~financial significance may, when aggregated with other such components, represent a level of financial significance that ~~in the aggregate~~ could cause the group financial statements to be materially misstated. The scope of work performed on the financial information of these components may vary and could include one of the following:

- An ~~unlimited scope~~ audit of the component's financial information, ~~planned in the context of planning based on~~ materiality determined by the group auditor ~~for the component~~;
- Specified audit procedures; or
- A review of the component's financial information.

The group auditor's decision as to the scope of work to be performed is impacted by factors such as the following:

- Whether it is a new ly formed or acquired component.
- Whether significant changes have taken place in the component.
- ~~Whether there is a requirement for the component to be audited, either by statute, group management or component management.~~
- Whether internal audit has performed work at the component.
- The effective operation of group-wide controls.
- The individual significance of and risks posed by the component in comparison with other components within this category.

~~45~~61. The work to be performed on the financial information of the components referred to in paragraph ~~44~~60 may be performed on a cyclical basis; however, the cycle ordinarily does not exceed three years. For components not covered in a particular year, the group auditor ordinarily reads the components' financial information and performs analytical procedures on the components' financial information.

~~46~~62. The group auditor may consider it appropriate not to perform audit or review procedures at components that are not of individually financial significance and, even when aggregated with other such components, ~~are not likely to result in~~ do not give rise to risks of material misstatement of the group financial statements. For these components, the group auditor ordinarily reads the components' financial information and performs analytical procedures on the components' financial information.

~~43~~63. Where other auditors perform work on the financial information of components that are of individual ~~significance~~financial significance (~~refer see~~ paragraph ~~41~~58) or components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements (~~refer see~~ paragraph ~~42~~59), the group auditor considers whether it is also necessary for the group auditor to participate in the work of the other auditors.

64. Where the group auditor has accepted the engagement to audit the group financial statements on the basis that the group auditor will be able to participate to a significant extent in the work to be performed by the other auditors on the components' financial information (see paragraph 13), the group auditor determines the procedures to be performed directly, or jointly with the other auditor, on the components' financial information.

65. The group auditor's participation in the other auditor's work referred to in paragraphs 63 and 64 may include some or all of the procedures described in paragraph ~~43~~ 10 of proposed ISA 600. The extent of the group auditor's participation is a matter of professional judgment and is impacted by factors such as the group auditor's evaluation of the professional qualifications, professional competence, resources or quality control process of the other auditor. For example, the greater the individual ~~significance~~ financial significance of the component or the significance of the risks of material misstatement, or the lower the level of the group auditor's satisfaction with the professional qualifications, professional competence, resources or quality control process of the other auditor, the greater is the group auditor's participation in the other auditor's work.
- 47-66. Proposed ISA 240 requires the auditor to design and perform audit procedures to address the risks of material misstatement due to fraud caused by improper revenue recognition, and to respond to the risk of management override of controls. Where the group auditor considers it appropriate to limit the scope of work performed on a component's financial information ~~to a special purpose audit of specified account balances, specified audit procedures or a review as described in paragraph 60~~, the group auditor considers whether in addition to the limited scope engagement, it is ~~also~~ necessary to perform audit procedures to address risks of material misstatement of the group financial statements due to fraud caused by improper revenue recognition or by management override of controls.
- 48-67. ~~Where no one component is of individual significance (refer paragraph 41), and the group auditor has not identified at group level any components as likely to include significant risks of material misstatement of the group financial statements (refer paragraph 42), the group auditor performs limited scope audits, planned in the context of planning materiality determined by the group auditor for the components, of some of the components' financial information in order to obtain sufficient appropriate audit evidence to be able to express an opinion on the group financial statements. If all the components fall within the categories described in paragraphs 60 and 62, the group auditor considers the scope of work to be performed on the financial information of the components to make sure that it will provide the group auditor with sufficient appropriate audit evidence to be able to express an audit opinion on the group financial statements. Accordingly, the scope of work to be performed on the components' financial information ordinarily includes some audits based on materiality determined by the group auditor, special purpose audits of specified account balances and specified audit procedures that may be performed on a cyclical basis.~~
- 49-68. If group management insists that the group auditor performs less work on a component's financial information than the group auditor considers appropriate, it will constitute a scope limitation and the group auditor considers the ~~potential~~ impact thereof on the auditor's report on the group financial statements.
69. Where a component is audited by a related or other auditor, the group auditor communicates to the related auditor or other auditor the scope of work to be performed on the component's financial information.

