

**INTERNATIONAL AUDITING PRACTICE STATEMENT
THE AUDIT OF GROUP FINANCIAL STATEMENTS
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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 practical assistance to auditors in implementing the International Standards on Auditing (ISAs) or to promote good practice. IAPSs do not have the authority of ISAs.

This IAPS does not establish any new basic principles or essential procedures. Its purpose is to assist auditors, and the development of good practice, by providing guidance on the application of the ISAs in the audit of group financial statements. The extent to which any of the audit procedures described in this IAPS may be appropriate in a particular case requires the exercise of the auditor's judgment in the light of the requirements of the ISAs and the circumstances of the group.

The IAASB approved this IAPS in for publication in

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.

Introduction

1. International Standards on Auditing (ISAs) apply to the audit of group financial statements. The purpose of this International Auditing Practice Statement (IAPS) is to provide guidance on the application of ISAs to the audit of group financial statements.
2. Although written in the context of an audit of group financial statements, the guidance in this IAPS 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 parent management is read as reference to those responsible for the preparation and presentation of the combined financial information.
3. Where the auditor reporting on group financial statements is considering the work of another auditor, this IAPS is read with ISA 600 “Considering the Work of Other Auditors.”

Definitions

4. The definitions in ISA 600 are equally applicable to this IAPS.
5. “Centralized internal controls” are internal controls designed and implemented by those charged with governance, management, and other personnel at the parent to provide reasonable assurance about the achievement of the objectives of the group, parent or its components’ objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
6. “Reporting package” ordinarily comprises standard forms to provide financial information for incorporation in the group financial statements. Although suitable for this specific purpose, reporting packages generally are not 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 financial reporting framework applicable to the parent.
7. “Uniform accounting policies” means the specific principles, bases, conventions, rules and practices adopted by the parent and its components to be most appropriate for like transactions and other events in similar circumstances in preparing and presenting the group financial statements in accordance with the financial reporting framework applicable to the parent.

Responsibility of Parent Management

8. Parent management *inter alia* is responsible for the preparation and presentation of the group financial statements, including:
 - (a) Identifying components, and including the financial information of the components in the group financial statements in accordance with the financial reporting framework applicable to the parent;
 - (b) Where appropriate, identifying reportable segments for segmental reporting in accordance with the financial reporting framework applicable to the parent;

- (c) Identifying related parties and related party transactions for reporting in accordance with the financial reporting framework applicable to the parent;
 - (d) Obtaining accurate and complete financial information from components; and
 - (e) Making appropriate consolidation adjustments.
9. In order to achieve uniformity and comparability of financial information parent management ordinarily issues reporting packages and related instructions to components, specifying the parent's requirements relating to the financial information of the components 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 parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

Responsibility of the Group Auditor

10. Where division of responsibility is not permitted (refer ISA 600), the group auditor is responsible for expressing an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the financial reporting framework applicable to the parent. The group auditor determines the work to be performed at the parent and on the financial information of each component to enable the group auditor to express an audit opinion on the group financial statements.
11. The audit of the group financial statements is conducted in accordance with ISAs and, where applicable, national requirements. Where the work on a component's financial information is performed by another auditor, the group auditor communicates to the other auditor the group auditor's requirements in accordance with ISA 600.

Terms of Engagement

12. When the group auditor is also the auditor of one or more components, the group auditor considers whether separate engagement letters are required for each component. ISA 210 "Terms of Engagements" provides guidance in this regard.
13. Arrangements to obtain access to component information, component management and other auditors ordinarily are established in the group auditor's terms of engagement with the parent.

Materiality

14. The group auditor determines materiality levels for the group in accordance with ISA 320 "Audit Materiality." These materiality levels are used to plan and evaluate the work performed for purposes of the audit of the group financial statements.
15. The group auditor uses group materiality to determine:
- (a) Materiality levels to be used by other auditors in fulfilling the group auditor's requirements, and
 - (b) A threshold above which other auditors are to report to the group auditor identified uncorrected misstatements in the components' financial information.
16. Materiality levels to be used by other auditors in fulfilling the group auditor's requirements are ordinarily lower than the materiality levels referred to in paragraph 14.

