

PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 600

THE WORK OF OTHER AUDITORS

IN THE AUDIT OF GROUP FINANCIAL STATEMENTS

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International Standard on Auditing (ISA) 600, “The Work of Other Auditors in the Audit of Group Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance when an auditor, acting as a group auditor, decides to use the work of another auditor in the audit of group financial statements.¹ The group auditor also applies the standards and considers the guidance in other ISAs.
2. Group management is responsible for the preparation 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 group-wide controls.
3. **The group auditor is responsible for expressing an audit 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. In order to obtain sufficient appropriate audit evidence on which to base the audit opinion, the group auditor should determine the audit procedures to be performed on the consolidation and the scope of work to be performed by the group auditor or other auditors on the financial information of the components.**

Definitions

4. The following terms have the meanings attributed below:
 - (a) “Applicable financial reporting framework” means the financial reporting framework applicable to the group financial statements.
 - (b) “Audit methodology” means the policies and procedures adopted by a firm and applied by the engagement team to perform audits of financial statements that are of a consistent quality.
 - (c) “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.
 - (d) “Component management” means management responsible for the preparation of the financial information of a component.
 - (e) “Group auditor” means the auditor² who signs the auditor’s report on the group financial statements.

¹ This ISA does not establish standards or provide guidance on the relationship between joint auditors.

² The proposed revised “Glossary of Terms” (October 2004) defines auditor as follows: “The engagement partner. The term “auditor” is used to describe either the engagement partner or the audit firm. Where it applies to the engagement partner, it describes the obligations or responsibilities of the engagement partner. Such obligations or responsibilities may be fulfilled by either the engagement partner or a member of the audit team. Where it is expressly intended that the obligation or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. (The term “auditor” may be used when describing related services and assurance engagements other than audits. Such reference is not intended to imply that a person performing a related service or assurance engagement other than an audit need necessarily be the auditor of the entity’s financial statements.)”

- (f) “Group financial statements” means financial statements that include or should include financial information of more than one component. The term “group financial statements” also refers to combined financial information aggregating the financial information of components in circumstances where there is no parent.
- (g) “Group management” means management responsible for the preparation of the group financial statements.
- (h) “Group-wide controls” means internal controls established by group management over group financial reporting.
- (i) “Significant component” means a component that is of individual financial significance to the group or a component that has been identified at group level as likely to include significant risks of material misstatement of the group financial statements. (See paragraphs 8-10)
- (j) “Other auditor” or “another auditor” means a related auditor or an unrelated auditor.
- (k) “Parent” means the entity whose management prepares or should prepare group financial statements.
- (l) “Related auditor” means an auditor from the group auditor’s firm or from a network firm that operates under common monitoring policies and procedures as contemplated in paragraph 87 of International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.”³
- (m) “Unrelated auditor” means an auditor other than the group auditor or a related auditor.

For purposes of this ISA, reference to “consolidation” also includes the application of the equity method of accounting and the aggregation of the financial information of components in circumstances where there is no parent.

Obtaining a Preliminary Understanding of the Group, Its Components, and Their Environments

- 5. **In order to determine whether to accept or continue an engagement to audit group financial statements, the group auditor should obtain a preliminary understanding of the group, its components, and their environments.**
- 6. Based on previous experience with the group (in the case of a continuing engagement), information provided by group management, and discussions with group management and,

³ ISQC 1, paragraph 87 reads as follows:

“Some firms operate as part of a network and, for consistency, may implement some or all of their monitoring procedures on a network basis. Where firms within a network operate under common monitoring policies and procedures designed to comply with this ISQC, and these firms place reliance on such a monitoring system:

- (a) At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms;
- (b) The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and
- (c) Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.”

where applicable, the previous group auditor, the group auditor obtains a preliminary understanding of:

- The group structure and any significant changes since the previous audit, for example acquisitions, disposals or reorganizations.
- The business activities of components that are significant to the group, including the regulatory, economic and political environments in which those activities take place and any significant changes since the previous audit.
- The use of service organizations, including shared service centres.
- Changes in the composition of those charged with governance of the group, of group management, and of key management of significant components since the previous audit.
- Whether the group auditor has experienced difficulties with regard to the integrity and competence of group or component management.
- Group-wide controls and any significant changes since the previous audit.
- The complexity of the group financial statements.
- Whether other auditors will perform work on the financial information of any of the components and, where applicable, the rationale for engaging unrelated auditors.
- Whether group and component management will permit the group auditor to have unrestricted access to those charged with governance of the group, group management, component management, component information and other auditors, including their audit documentation, and to perform such work on the financial information of the components as the group auditor may consider necessary.