**Performing Further Audit Procedures**

## TESTING INTERNAL CONTROLS

~~53.70.~~ If the group auditor decides to place reliance on group-wide controls or controls relevant to the consolidation, the group auditor tests those controls to determine if they are operating effectively. This may include tests of controls at component level. When the group-wide controls include a central IT system that is controlled by the same general IT controls, for example at a shared service center, the group auditor is likely to conclude that it is necessary to visit the shared service center in order to test the operating effectiveness of those controls. When the control activities of a processing system are common for all or some components, the group auditor may obtain audit evidence relevant to those components from testing the control activities at one or more components. When the group auditor's risk assessment at group level and scoping of work to be performed on the components' financial information include an expectation that group-wide controls are operating effectively, the group auditor performs, or requires the related auditor or other auditor to perform, tests of controls to obtain sufficient appropriate audit evidence that the group-wide controls are operating effectively. When the group-wide controls include a central IT system that is controlled by the same general IT controls, for example at a shared service center, the group auditor tests the operating effectiveness of those controls centrally. When the control activities of an IT system are common for all or some components, the group auditor may obtain audit evidence relevant to those components from testing, or requiring the related auditor or other auditor to test, the control activities for one or more components.

## COMPONENTS' FINANCIAL INFORMATION

~~54.71.~~ The group auditor, related auditors and other auditors performs the work on the components' financial information in accordance with the scoping decisions made by the group auditor based on the risk assessment performed at group level (see paragraph 49). ~~Where any of the work on components' financial information will be performed by related auditors or other auditors, reference is made to proposed ISA 600, "Considering the Work of Other Auditors" and paragraphs 77 to 101 of this IAPS.~~

## CONSOLIDATION

*Consolidation Adjustments*

~~60.72.~~ Material misstatements due to fraud may involve the manipulation of the consolidation process by making adjustments to amounts reported in the group financial statements that may not be reflected in formal journal entries, such as through consolidation adjustments and reclassifications. The group auditor assesses the risks of material misstatement of the group financial statements arising from the consolidation and determines the work to be performed on the consolidation accordingly. The group auditor:

- (a) Considers the business rational, completeness and appropriateness and completeness of the consolidation adjustments, as well as the arithmetical accuracy of calculations;
- (b) Determines that significant adjustments have been correctly processed, have been authorized by group management and, where applicable, by component management and are supported by sufficient appropriate documentation; and
- (c) Checks the reconciliation and elimination of intra-group transactions and intra-group account balances.

*Inconsistent Accounting Policies and Reconciliation Between Financial Reporting Frameworks*

~~55.73.~~ Inconsistent accounting policies ~~are most likely to arise~~ may exist where components operate in diverse industry segments or are located in jurisdictions that require different financial reporting frameworks. Such inconsistencies ordinarily will be eliminated either by group management requiring components to prepare financial information consistent with the accounting policies applied in the group financial statements, or by group management requiring component management to disclose the differences between the accounting policies applied in the component's financial information and those applied in the group financial statements.

~~56.74.~~ Where uniform accounting policies have not been adopted by a component, the group auditor ordinarily considers whether group management or component management has made appropriate adjustments to the component's financial information for purposes of preparing and presenting the group financial statements. Where the work on a component's financial information is performed by a related auditor or other auditor, the group auditor requires the related auditor or other auditor to perform the procedures considered necessary by the group auditor under the circumstances.

~~57.75.~~ The group auditor ordinarily determines whether the financial information, for example, the reporting package, identified in the communication of the related auditor or other auditor (refer see paragraph 26 19(a) of proposed ISA 600) is the financial information that was incorporated in the group financial statements.

~~58. Where applicable, the group auditor ordinarily checks the reconciliation, and disclosure in the group financial statements, of differences between the applicable financial reporting framework and the national financial reporting framework. For example, where the group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the national securities exchange requires that reconciliation between IFRSs and the national financial reporting framework is presented in the notes to the group financial statements.~~

*Components with Different Financial Year-ends*

~~62.76.~~ If the group financial statements include the financial statements of components with year-ends that differ from that of the group, the group auditor considers the component's results between its financial year-end and the date of the group financial statements, and identifies significant transactions, including intra-group transactions, or other events and disclosures that need to be reflected in or eliminated from the group financial statements, ~~or~~ Where the work on a component's financial information is performed by a related auditor or other auditor, the group auditor arranges for requires the related auditor or other auditor to perform the procedures considered necessary by the group auditor under the circumstances.