- The application of lower materiality levels to components allows for the aggregation of misstatements which although individually immaterial to the group become material when aggregated.
17. When the other auditor is required to express a separate audit opinion on a component's financial statements materiality is determined by the other auditor in the context of the component's financial statements. Such materiality levels determined by the other auditor may be used in planning and evaluating the work performed at the component for purposes of the audit of the group financial statements provided that:
 - (a) They are equal to or lower than the materiality levels referred to in paragraph 16, and
 - (b) The audit of the component's financial statements for group purposes will be completed in accordance with the financial reporting timetable.
 18. Individual misstatements that are not material to a component's financial information are unlikely to be material to the group financial statements, although they may become material when aggregated with misstatements in other components' financial information.
 19. When there are misstatements that are material to the financial information of one or more components, such misstatements may be immaterial when aggregated at the group level. In such cases, although a modified auditor's report may be issued on the financial information of one or more components, the group auditor may be able to express an unqualified audit opinion on the group financial statements.

Understanding the Parent and its Components

20. ISA XX "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement" requires an auditor to obtain an understanding of the entity and its environment, including its internal control, that is sufficient to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and sufficient to design and perform further audit procedures. In the audit of group financial statements, the group auditor obtains an understanding of the parent and its components sufficient to assess the risks of material misstatement of the group financial statements, and sufficient to design and perform further audit procedures. Matters that the group auditor considers in obtaining an understanding of the parent and its components include the following:
 - Group structure at the financial reporting date.
 - Changes in the group structure during the financial reporting period, including acquisitions, disposals, reorganizations and operations discontinued.
 - Business activities of the parent and its components, and the political and economic environments in which they take place.
 - Materiality of components in relation to the group as a whole and the risks arising from components.
 - Extent to which other auditors audit components, and the identity of the other auditors.
 - Existence of shared service centres.
21. In order to determine the extent of understanding required by the group auditor of the components, the group auditor considers the materiality of the components in relation to

- the group financial statements as a whole. The group auditor's primary consideration is whether the understanding that has been obtained is sufficient to assess the risks of material misstatement of the group financial statements. The depth of understanding that is required by the group auditor is based on professional judgment and is less than that required by the auditors of the components.
22. To obtain an understanding of the parent and its components, the group auditor ordinarily performs the following risk assessment procedures:
- Inquiries of parent management and others within the parent that have responsibilities for the components, including personnel from internal auditing and personnel responsible for the consolidation.
 - Application of analytical procedures to management financial information.
 - Observation and inspection at the parent level, e.g. observation of centralized internal controls and internal controls common to the components (refer paragraph 24).
 - Where considered necessary, liaison with other auditors.
23. For continuing engagements, the group auditor's previous experience with the parent and its components contributes to this understanding. If the group auditor intends to use information about the parent and its components obtained in prior periods, the group auditor inquires from parent management and others within the parent whether changes have occurred that may affect the relevance of such information in the current audit of the group financial statements.
24. In obtaining an understanding of the parent and its components, the group auditor identifies centralized internal controls and internal controls common to the components that may reduce the risks of material misstatement of the group financial statements and, as a result, the scope of work to be performed at the parent and its components. Centralized internal controls include parent management's control over the management and activities of the components (refer paragraph 27), and centralized internal auditing. Internal controls common to the components include common application controls, e.g. a centralized ERP system. Obtaining an understanding of controls common to the components involves evaluating the design of these controls and determining whether they have been implemented.
25. Obtaining an understanding of the parent and its components is a continuous dynamic process of gathering, updating and analyzing information throughout the audit. In the audit of group financial statements, this process is complicated by the fact that the group auditor may not perform a comprehensive risk assessment and other audit procedures at the components. The group auditor encourages the other auditors to communicate to the group auditor information obtained during the performance of the other auditor's risk assessment procedures that may impact the group auditor's assessment of the risks of material misstatement of the group financial statements.