7. Based on the group auditor's preliminary understanding of the group, its components and their environments, the group auditor should:

- (a) Identify significant components; and**
- (b) Identify components where other auditors will perform the work on the financial information, and determine whether those auditors are related auditors.**

- 8. To identify significant components, the group auditor evaluates the individual financial significance of components and identifies components that are likely to include significant risks of material misstatement of the group financial statements.
- 9. The group auditor applies professional judgment in deciding whether a component is of individual financial significance to the group. Generally, a relatively small number of components will encompass a large portion of the group's operations and financial position, making them financially significant. The group auditor may apply a percentage to a chosen benchmark as a step in identifying components that are of individual financial significance. Examples of benchmarks that might be appropriate, depending on the nature and circumstances of the group, include group assets, liabilities, cash flows, profit or turnover. While in practice there are ranges of possible percentages, a component representing 20% or more of group assets, liabilities, cash flows, profit or turnover is regarded financially

significant. However, depending on the nature and circumstances of the group, a lower percentage may be appropriate.

10. Although a component might not be of individual financial significance, due to the nature of and circumstances specific to that component, it may be identified at group level as likely to include one or more specific risks that by themselves could create a 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 financial significance.

Acceptance and Continuance as Group Auditor

11. **The group auditor should consider whether the work that the group auditor and related auditors will perform on the financial information of the components, and the involvement of the group auditor and related auditors in the work that unrelated auditors will perform on the financial information of the components, is likely to enable the group auditor to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements.**
12. Based on the preliminary understanding of the group, its components, and their environments, the group auditor decides whether to accept or continue an engagement to audit group financial statements.
13. **In order to accept or continue an engagement to audit group financial statements, the group auditor or related auditors should:**
 - (a) **Perform the work on the financial information of significant components, or**
 - (b) **Be involved in the unrelated auditors' work on the financial information of significant components to the extent considered necessary by the group auditor.**
14. Ordinarily, the risk of the group auditor not detecting a material misstatement of the group financial statements increases when the group auditor or related auditors do not perform the work on the financial information of the components. This risk may be reduced when the group auditor, or a related auditor on behalf of the group auditor, is involved in the work that unrelated auditors perform on the financial information of the components. The group auditor or related auditors therefore either perform the work on the financial information of significant components or are involved in the work that unrelated auditors perform on the financial information of significant components.
15. A group may comprise only components that are not significant. In order to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements, the group auditor and related auditors ordinarily perform the work on the financial information of some of these components and are involved in the work performed by unrelated auditors on the financial information of other components to the extent considered necessary by the group auditor.
16. Involvement in the work performed by another auditor ordinarily involves the group auditor, or a related auditor on behalf of the group auditor, undertaking some or all of the following actions:

- Meeting with component management to obtain an understanding of the component and its environment.
 - Performing risk assessment procedures and participating in the assessment of risks of material misstatement. These may be performed together with the unrelated auditor, or by the group auditor or a related auditor.
 - Performing further audit procedures. These may be performed together with the unrelated auditor, or by the group auditor or a related auditor.
 - Participating in the closing and other key meetings between the unrelated auditor and component management.
 - Reviewing the unrelated auditors' audit documentation.
17. The extent of the involvement of the group auditor, or related auditor on behalf of the group auditor, is affected by matters such as the group auditor's evaluation of the significance of the component, the professional qualifications and professional competence of the other auditor, and of the quality control process of the other auditor's firm. For example, the greater the significance of the component, or the lower the level of the group auditor's satisfaction with the professional qualifications and professional competence of the other auditor, or with the quality control process of the other auditor's firm, the greater is the involvement of the group auditor, or related auditor on behalf of the group auditor, in the other auditor's work. Paragraphs 51-58 more fully describe such involvement.
18. The group auditor considers the practicality of being involved in the work of another auditor. For example, in the case of a significant component operating in a foreign jurisdiction, or a tight timetable for completing the audit of the group financial statements, the group auditor, or a related auditor on behalf of the group auditor, may not be able to be involved in the work to be performed by an unrelated auditor to the extent considered necessary by the group auditor. In such circumstances, the group auditor considers the likely effect of such scope limitation on the group auditor's report on the group financial statements and whether to accept or continue the engagement (see paragraphs 21).