~~63. The group auditor considers whether the length of the reporting periods and any difference in financial year-ends are the same from period to period, and are in compliance with the financial reporting framework and statutory requirements applicable to the group financial statements.~~

~~64~~77. The group auditor ~~encourages~~ requests group management to correct the accounting records for adjustments processed on consolidation that relate to misstatements.

#### SUBSEQUENT EVENTS

~~64~~78. ISA 560, "Subsequent Events" contains standards and guidance on the auditor's responsibility regarding subsequent events. The nature, timing and extent of the group auditor's procedures in relation to subsequent events are matters of professional judgment and will be impacted by factors such as the group auditor's evaluation of group management's process for obtaining information on subsequent events at components. The subsequent events review covers the period between the dates of the financial information of the components, and the date of the auditor's report on the group financial statements.

~~65~~79. For components that are of individual ~~significance~~ financial significance and components that have been identified at group level as likely to include significant risks of material misstatements of the group financial statements, the group auditor performs, or requests the related auditors or other auditors to perform, procedures designed to identify subsequent events at those components.

~~66~~80. For components that are not of individual financial significance but which, when aggregated with other such components, may represent a level of financial significance that ~~in the aggregate~~ could cause the group financial statements to be materially misstated, the group auditor ordinarily inquires from related auditors or other auditors whether they are aware of subsequent events that may necessitate either an adjustment to or a note in the group financial statements.

~~67. Where work on components' financial information is performed by related auditors or other auditors, the group auditor ordinarily requests the related auditors or other auditors to inform the group auditor of significant differences between the component's financial statements and the financial information incorporated in the group financial statements. The group auditor considers whether these differences could cause the group financial statements to be materially misstated.~~

#### MANAGEMENT REPRESENTATIONS

~~68~~81. ISA 580, "Management Representations" and other ISAs, for example proposed ISA 240, contain standards and guidance on management representations. In the context of an audit of group financial statements, the group auditor obtains audit evidence that group management acknowledges its responsibility for the establishment and maintenance of internal controls, including controls over the preparation and presentation of the group financial statements, and the fair presentation of the group financial statements in accordance with the applicable financial reporting framework. ~~The group auditor obtains audit evidence that group management has approved the group financial statements.~~ In addition, the group auditor obtains written representations from group management on matters material to the group financial statements. Examples of such representations include the following:

- All components have been included in the group financial statements in accordance with the applicable financial reporting framework.
- Disclosures in the group financial statements are appropriate and complete, including the disclosure of related party relationships and transactions, and reportable segments



in accordance with the financial reporting framework and statutory requirements applicable to the group financial statements.

- Accurate and complete financial information has been obtained from components.
- Consolidation adjustments are appropriate and complete, including the elimination of intra-group transactions and balances, and adjustments for inconsistent accounting policies.

## Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

### UPDATING THE RISK ASSESSMENT AT GROUP LEVEL

~~69:82.~~ The group auditor's assessment of the risks of material misstatement of the group financial statements is based on available audit evidence and may change during the course of the audit of the group financial statements as additional audit evidence is obtained. In circumstances where the group auditor, related auditors or other auditors obtains audit evidence from performing work on the components' financial information and on the consolidation ~~further audit procedures~~ that tends to contradict the audit evidence on which the group auditor originally based the risk assessment performed at group level (see paragraph 49) and scope of work to be performed on components' financial information and the consolidation, the group auditor revises the assessment and modifies the further planned audit procedures accordingly.

~~70. In reconsidering the risk assessment performed at group level, the group auditor also considers risks of material misstatement of the group financial statements and other information communicated by related auditors and other auditors, based on their work on the components' financial information, that may contradict the audit evidence on which the original risks assessment was based.~~

### SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE

~~71:83.~~ The group auditor evaluates whether sufficient appropriate audit evidence has been obtained from the work performed on the components' financial information and on the consolidation on which to base the audit opinion on the group financial statements. This evaluation includes the work performed by related auditors and other auditors.

~~72:84.~~ If the group auditor concludes that sufficient appropriate audit evidence has not been obtained, the group auditor obtains further audit evidence, if possible. In the case of components on which related auditors or other auditors performed the work, the group auditor may request the related auditors or other auditors to perform additional procedures or, if this is not feasible, perform the group auditor's own procedures on the components' financial information. When the group auditor has not been able to perform sufficient additional audit procedures, the group auditor considers, ~~based on the materiality of the matter~~, whether to express a qualified or disclaimer of opinion because there is a limitation in the scope of the audit of the group financial statements.