INTERNAL CONTROL

26. Ordinarily, controls that are relevant to the audit of group financial statements pertain to the parent's objective of preparing group financial statements in accordance with the financial reporting framework applicable to the parent, and the management of risks that may give rise to material misstatement of the group financial statements. As noted in

paragraph 24, the group auditor identifies centralized internal controls and internal controls common to the components that may reduce the risks of material misstatement of the group financial statements.

Parent Control Environment

27. Matters that the group auditor considers in obtaining an understanding of the control environment include the following:

- Group organizational structure.
- Group strategy, planning, budgetary processes and management information systems.
- Philosophy and operating style of parent management.
- Role of the group board of directors and key management.
- Role of the audit committee and internal auditing.
- Policies and procedures for controlling the group.
- Parent management's involvement in appointing component management.
- Assignment of authority and responsibility to component management.

Parent's Risk Assessment Process

28. The group auditor obtains an understanding of the parent's process for identifying, analyzing and managing business risks that may impact the parent and its components.

Control Procedures

29. The group auditor obtains an understanding of parent management's control procedures, which may include the following:

- Holding regular meetings with component management to discuss business developments, significant accounting estimates and other financial reporting issues, and to review performance as a basis for taking appropriate action.
- Implementing monthly reporting routines, monitoring components' performance against budgets and financial and operational standards, and taking appropriate action.
- Reviewing reports from internal auditing.

Information Systems and Related Business Processes Relevant to Group Financial Reporting and Communication

30. Matters that the group auditor considers in obtaining an understanding of the group financial reporting and communication processes include the following:

- Completeness of components included in the group financial statements.
- Whether components are accounted for in accordance with the financial reporting framework applicable to the parent.
- Frequency, nature and size of transactions between the parent and its components, and among components.
- Reportable segments for segmental reporting in accordance with the financial reporting framework applicable to the parent.
- Related parties and related party transactions for reporting in accordance with the financial reporting framework applicable to the parent.
- Accounting estimates, e.g. applying fair values in acquisition accounting or provisions for reorganizations.

- Guarantees or obligations assumed by the group in relation to entities that are not included in the group financial statements.
 - Foreign components and the adjustment of their financial information to comply with the financial reporting framework applicable to the parent and, where applicable, statutory requirements applicable to the group financial statements.
 - Accounting policies applied in preparing the group financial statements, changes from those of the previous financial year, or changes as a result of a new or revised standard under the financial reporting framework applicable to the parent.
 - Process for ensuring that uniform accounting policies are used to prepare the component's financial information for purposes of the group financial statements.
 - Components with different financial year-ends.
 - Accounting procedures manuals, reporting packages and related instructions issued by parent management.
 - Extent to which component management and responsible personnel are familiar with the financial reporting framework applicable to the parent and, where applicable, statutory requirements applicable to the group financial statements.
 - Translation of the financial information of foreign components into the currency of the parent.
 - Consolidation process, process for recording consolidation adjustments, and the experience of parent personnel responsible for the consolidation.
31. The group auditor also obtains an understanding of the following:
- The organization of IT for the purposes of the consolidation, including the automated and manual stages of the process.
 - The manual and programmed controls in place at the various stages of the consolidation process.
 - The consolidation software.

Monitoring of Controls, Including Internal Auditing

32. The group auditor obtains an understanding of the nature, timing and extent of parent management's monitoring of internal control over the parent and its components, and the group financial reporting process. The group auditor identifies key indicators, reports and procedures that parent management utilizes in this regard, e.g. reports from internal auditing.
33. In groups, internal auditing may be organized as a centralized function. Where the group auditor intends considering the work of internal auditing as part of the audit of the group financial statements, the group auditor liaises with internal auditing and arranges to review its work following the basic principles, essential procedures and guidance set out in ISA 620 "Considering the Work of Internal Auditing."
34. The group auditor sets out arrangements for another auditor's liaison with internal auditing in the group auditor's communication to the other auditor. The group auditor obtains parent management's permission before making any relevant internal auditor's reports available to other auditors.