Access to Information

19. **When the group auditor does not have a right of access to component information, component management or other auditors, including their audit documentation, to the extent considered necessary to perform the audit of the group financial statements, the group auditor should request group management to arrange with component management for the group auditor to have such access.**
20. In some cases there may be restrictions on the group auditor's access to component information, component management or other auditors, including their audit documentation, for example in the case of components that are accounted for by the equity method. In such circumstances, the group auditor considers whether sufficient appropriate audit evidence can be obtained by any other means. The group auditor also considers whether any restrictions on access call into question the basis of preparation of the group financial statements. For example, failure by group management to procure access for the group auditor may indicate that there is insufficient control for the component to be considered as a subsidiary under the applicable financial reporting framework.

21. **The group auditor should not accept an engagement to audit group financial statements if:**
- (a) **The group auditor is aware of restrictions on the group auditor's access to component information, component management or other auditors, including their audit documentation;**
 - (b) **The restrictions cannot be overcome by group management or by other means; and**
 - (c) **The restrictions are likely to result in a disclaimer of opinion on the group financial statements.**
22. **The group auditor should include in the terms of engagement the fact that restrictions on the group auditor's access to component information, component management or the other auditors, or on the work to be performed on the financial information of a component, imposed after the group auditor's acceptance of the engagement to audit the group financial statements, will constitute a scope limitation that may affect the group auditor's report on the group financial statements or the group auditor's appointment.**
23. **If, after accepting an engagement to audit group financial statements, the group auditor's access to component information, component management or other auditors, including their audit documentation, is restricted and the restrictions cannot be overcome by group management or by other means, the group auditor should consider the effect of the scope limitation on the auditor's report on the group financial statements.** If such scope limitation is likely to result in a disclaimer of opinion on the group financial statements, the group auditor considers resigning from the engagement.

Evaluation of Other Auditors

24. **The group auditor should consider the professional qualifications, independence, and professional competence of the other auditors who will perform work on the financial information of components for purposes of the audit of the group financial statements, and the quality control systems of their firms.**
25. The group auditor's consideration includes whether the other auditor possesses:
- An understanding of the applicable financial reporting framework, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements;
 - An understanding of the ISAs, and such additional national auditing standards as may be applicable to the audit of the group financial statements, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements; and
 - The specialist skills necessary to perform the work on the financial information of a particular component.
26. The group auditor's evaluation of the professional qualifications, independence, and professional competence of other auditors, and the quality control systems of their firms

will affect the nature, timing and extent of the group auditor's involvement in the other auditor's work.

RELATED AUDITORS

27. In the case of a related auditor, the group auditor ordinarily will be able to rely on the quality control policies and procedures of the other auditor's firm, unless there is evidence to the contrary.
28. The group auditor considers the results of the related auditor's quality control monitoring process as evidenced in the latest information circulated in accordance with ISQC 1, paragraph 87. The group auditor considers whether any deficiencies noted in that information could affect the audit of the group financial statements and, if so, whether measures taken by the related auditor's firm to rectify such deficiencies appear to be sufficient in the context of the audit of the group financial statements.
29. The nature, timing and extent of the group auditor's procedures in relation to a related auditor's work will be affected by the application of a common audit methodology. Where the group auditor and related auditor apply the same audit methodology, the group auditor ordinarily will be able to rely to a greater extent on the procedures applied by the related auditor in the performance of the work on the financial information of a component, unless there is evidence to the contrary.
30. When a related auditor will perform the work, or will be involved in the work to be performed by an unrelated auditor, on the financial information of a significant component, and the related auditor is not personally known to the group auditor, the group auditor makes inquiries within the related auditor's firm about the professional competence of the related auditor.