## Communication ~~w~~With Group Management and Those Charged ~~w~~With Governance

### COMMUNICATION ~~w~~WITH GROUP MANAGEMENT

~~73:85.~~ The group auditor makes group management aware, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of group-wide controls and in internal controls, including controls over the preparation and presentation of the group financial statements, ~~and of material weaknesses in controls at component level that have come to the group auditor's attention during the audit of the group financial statements.~~ The group auditor also makes group management aware of material weaknesses

in internal controls at components that have been identified by the group auditor, or that have been brought to the attention of the group auditor by related auditors or other auditors, and that the group auditor judges are of significance in the context of the group.

~~74~~86. If fraud has been identified in components or information has been obtained that indicates that a fraud may exist in a component, the group auditor communicates these matters as soon as practicable to group management.

87. Where the work on a component's financial information is performed by a related or other auditor, the group auditor requests the related auditor or other auditor to communicate in a timely manner to the group auditor material weaknesses in controls that have come to the attention of the related auditor or other auditor during the performance of the work on the component's financial information, and information that indicates that a fraud may exist.

#### COMMUNICATION ~~W~~WITH THOSE CHARGED ~~W~~WITH GOVERNANCE

~~75~~88. ISA 260, "Communication with Those Charged with Governance" and other ISAs, for example proposed ISA 240, contain standards and guidance on communication with those charged with governance. ~~The group auditor communicates to those charged with governance of the group such matters brought to the attention of those charged with governance of the components by their auditors as the group auditor judges to be of significance in the context of the group (for example, internal control weaknesses that have resulted, or could result, in material misstatement of the group financial statements).~~ The matters that the group auditor communicates to those charged with governance of the group include those matters brought to the attention of the group auditor by related auditors and other auditors that the group auditor judges to be of significance in the context of the group.

~~76~~89. In the context of an audit of group financial statements, the matters communicated in a timely manner by the group auditor to those charged with governance of the group may include the following:

- The approach taken to determine the sScope of work to be performed at individual components and the ~~use extent~~ of the work ~~of to be performed by~~ related auditors and other auditors.
- Any restrictions to obtaining financial information from a component or a related auditor or other auditor, or on communicating information to component management or a related or other auditor.
- Significant accounting, financial reporting and auditing matters, including accounting estimates, adjustments, and unadjusted errors in the group financial statements.
- Identified fraud or information obtained that indicates that a fraud may exist that involve group management, or that may involve component management and that may result in a material misstatement of the group financial statements.
- Material weaknesses in internal controls, including controls over the preparation and presentation of the group financial statements, and material weaknesses in internal controls at components ~~level~~ that are of significance in the context of the group.
- Any other significant or unusual events identified in the components.



**Communication with Related Auditor or Other Auditor who is ~~Statutory Auditor~~  
Required to Audit Component's Financial Information**

~~102.90.~~ Where a related auditor, or other auditor is required by statute, group management or component management to express an audit opinion on a component's financial statements, and If the group auditor becomes aware of matters that may be significant to the component's financial statements ~~of a component~~ that component management may be unaware of, the group auditor considers requesting group management to inform component management of such matters. Examples of such matters include the following:

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

~~103.91.~~ There may be occasions when group management may need to keep confidential certain material sensitive information. In these circumstances the group auditor ordinarily discusses with group management the risk of component management issuing misleading financial statements, and requests group management to communicate to component management that they should not issue the components' financial statements. In addition, the group auditor may consider it necessary to communicate to the related auditor or other auditor that they should not issue the auditor's report on the component's financial statements until such time as an outstanding matter has been resolved by group management. When group management remains of the opinion that the matter should not be communicated to component management, the group auditor considers whether to resign from the engagement.

**Documentation**

~~104.ISA 230, "Documentation" and other ISAs contain standards and guidance on documentation. In the context of an audit of group financial statements, the group auditor documents the following:~~

- ~~(a) The assessment of significant risks of material misstatement of the group financial statements that may arise from components, individually or together, and the auditor's response to assessed risks.~~
- ~~(b) Scope of work to be performed on the components' financial information.~~
- ~~(c) The evaluation of information obtained, and conclusions reached, with regard to the professional qualifications, independence, professional competence, resources, and quality control process of the related auditor or other auditor.~~
- ~~(d) The group auditor's consideration of the significant findings arising from the work of the related auditor or other auditor.~~
- ~~(e) Discussions of significant accounting, auditing and financial reporting matters with component management, related auditors or other auditors.~~
- ~~(f) The group auditor's procedures performed in relation to the related auditor's or other auditor's work and conclusion as to whether the group auditor has obtained sufficient appropriate audit evidence that the work of the related auditor or other auditor is adequate for the group auditor's purposes, as well as any additional procedures performed by the group auditor on the component's financial information.~~ [NOW DEALT WITH IN PROPOSED REVISED ISA 600.]