Fraud

35. The group auditor's identification of fraud risks is influenced by the structure of the group, its control environment, the complexity of its operations, and the nature and extent of related party transactions.
36. The group auditor considers the nature and extent of parent management's monitoring of components, and whether there are particular components for which a risk of fraud may be more likely to exist. Fraud risk factors include the following:
- Incomplete identification of components, related parties and segments.
 - Non-compliance with the parent's financial reporting framework requirements for incorporation of component's financial information in the group financial statements.
 - Undisclosed related party transactions, including the transfer of assets within the group.
 - Existence of components with different financial year-ends that may be utilized to manipulate transactions.
 - Inadequate oversight of component management and personnel, enabling them to manipulate the accounting records of a component in a manner that causes a material misstatement in the group financial statements.
 - Unauthorized or incomplete consolidation adjustments.

The group auditor considers the internal controls in place to address these risks, e.g. the existence of an audit committee and internal auditing.

37. The group auditor communicates to the other auditor identified fraud risk factors, which the group auditor wants the other auditor to consider in the performance of the other auditor's work.

Audit Team Discussions and Risk Assessments Performed by Other Auditors

38. ISA XX "Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement" and ISA 240 require the members of the audit team to discuss the susceptibility of the entity to material misstatements of the financial statements. In the case of an audit of group financial statements there may be multiple discussions that involve key members of the group auditor's team or of the other auditor's team. Where the work at a component is performed by another auditor and, in the group auditor's judgment, that component individually may give rise to risks of material misstatement of the group financial statements, the group auditor considers discussing the risk assessment with key members of the other auditor's team.

Assessing the Risks of Material Misstatement

39. The group auditor assesses the risks of material misstatement of the group financial statements. The group auditor considers circumstances at parent and component level that increase the risks of material misstatement of the group financial statements.
40. The group auditor identifies components that:
- (a) Individually may give rise to risks of material misstatement of the group financial statements,

- (b) Together with other components may give rise to risks of material misstatement of the group financial statements, and
- (c) Individually or together with other components do not give rise to risks of material misstatement of the group financial statements.

The above categorization of components impacts the nature, timing and extent of the group auditor's audit procedures in response to the assessed risks (refer paragraphs 45 to 50).

41. As a result of obtaining an understanding of the parent and its environment, including its internal control, the group auditor may become aware of information that, if unknown to component management, may give rise to material misstatement of the component's financial information, but that, due to the sensitivity thereof, has not been communicated to component management (e.g. the planned closure of a significant operation of the component). Where local regulations do not permit the group auditor to communicate with the other auditor, the group auditor requests parent management to inform component management or the other auditor. Where parent management refuses to do so, and the risk of material misstatement impacts the group financial statements, the group auditor may not be able to respond to the risk without the other auditor having knowledge of it and performing the required audit procedures. Accordingly, the group auditor considers the impact of this scope limitation on the auditor's report on the group financial statements, or the possibility of withdrawing from the engagement.

The Group Auditor's Audit Procedures in Response to Assessed Risks

42. ISA XX "The Auditor's Procedures in Response to Assessed Risks" requires the auditor to determine overall responses to assessed risks at the financial statement level, and design the nature, timing and extent of further audit procedures to respond to assessed risks at the assertion level to reduce audit risk to an acceptably low level. The group auditor determines and documents an overall response to address the risks of material misstatement of the group financial statements.
43. In determining the scope of work to be performed at each component, the group auditor considers the following:
- Assessment of risks of material misstatement of the group financial statements, and whether a component, individually or together with other components, may give rise to risks of material misstatement of the group financial statement (refer paragraph 40).
 - Audit evidence obtained in evaluating the design and implementation of centralized internal controls and internal controls common to the components, and in testing the operational effectiveness of these controls.
 - Whether the group auditor, or other auditor, is required to issue a separate audit opinion on a component's financial statements.
44. In addition to the group auditor's risk assessment procedures, there is a range of options available to the group auditor to obtain sufficient appropriate audit evidence in relation to components' financial information, including the following:
- An audit planned in the context of the materiality of the components' financial statements.