UNRELATED AUDITORS

31. There are a number of sources from which the group auditor may obtain information about the professional qualifications, independence, and professional competence of an unrelated auditor, and the quality control system of the unrelated auditor's firm. For example the group auditor may:
 - Make a visit to the unrelated auditor;
 - Request the unrelated auditor to complete a questionnaire or written representation;
 - Discuss the unrelated auditor with colleagues in the group auditor's firm who have had prior dealings with the unrelated auditor;
 - Obtain confirmations from the professional body to which the unrelated auditor belongs, the authority by which the unrelated auditor is licensed, or other third parties;or
 - Consider the results of previous contacts that the group auditor may have had with the unrelated auditor.
32. In relation to the quality control system of the unrelated auditor's firm, the group auditor obtains from the engagement partner who will be responsible for the work to be performed on the financial information of the component, or from the person assigned operational

responsibility for the unrelated auditor's firm's quality control system, a confirmation that (a) the unrelated auditor's firm's quality control system complies with ISQC 1, (b) remedial action is taken promptly in relation to issues identified in the monitoring program, and (c) there are no issues from recent monitoring reports that are likely to have a significant affect on the work that the unrelated auditor will perform on the financial information of the component. When the group auditor is aware that reports of the body responsible for conducting external quality assurance inspections are publicly available, the group auditor obtains a copy of the report of the unrelated auditor's latest inspection.

33. When the unrelated auditor is not independent or the group auditor has serious concerns about the professional qualifications and professional competence of the unrelated auditor, and the quality control system of the unrelated auditor's firm, the group auditor plans to obtain audit evidence relating to the financial information of the component without using the work of the unrelated auditor. Where the group auditor is unable to obtain sufficient appropriate audit evidence relating to the financial information of the component, the group auditor considers the effect of the scope limitation on the group auditor's report on the group financial statements or the group auditor's appointment (see paragraph 23).

Materiality

34. ISA 320, "Audit Materiality in the Identification and Evaluation of Misstatements" contains standards and guidance on materiality and the evaluation of misstatements.
35. **The group auditor should determine a group materiality level when establishing the overall audit strategy for the audit of the group financial statements.** The group materiality level is based on the group financial statements.
36. The group auditor also determines the materiality levels to be used in audits of the financial information of the components performed for purposes of reporting on the group financial statements. To allow for the aggregation of identified misstatements and the possible existence of undetected misstatements, the materiality level for a component is lower than the group materiality level.
37. The group auditor's determination of materiality levels for individual components may be affected by the structure of the group. For example, it is likely that the larger the number of components that are of similar individual financial significance, the lower the materiality levels for the individual components.
38. When planning the audit of the financial information of a component, the auditor responsible for performing the audit ordinarily establishes levels of tolerable error lower than the component materiality level to allow for the possibility that some misstatements, of lesser amounts than the materiality level for the component, could be material in the aggregate.

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

39. **The group auditor should obtain an understanding of the group, its components, and their environments, and of the consolidation process. The group auditor should assess the risks of material misstatement of the group financial statements at group level.**

40. The group auditor uses the information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls relevant to the consolidation, and information obtained through discussions with other auditors, to assess the risks of material misstatement of the group financial statements at group level.

Responding to Assessed Risks

41. **The group auditor should determine the audit procedures to be performed on the consolidation and the scope of work to be performed by the group auditor or other auditors on the financial information of the components to respond to the assessed risks of material misstatement of the group financial statements.**

DETERMINING THE SCOPE OF WORK TO BE PERFORMED ON THE FINANCIAL INFORMATION OF COMPONENTS

42. The scope of work to be performed on the financial information of a component will be affected by matters such as the significance of the component, and the group auditor's evaluation of the design and implementation of group-wide controls.