## Appendix 1

### Definitions

In this IAPS the following terms have the meaning attributed below:

1. “Applicable financial reporting framework” means the financial reporting framework applicable to the group financial statements.
2. “Component” means a head office, parent, division, branch, subsidiary, joint venture, associated company or other entity whose financial information is or should be included in the group financial statements by means of consolidation procedures or equity accounting methods. Components could be in the same or in multiple locations.
3. “Component management” means management responsible for the preparation and presentation of a component’s financial information.
4. “Group” means any combination of components for which group financial statements are or should be prepared.
5. “Group auditor” means the independent auditor ~~with final responsibility for who signs~~ the auditor’s report on the group financial statements.
6. “Group financial statements” means financial statements that include or should include financial information of more than one component by means of consolidation procedures or equity accounting methods. It may also mean a combination of components’ financial information or an equivalent presentation.
7. “Group management” means management responsible for the preparation and presentation of the group financial statements.
- ~~8. “Network firm” means an entity under common 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.~~
- ~~9-8.~~ “Other auditor” means an independent auditor other than the group auditor or a related auditor.
- ~~10-9.~~ “Parent” means the entity in respect of which group financial statements are or should be prepared.
- ~~11-10.~~ “Related auditor” means an independent auditor from the group auditor’s office, other office of the group auditor’s firm or a network firm operating under common quality control policies and procedures: in accordance with ISQC 1, “Quality Control for Audit, Assurance and Related Services Practices.” “Network firm” means an entity under common 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.
- ~~12-11.~~ “Reporting package” ordinarily comprises standard formats to provide financial information for incorporation in the group financial statements. Reporting packages generally may not be intended to be complete financial statements that provide a true and fair view of (or present fairly, in all material respects) the financial position and performance of the component in conformity with the applicable financial reporting framework.

13.12. “Uniform accounting policies” means the specific principles, bases, conventions, rules and practices adopted by the group, based on the applicable financial reporting framework, and used by the components to record like transactions consistently.

## Appendix 2

### Examples of Matters to be Included in the Group Auditor's ~~Communication~~ Letter of Instruction

#### REQUIRED ~~REPRESENTATIONS~~ ACKNOWLEDGEMENTS AND CONFIRMATIONS

- A request that the following ~~representations~~ acknowledgements and confirmations are submitted to the group auditor before the work on the component's financial information is commenced:
  - An acknowledgement of receipt of the group auditor's instructions, which includes advising the group auditor if the related auditor or other auditor cannot comply with specific instructions for any reason, or seeking clarification from the group auditor if the instructions are unclear.
  - The related auditor or other auditor is aware that the component's financial information will be included in the group financial statements.
  - The related auditor or other auditor is familiar and has complied with the IFAC *Code of Ethics for Professional Accountants*, including the independence requirements.
  - The related or other auditor is familiar with the financial reporting framework and other statutory requirements applicable to the group financial statements, and
  - The related auditor or other auditor is familiar with ISAs and national requirements applicable to the audit of the group financial statements, and will perform the work on the component's financial information in accordance therewith.
  - An acknowledgement that the group auditor intends to consider and use the related auditor's or other auditor's work for purposes of the audit of the group financial statements.

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

- The timetable for completion of the audit.
- Dates of planned visits by group management, ~~component management, internal audit~~ and the group auditor, and dates of planned meetings with component management and the related auditor or other auditor.
- A list of key contacts.
- The use that is to be made of the related auditor's or other auditor's work, the scope of 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 participation in the work of the related auditor or other auditor.
- Where considered necessary, audit procedures to be performed to address risks of material misstatement of the group financial statements due to fraud caused by improper revenue recognition or by management override of controls.
- Work to be performed on intra-group transactions and account balances.
- With regard to internal audit:

- Extent to which the group auditor has evaluated the competence and objectivity of the internal auditors, and has evaluated the work of internal audit.
  - Any additional assessment or evaluation the related auditor or other auditor should perform.
  - Nature, timing and extent of work performed or to be performed by internal audit at the component and procedures for coordinating the work of internal audit and that of the related auditor or other auditor.
- Results of the group auditor's risks assessment performed at group level that are relevant to the related auditor's or other auditor's work.
  - The planning materiality that the group auditor expects the related auditor or other auditor to use in fulfilling the group auditor's ~~requirements~~ instructions.
  - The threshold for clearly ~~trifling inconsequential~~ misstatements.
  - Guidance on other statutory reporting responsibilities, for example reporting on group management's assertion on the effectiveness of internal control.
  - Work to be performed on intra-group transactions and account balances.
  - Where there is likely to be a time lag between completion of the work on the components' financial information and the group auditor's conclusion on the group financial statements, specific ~~requirements~~ instructions for a subsequent events review.

#### MATTERS RELEVANT TO THE CONDUCT OF THE RELATED AUDITOR'S OR 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 related auditor or other auditor.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- ~~A request for written representation on the related auditor's or other auditor's compliance with ISAs and national requirements applicable to the group financial statements.~~
- A request that audit evidence obtained from performing work on the components' financial information that contradicts the audit evidence on which the group auditor originally based the risk assessment performed at group level, is communicated to the auditor in a timely manner.
- A request for written representation on component management's compliance with the applicable financial reporting framework, including statutory or other disclosure and financial reporting requirements, or the fact that differences between the accounting policies applied in the component's financial information and those applied in the group financial statements have been disclosed.

#### MATTERS RELEVANT TO THE RELATED AUDITOR'S OR OTHER AUDITOR'S ~~REPORT~~ COMMUNICATION

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

OTHER INFORMATION

- ~~A request that the related auditor or other auditor confirm the assumptions inherent in the risk assessment performed at group level.~~
- ~~A request that significant risks of material misstatement of the group financial statements that the related auditor or other auditor becomes aware of in performing the work on the components' financial information and the results of the related auditor's or other auditor's procedures in response to these risks are communicated to the group auditor in a timely manner.~~
- A request that a list of identified uncorrected misstatements of the component's financial information, ~~distinguishing between corrected and uncorrected misstatements~~, is provided to the group auditor. The list does not include misstatements that were not corrected because they are below the threshold set by the group auditor for clearly ~~trifling inconsequential~~ misstatements.
- A request that the following are reported to the group auditor in a timely manner:
  - Significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.
  - Material weaknesses in internal control
  - Actual fraud identified or information obtained that indicates that a fraud may exist any, including any suspected or alleged fraud affecting the component.
  - Matters relating to the going concern status of the component.
  - Matters relating to litigation and claims.
  - Matters relating to compliance with laws and regulations.
- A request that the group auditor is notified of any significant or unusual events as early as possible.
- A request for the names of related parties identified in addition to those listed by the group auditor, and the types of related party transactions.

**Appendix 3****Example of Related Auditor's or Other Auditor's ~~Confirmation Letter~~  
Acknowledgements and Confirmations**

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

The group auditor ordinarily requests the related auditor or other auditor to submit the [acknowledgements and](#) ~~confirmations letter~~ before the work on the component's financial information is commenced.

([Related](#)/Other Auditor Letterhead)

(To Group Auditor)

(Date)

This ~~confirmation~~ 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 (present fairly, in all material respects) the financial position of the group as of [date] and of the results of its operations and cash flows for the year then ended in accordance with [indicate financial reporting framework applicable to the group financial statements].

We acknowledge receipt of your [requirements 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 [requirements instructions](#). / We advise you that we will not be able to comply with the following ~~requirements instructions~~ [specify [requirements instructions](#)] for the following reasons [specify reasons].
2. The ~~requirements instructions~~ are clear and that we understand them. / We would appreciate it if you could clarify the following ~~requirements instructions~~ [specify [requirements instructions](#)].

We also acknowledge that:

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

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

1. We are familiar and comply with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the Code). In particular, and with respect to [name of parent] and the other components<sup>2</sup> in the group, we are independent within the meaning of Section 8 of Part B of the Code. We are also independent within the meaning of [indicate national requirements applicable in the jurisdictions of the parent] and are in compliance with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].
2. We are familiar with International Standards on Auditing and [indicate other national requirements applicable to 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.
3. We are familiar with [indicate financial reporting framework applicable to the group financial statements] and [indicate other statutory requirements applicable to the group financial statements].

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

AUDITOR

[Date]  
[Address]

<sup>2</sup> Where there are several components in the group and their names may not be known to the other auditor, it is advisable to list them in the request for the representation.