- An audit planned in the context of the materiality communicated by the group auditor (refer paragraph 16).
- Restricting the scope of work to be performed on the component's financial information. (The group auditor carefully evaluates any restriction of the scope of work to be performed at a component to ensure that the scope for the audit of the group financial statements as a whole is adequate.) This option includes one or a combination of the following:
 - A review of the component's financial information performed in accordance with ISA 910 "Engagements to Review Financial Statements."
 - An audit of particular account balances or classes of transactions.
 - Performing specified audit procedures.
 - Performing analytical procedures on the components' financial information and obtaining a representation letter from component management.

COMPONENTS THAT INDIVIDUALLY MAY GIVE RISE TO RISKS OF MATERIAL MISSTATEMENT (PARAGRAPH 40(A))

45. Where a component individually may give risk to risks of material misstatement of the group financial statements, the group auditor may decide to perform, or to request the other auditor to perform, an audit of the component's financial information, based on the materiality levels communicated by the group auditor.
46. Where the group auditor, or other auditor, is required to express a separate audit opinion on the component's financial statements, the audit may be based on the materiality levels determined for purposes of the audit of the component's financial statements (refer paragraph 17).
47. Due to the risks of material misstatement of the group financial statements, the group auditor may decide to also:
 - Meet with component management;
 - Participate in the other auditor's planning and risk assessment;
 - Participate in the other auditor's evaluation of audit evidence;
 - Attend the closing and other key meetings of the other auditor and component management; or
 - Review the other auditor's working papers.

COMPONENTS THAT TOGETHER WITH OTHER COMPONENTS MAY GIVE RISE TO RISKS OF MATERIAL MISSTATEMENT (PARAGRAPH 40(B))

48. Where a component together with other components may give rise to risks of material misstatement of the group financial statements, the group auditor may decide to perform, or request the other auditor to perform:
 - An audit of the component's financial information, based on materiality levels communicated by the group auditor;
 - A review of the component's financial information in accordance with ISA 910;
 - An audit of particular account balances or classes of transactions; or
 - Specified audit procedures.

49. The group auditor considers the possibility of performing the above work on a cyclical basis. The group auditor considers the appropriateness of such a decision on an annual basis.

**COMPONENTS THAT DO NOT GIVE RISE TO RISKS OF MATERIAL MISSTATEMENT
(PARAGRAPH 40(C))**

50. Where a component individually or together with other components does not give rise to risks of material misstatement of the group financial statements, the group auditor may decide to perform an analytical review of the component's financial information and to obtain a representation letter from component management, or not to perform further audit procedures on the component's financial information. The group auditor considers the appropriateness of this decision on an annual basis.

Auditing the Consolidation

51. The nature, timing and extent of the audit procedures performed on the consolidation are impacted by the results of the group auditor's risk assessment procedures.

REPORTING PACKAGES

52. Components may be required to report to the parent using a reporting package. The group auditor considers the proposed reporting package at an early stage to determine whether it provides sufficient appropriate information to parent management for preparing and presenting the group financial statements, and to the group auditor for expressing an opinion on the group financial statements. The group auditor's consideration includes the following:

- The parent's instructions for completion of the reporting package (refer paragraph 9),
- Component management's ability to complete the reporting package based on their understanding of the financial reporting framework and, where applicable, other statutory requirements applicable to the parent, and
- Whether the reporting package provides for:
 - The application of uniform accounting policies or related disclosures (refer paragraphs 53 and 54),
 - The identification of consolidation adjustments, e.g. intra-group transactions and balances (refer paragraphs 55 to 59), and
 - Approval of the completed package by those responsible for preparing and presenting it, e.g. the directors of the component.

UNIFORM ACCOUNTING POLICIES

53. The group auditor considers whether the accounting policies applied in the financial information of the components are in accordance with the financial reporting framework applicable to the parent. Where uniform accounting policies have not been adopted by a component, the group auditor considers whether appropriate adjustments were made to the component's financial information for purposes of preparing and presenting the group financial statements.
54. Inconsistent accounting policies are most likely to arise where components have diverse activities or are based in countries that apply different financial reporting frameworks. Such inconsistencies will ordinarily be eliminated either by parent management requiring

components to prepare financial information consistent with the accounting policies of the parent, or by requiring additional information on the effect of any differences. Where differences are adjusted on consolidation by parent management, the group auditor obtains audit evidence that supports material adjustments. The group auditor obtains an understanding of the financial reporting framework applicable to the component and liaises with the other auditor or requests the other auditor to perform further audit procedures.