Significant Components

43. For a component that is of individual financial significance (see paragraph 9), the group auditor ordinarily performs or requests other auditors to perform an audit in accordance with ISAs using either a materiality level determined by the group auditor, or a lower materiality level determined by the other auditor.
44. For a component that has been identified at group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph 10), the group auditor ordinarily performs or requests other auditors to perform one of the following:
- An audit in accordance with ISAs using either a materiality level determined by the group auditor, or a lower materiality level determined by the other auditor.
 - An audit of specified account balances relating to the identified significant risks.
 - Specified audit procedures relating to the identified significant risks.

Insignificant Components

45. After determining the scope of work to be performed on the financial information of components that are of individual financial significance (see paragraph 43) and components identified at group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph 44), the group auditor identifies components that are insignificant, even when aggregated with other such insignificant components. As discussed in paragraph 9, the group auditor may apply a percentage to a chosen benchmark as a step in identifying the individual financial significance of components. While in practice there are ranges of possible percentages, a component representing less than 2% of group assets, liabilities, cash flows, profit or turnover will ordinarily be regarded insignificant. The group auditor may consider it appropriate not to perform audit or review procedures at insignificant components. For

these components, the group auditor ordinarily performs analytical procedures at group level.

Components That may be Significant in the Aggregate

46. The remaining components, although not significant due to their individual financial significance or risk of material misstatement of the group financial statements, may, together with other such components, be significant in the aggregate. The scope of work to be performed on the financial information of such components could include one of the following:
- An audit performed in accordance with ISAs using either a materiality level determined by the group auditor, or a lower materiality level determined by the other auditor.
 - An audit of specified account balances.
 - Specified audit procedures.
 - A review of the financial information of the component.
47. The scope of work to be performed on the financial information of these components is affected by matters such as the following:
- Whether it is a newly formed or acquired component.
 - Whether significant changes have taken place in the component.
 - Whether internal audit has performed work at the component.
 - The effectiveness of group-wide controls.
 - The individual financial significance of and risks posed by the component in comparison with other components within this category.

Sufficient Appropriate Audit Evidence

48. Before finalizing the scope of work to be performed on the financial information of the components, the group auditor considers whether sufficient appropriate audit evidence will be obtained to enable the group auditor to express an audit opinion on the group financial statements. Accordingly, the scope of work to be performed on the financial information of the components includes audits performed in accordance with ISAs using either a materiality level determined by the group auditor, or a lower materiality level determined by the other auditor; audits of specified account balances; and specified audit procedures. For example, if none of the components are significant (as described in paragraphs 45-46), the group auditor cannot limit the scope of work to be performed on the financial information of the components to reviews, or analytical procedures performed at group level.

Components Subject to Audit by Statute, Regulation or for Another Reason

49. The financial statements of a component may be subject to an audit because of statute, regulation or other reason. This may affect the group auditor's decision on the work to be performed on the financial information of the component for the purposes of the audit of the group financial statements. The group auditor may decide to use this audit to provide audit evidence for the purposes of the audit of the group financial statements. In such

circumstances, the group auditor evaluates the effect of the financial reporting framework applied in the preparation of the financial statements of the component and the auditing standards applied by the other auditors. The auditor also considers whether the audit of the financial statements of the component will be performed in time for the other auditor's report or memorandum to be communicated to the group auditor (see paragraph 65).

50. When the group auditor decides to use the audit of the financial statements of a component performed by another auditor to provide audit evidence for purposes of the audit of the group financial statements, and the risk assessment procedures and further audit procedures have already been performed by the other auditor at the component (for example in the case of a component acquired close to the group reporting date), the group auditor, in order to meet the requirements described in paragraphs 51-58, reviews the risk assessment procedures and further audit procedures already performed, and determines the additional audit procedures to be performed.