CONSOLIDATION ADJUSTMENTS

55. The group auditor considers the appropriateness of the consolidation adjustments, as well as the arithmetical accuracy of calculations. In addition, the group auditor determines that significant adjustments have been correctly processed, have been authorized by parent management, and are supported by sufficient appropriate evidence.
56. Consolidation adjustments relate to the elimination of intra-group transactions and account balances including, the following:
 - Intra-group sales and cost of sales, interest paid and received, or management fees, or other intra-group transactions.
 - Unrealized intra-group profits on inventories or property, plant and equipment acquired from other components.
 - Intra-group indebtedness.
57. The group auditor gains an understanding of the parent's procedures for monitoring, controlling and eliminating intra-group transactions on consolidation. Examples of such procedures include the following:
 - The existence of clear guidance as to what constitutes an intra-group transaction and the accounting therefore.
 - Clear identification of intra-group items on the reporting package.
 - Clear identification of items in transit.
 - Reconciliation of inter-company and inter-component accounts on a regular basis, using a rigorous process (for example monthly and at year-end).
58. The group auditor considers the appropriateness of parent management's procedures for eliminating intra-group transactions with and intra-group account balances of components with different financial year-ends, which are material in relation to the group financial statements as a whole.
59. The group auditor encourages parent management to correct the accounting records for consolidation adjustments that relate to errors.

MINORITY INTERESTS

60. The group auditor considers whether the minority interests' share of the equity and their share of the profit and loss are presented in the group financial statements in accordance with the financial reporting framework applicable to the parent.
61. Where the minority interests' share of the losses exceed the minority interests' share of the equity, the group auditor determines whether the excess, and any further losses

applicable to the minority interest, have been accounted for in accordance with the financial reporting framework applicable to the parent. Where the minority interest has a binding obligation to make good losses, the group auditor determines whether it is able to do so.

GOODWILL

62. The group auditor considers whether goodwill is appropriately reflected in the group financial statements in accordance with the financial reporting framework and, where applicable, statutory requirements applicable to the parent.
63. The group auditor identifies the steps that parent management intends to take to arrive at the fair value of acquired assets and liabilities and considers the appropriateness and acceptability thereof. Basic principles, essential procedures and guidance on the audit of fair values are contained in ISA 545 “Auditing Fair Value Measurements and Disclosures.”
64. The group auditor considers the parent’s proposed treatment of goodwill, and obtains evidence supporting the amortization and impairment testing of the goodwill in accordance with the financial reporting framework applicable to the parent.

COMPONENTS WITH DIFFERENT FINANCIAL YEAR-ENDS

65. If component financial statements with differing financial year-ends are to be incorporated in the group financial statements, the group auditor reviews the component’s results between its financial year-end and that of the parent for significant transactions or other events that need to be reflected in the group financial statements in accordance with the financial reporting framework applicable to the parent, or arranges for the other auditor to perform such review.
66. 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.

Going Concern

67. The basic principles, essential procedures and guidance set out in ISA 570 “Going Concern” also apply to the audit of group financial statements. When auditing the group financial statements, the group auditor considers the going concern assumptions of the parent, and the impact that events or conditions at component level may have on these assumptions.
68. It may be appropriate, on the grounds of materiality, for the group financial statements to be prepared on the going concern basis even though it is inappropriate for the individual financial statements of one or more components to be prepared on the going concern basis.

Subsequent Events

69. The basic principles, essential procedures and guidance provided in ISA 560 “Subsequent Events” also apply to the financial statements or financial information of components and the other auditor’s report thereon.