INVOLVEMENT IN THE WORK OF OTHER AUDITORS

Significant Components

51. **When another auditor is requested to perform an audit of the financial information of a significant component, the group auditor should be involved in the work of the other auditor in order to identify significant risks of material misstatement of the group financial statements.**
52. When a related auditor performs an audit of the financial information of a significant component, the group auditor reviews the related auditor's audit documentation of the identified and assessed risks of material misstatement at the financial statement level and at the assertion level⁴ in order to identify significant risks of material misstatement of the group financial statements.
53. When an unrelated auditor performs an audit of the financial information of a significant component, the group auditor, or a related auditor on behalf of the group auditor, is involved in the unrelated auditor's risk assessment procedures in order to identify significant risks of material misstatement of the group financial statements. As part of this involvement, the group auditor or the related auditor:
- (a) Discusses the risk assessment with component management;
 - (b) Discusses with the unrelated auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and
 - (c) Reviews the unrelated auditor's audit documentation of the identified and assessed risks of material misstatement at the financial statement level and at the assertion level.⁵
54. When a related auditor performed the review described in paragraph 53(c), the group auditor reviews the related auditor's documentation of the review in order to identify significant risks of material misstatement of the group financial statements.

⁴ See ISA 315, paragraph 122(c).

⁵ See ISA 315, paragraph 122(c).

55. **When significant risks of material misstatement of the group financial statements have been identified in a component on which another auditor performs the work, the group auditor should determine together with the other auditor the further audit procedures to be performed as a response to the identified significant risks.** In certain circumstances the group auditor may want to be involved or to involve a related auditor in the performance of the further audit procedures. The nature, timing and extent of the group auditor's or related auditor's involvement in the further audit procedures to be performed by another auditor will be affected by the group auditor's assessment of the individual financial significance of the component, the significant risks to which it is subject, and the group auditor's evaluation of the professional qualifications and professional competence of the other auditor, and the quality control systems of the other auditor's firm.
56. **When a related auditor has been involved in the further audit procedures of an unrelated auditor on behalf of the group auditor, the group auditor should review the related auditor's documentation of the review of the unrelated auditor's audit documentation prepared in accordance with ISA 330, paragraph 73.**⁶

Components That may be Significant in the Aggregate

57. In order for the group auditor to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements, it may be necessary for the group auditor, or a related auditor on behalf of the group auditor, to be involved in the work to be performed by an unrelated auditor on the financial information of a component that is not significant but that may, together with other such components, be significant in the aggregate. The group auditor's or related auditor's involvement may include some or all of the procedures described in paragraph 16, a review of the financial information of the component, or analytical procedures performed at group level. The nature, timing and extent of the group auditor's or related auditor's involvement in the unrelated auditor's work are based on professional judgment. For example, the greater the significance of the risks of material misstatement of the group financial statements, or the greater the group auditor's concerns about the professional qualifications and professional competence of the unrelated auditor or the unrelated auditor's firm's quality control system, the greater the extent of the group auditor's or related auditor's involvement in the unrelated auditor's work.

Insignificant Components

58. When an unrelated auditor performs the work on the financial information of a component that is insignificant, even when aggregated with other such insignificant components, the group auditor considers the need to be involved, or to involve a related auditor on behalf of

⁶ ISA 330, paragraph 73, reads as follows: "The auditor should document the overall responses to address the assessed risks of material misstatement at the financial statement level and the nature, timing, and extent of the further audit procedures, the linkage of those procedures with the assessed risks at the assertion level, and the results of the audit procedures. In addition, if the auditor plans to use audit evidence about the operating effectiveness of controls obtained in prior audits, the auditor should document the conclusions reached with regard to relying on such controls that were tested in a prior audit."

the group auditor, in the unrelated auditor's work. For example, the group auditor may decide to perform analytical procedures on the financial information of the component at group level, or to review or request a related auditor to review the unrelated auditor's audit documentation.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

59. **The group auditor should communicate to those charged with governance of the group:**
- (a) **The portion of the group financial statements on which the group auditor and related auditors will perform the work and the portion of the group financial statements on which unrelated auditors will perform the work.**
 - (b) **The components that have been identified as significant.**
 - (c) **The results of the group auditor's evaluation of the professional qualifications, independence, and professional competence of the unrelated auditors and the affect thereof on the scope of work to be performed on the financial information of the components and on the group auditor's and unrelated auditor's involvement in the work to be performed by the unrelated auditors.**
 - (d) **The planned scope of work to be performed on the financial information of the component.**
 - (e) **The group auditor's and related auditors' planned involvement in the work to be performed by unrelated auditors on the financial information of significant components.**
 - (f) **Any limitations on the audit of the group financial statements. For example, restrictions on the group auditor's access to component information, component management or other auditors, including their audit documentation.**

Communications With the Other Auditor

60. **The group auditor should communicate with the other auditor to provide the other auditor with the group auditor's requirements.** The group auditor's communication is issued as early as possible and ordinarily is in the form of a letter of instruction, which sets out the scope of work to be performed, the nature of the other auditor's report or memorandum, and the confirmations required by the group auditor. Appendix 1 contains examples of matters to be included in the group auditor's letter of instruction.
61. The group auditor requests confirmations as follows:
- (a) In the case of an unrelated auditor, confirmation that the unrelated auditor's firm's quality control system complies with ISQC 1, remedial action is taken promptly in relation to issues identified in the monitoring program, and there are no issues from recent monitoring reports that are likely to have a significant affect on the work that the unrelated auditor will perform on the financial information of the component (see paragraph 32).
 - (b) Confirmation of receipt of the group auditor's letter of instruction and confirmation that the other auditor will undertake the work requested.

- (c) Confirmation that the other auditor has an understanding of and will comply with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, including the independence requirements, and national ethical requirements applicable to the audit of the group financial statements where these are more restrictive, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements.
- (d) Confirmation that the other auditor has an understanding of the applicable financial reporting framework, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements.
- (e) Confirmation that the other auditor has an understanding of ISAs, and such additional national auditing standards as may apply to the audit of the group financial statements, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements.
- (f) Confirmation that the other auditor understands that the group auditor will consider and may use the other auditor's work for purposes of the audit of the group financial statements.

It is important that the group auditor obtains these confirmations early in the audit process to enable the group auditor to consider the effect that they may have on the audit of the group financial statements. Appendix 2 contains an example of another auditor's confirmations.

62. The group auditor communicates, amongst other matters, the following to the other auditor:
- (a) The scope of work to be performed on the financial information of the component.
 - (b) The materiality level for the component and the threshold above which misstatements cannot be regarded as clearly inconsequential to the group financial statements. This communication occurs when the scope of work to be performed on the financial information of the component is an audit performed using a materiality level determined by the group auditor.
 - (c) Significant risks, including fraud risks, identified at group level (see paragraph 39) that are relevant to the work of the other auditor. This communication occurs when the group auditor, or a related auditor on behalf of the group auditor, is not involved in the other auditor's risk assessment procedures (see paragraphs 51-54). The group auditor requests the other auditor to inform the group auditor if the other auditor identifies other significant risks that may affect the group financial statements.
 - (d) Laws and regulations applicable to the parent, and relevant to the work to be performed by the other auditor. The group auditor requests the other auditor to communicate to the group auditor instances of non-compliance with laws and regulations applicable to the component that could have a material effect on the group financial statements.
63. The group auditor provides the other auditor with a list of related parties prepared by group management, and requests the other auditor to communicate to the group auditor the names of related parties they identify in addition to those on the list and the types of transaction with such related parties.

64. The group auditor requests the other auditor to communicate in a timely manner to the group auditor material weaknesses in controls that have come to the attention of the other auditor during the performance of the work on the financial information of the component, and information that indicates that a fraud may exist.
65. The other auditor's report or memorandum on the work performed is obtained at the conclusion of the work on the financial information of the component and:
- (a) Confirms that the other auditor has complied with the quality control policies and procedures of the other auditor's firm;
 - (b) Confirms that the other auditor has complied with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants, including the independence requirements, and national ethical requirements applicable to the audit of the group financial statements where these are more restrictive;
 - (c) Confirms that the other auditor has complied with ISAs, and such additional national auditing standards as may apply to the audit of the group financial statements;
 - (d) Confirm compliance with the group auditor's other instructions;
 - (e) Identifies the financial information of the component on which the other auditor is reporting;
 - (f) Sets out the scope of work performed by the other auditor;
 - (g) Lists uncorrected misstatements of the financial information of the component. The list of uncorrected misstatements does not include misstatements that were below the threshold communicated by the group auditor for clearly inconsequential misstatements;
 - (h) Explains material weaknesses in internal control over financial reporting;
 - (i) Sets out information relating to any significant findings or issues that are inconsistent with or contradict the other auditor's initial conclusions;
 - (j) Sets out any other matters that the other auditor wishes to draw to the attention of the group auditor; and
 - (k) Sets out the other auditor's findings, conclusions or opinion.