70. Before issuing the auditor's report on the group financial statements, the group auditor performs procedures designed to identify subsequent events at the parent, and at components that, individually or together with other components, may give rise to risks of material misstatement of the group financial statements.
71. The group auditor determines the extent to which a subsequent events review can be performed centrally for the group (particularly in respect of components that, individually or together with other components, do not give rise to risks of material misstatement of the group financial statements), and the extent to which the group auditor requires information from components and other auditors.
72. In the case of components that are audited by other auditors, the group auditor inquires of the other auditors whether there have been any events that may necessitate either an adjustment to or a note in the group financial statements, and confirms the results of the inquiries with parent management.
73. The subsequent events review covers the period between the dates of the financial information of the parent and the components, and the date of issuance of the auditor's report on the group financial statements.
74. The other auditor's report on the financial statements of a component may be issued on a date after the issuance of the group auditor's report on the group financial statements. The group auditor informs the other auditors of the date of issuance of the auditor's report on the group financial statements, and requests the other auditors to inform the group auditor of any adjustments to the components financial information that were processed after the date of issuance of the auditor's report on the group financial statements. The group auditor considers whether the group financial statements need adjustment, discusses the matter with parent management and takes the action appropriate in the circumstances (ISA 560 provides guidance in this regard).

Management Representations

75. ISA 580 "Management Representations" requires the auditor to obtain appropriate representations from management. The group auditor obtains evidence that parent management acknowledges its responsibility for fair presentation of the group financial statements in accordance with the financial reporting framework applicable to the parent and that parent management has approved the group financial statements. In addition, the group auditor obtains written representations from parent management on matters material to the group financial statements. Examples of such representations include the following:
 - Completeness of components included in the group financial statements in accordance with the financial reporting framework applicable to the parent.
 - Identification of reportable segments for segmental reporting in accordance with the financial reporting framework applicable to the parent.
 - Identification of related parties and related party transactions for reporting in accordance with the financial reporting framework applicable to the parent.
 - Appropriateness and completeness of consolidation adjustments, including the elimination of intra-group transactions.

Reporting Considerations

76. Depending on the group auditor's requirements (refer paragraph 44), the other auditor's report may be in the format prescribed in ISA 700 "The Auditor's Report on Financial Statements," ISA 800 "The Auditor's Report on Special Purpose Audit Engagements," ISA 910 "Engagements to Review Financial Statements" or ISA 920 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information." The Appendix contains an illustrative report on an audit of a reporting package that was restricted based on materiality limits set by the group auditor, and an illustrative report on an audit of specified account balances or classes of transactions based on materiality limits set by the group auditor.
77. An auditor's report issued by the other auditor containing a qualified, adverse or disclaimer of opinion, or an emphasis of matter paragraph referring to a significant uncertainty, requires the group auditor to consider 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.

Communication with Parent Management and Those Charged with Governance of the Parent

78. As a result of obtaining an understanding of the parent and its components, the group auditor may become aware of weaknesses in internal control. The group auditor makes parent management aware, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of the internal control, which have come to the group auditor's attention during the audit of the group financial statements.
79. ISA 260 "Communication of Audit Matters with Those Charged with Governance" requires the auditor to communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity. Matters communicated by the group auditor to those charged with governance of the parent may include:
- Scope of work to be performed at individual components and the use of other auditors' work and reports.
 - Any restrictions to obtaining financial information from a component or the other auditor, or on communicating information to component management or the other auditor (refer paragraph 41).
 - Any instances where the group auditor has reason to doubt the quality of other auditors' work and reports and where, as a consequence, the group auditor adopted more extensive procedures in order to be satisfied about their work.
 - Significant weaknesses in the design or operation of internal control.
 - Significant accounting estimates and adjustments, as well as unadjusted errors, in the group financial statements.
 - Significant or unusual events identified in the parent and the components.
80. The group auditor communicates to those charged with governance of the parent 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

(e.g. internal control weaknesses that have resulted, or could result, in material errors in the group financial statements).

Appendix - Examples of Other Auditors' Reports

ILLUSTRATIVE REPORT ON FULL SCOPE AUDIT OF REPORTING PACKAGE RESTRICTED BASED ON MATERIALITY LIMITS SET BY THE GROUP AUDITOR

Auditor's Report

[Name of group auditor's office/firm]

We have audited the accompanying special-purpose [name of parent] standard forms¹ for [name of component] as of [date] and for the year then ended. These standard forms are the responsibility of [name of component]'s management. Our responsibility is to express an opinion on these standard forms based on our audit.

We conducted our audit in accordance with International Standards on Auditing, except as described in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the standard forms are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the standard forms. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial information on the standard forms. We believe that our audit provides a reasonable basis for our opinion.

In accordance with your instructions dated [date of instruction letter], the scope of our audit was restricted to that necessary to provide you with reasonable assurance that [describe materiality levels communicated by group auditor (e.g. shareholders' equity does not require adjustment by more than [\$XXX], in the aggregate, and that net income for the year does not require adjustment by more than [\$XXX], in the aggregate)], such limits of materiality also being applicable to matters of disclosure and classification.²

The accompanying standard forms have been prepared solely to enable [name of parent] to prepare group financial statements and not to report on [name of component] as a separate entity. Accordingly, the standard forms are not intended to present fairly the financial position of [name of component] as of [date], or the results of its operations or cash flows for the year then ended in accordance with International Accounting Standards [or [title of financial reporting framework applicable to the parent with reference to the country of origin] because of:

[Specifically tailor to the circumstances, e.g.,

1. Classification of liabilities to affiliates as a non current rather than as a current liability.
2. Omission of a description of accounting policies.
3. Omission of disclosures required by the financial reporting framework applicable to the parent.

¹ The standard forms reported on should be specifically identified, such as by reference to page numbers or to titles.

² The restriction should be described in terms consistent with the instructions received from the group auditor.

4. Accounting principles (list any that would not be acceptable in reporting on the component as a separate entity).]

In our opinion, based on the restricted scope of our audit referred to in the third paragraph, the accompanying standard forms for [name of component] as of [date] and for the year then ended have been prepared to give the information required to be shown in accordance with the procedures contained in the [name of parent]'s accounting procedures manual³ [except as follows:].

[Add explanatory paragraph in the case of exceptions.]

This report is intended solely for the use of [name of group auditor's office/firm] in connection with the audit of the group financial statements of [name of parent] and should not be used for any other purpose.

[Date of report]

³ In the absence of a manual, reference in the report is made to specific instructions received by the component from the parent on preparation of year-end financial statements or procedures outlined in the group auditor's instructions. If sufficient instructions were not issued, there is no "frame of reference" and this form of report cannot be used.

ILLUSTRATIVE REPORT ON AUDIT OF SPECIFIED ACCOUNTS BALANCES/CLASSES OF
TRANSACTIONS BASED ON MATERIALITY LIMITS SET BY THE GROUP AUDITOR

Auditor's Report

[Name of group auditor's office/firm]

In accordance with your instructions dated [date of instruction letter], we have audited the accompanying statement of [describe specified account balances/classes of transactions] of [name of component] as of [date]. This statement is the responsibility of [name of component]'s management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with International Standards on Auditing, except as described in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of [describe specified account balances/classes of transactions] is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of [describe specified account balances/classes of transactions]. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with your instructions dated [date of instruction letter], the scope of our audit was restricted to that necessary to provide you with reasonable assurance that [describe specified account balances/classes of transactions] do not require adjustment by more than [\$XXX], in the aggregate, such limits of materiality also being applicable to matters of disclosure and classification.⁴

In our opinion, based on the restricted scope of our audit referred to above, the accompanying statement of [describe specified account balances/classes of transactions] at [date] has been prepared in accordance with International Accounting Standards [or [title of financial reporting framework applicable to the parent with reference to the country of origin], which are described in Note [X],⁵ [except as follows:]

[Add explanatory paragraph in case of exceptions.]

This report is intended solely for the use of [name of group auditor's office/firm] in connection with the audit of the group financial statements of [name of parent company] and should not be used for any other purpose.

[Date of report]

⁴ The restriction should be described in terms consistent with the instructions received from the group auditor.

⁵ The Note reference emphasizes the importance of including in the statement all relevant disclosure information. For example, if inventory balances are reflected on the statement, matters such as purchase commitments, liens and the basis on which inventory is stated.