Performing Further Audit Procedures

66. **The group auditor should determine whether the financial information identified in the communication of the other auditor is the financial information that was incorporated in the group financial statements.**

SUBSEQUENT EVENTS

67. ISA 560, "Subsequent Events" contains standards and guidance on the auditor's responsibility regarding subsequent events. The group auditor determines the date up to which subsequent reviews at components are performed, i.e., the date of the auditor's report on the group financial statements. The nature, timing and extent of the group auditor's procedures in relation to subsequent events will be affected by matters such as the

group auditor's evaluation of group management's process for obtaining information on subsequent events at components.

68. **For significant components, the group auditor performs, or requests other auditors to perform, procedures designed to identify events at those components between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.**
69. For components that are not significant but that may, together with other such components, be significant in the aggregate, the group auditor ordinarily inquires from other auditors whether they are aware of subsequent events that may necessitate either an adjustment to or a disclosure in the group financial statements.

Determining the Adequacy of the Other Auditor's Work

70. **The group auditor should obtain sufficient appropriate audit evidence that the work of the other auditor is adequate for the group auditor's purposes.**
71. The nature, timing and extent of the group auditor's procedures to determine the adequacy of the other auditor's work may be affected by matters such as the following:
- Whether a component is significant.
 - Whether the other auditor is a related auditor or an unrelated auditor and, if a related auditor, whether the related auditor applies a common audit methodology (see paragraph 29).
 - The group auditor's evaluation of the professional qualifications, independence, and professional competence of the other auditor, and the quality control system of the other auditor's firm.
 - The extent of the group auditor's or, in the case of an unrelated auditor, a related auditor's involvement in the work of the other auditor.
72. When another auditor performed the work on the financial information of a significant component or a component that is not significant but that may, together with other such components, be significant in the aggregate, the group auditor reads the other auditor's report or memorandum, including the other auditor's list of uncorrected misstatements. (See paragraph 65.)
73. **When an unrelated auditor performed the work on the financial information of a significant component, the group auditor, or a related auditor on behalf of the group auditor, should review the unrelated auditor's audit documentation.**
74. When a related auditor performed the work on the financial information of a significant component, the group auditor considers whether to review the related auditor's audit documentation.
75. The extent of the review of another auditor's audit documentation may vary depending on the circumstances, but is focused on the audit documentation relevant to the significant risks of material misstatement of the group financial statements.
76. **When a related auditor on behalf of the group auditor reviewed an unrelated auditor's audit documentation, the group auditor should review the related auditor's**

documentation of the review of the unrelated auditor's audit documentation, and the conclusions reached by the related auditor as to whether the work of the unrelated auditor is adequate for the group auditor's purposes.

77. If the group auditor concludes that the work of another auditor is inadequate for the group auditor's purposes, the group auditor determines additional procedures to be performed. Such additional procedures are, depending on the circumstances, performed by the other auditor or by the group auditor.

Considering the Findings of the Other Auditor

78. **The group auditor should consider how the findings of the other auditor affect the auditor's report on the group financial statements.**
79. The group auditor may consider it appropriate to discuss with another auditor or component management significant matters affecting the financial information of the component and may also conclude that additional audit procedures are necessary. Such additional audit procedures are, depending on the circumstances, performed by the other auditor or by the group auditor.

Reporting Considerations

80. **When the group auditor concludes that the work of another auditor does not provide sufficient appropriate audit evidence and the group auditor has not been able to obtain such audit evidence through alternative audit procedures, the group auditor should consider the effect of this scope limitation on the auditor's opinion on the group financial statements.** In the case of a qualified opinion due to a scope limitation, the group auditor refers to the circumstances surrounding the group auditor's inability to obtain sufficient appropriate audit evidence.
81. **The group auditor should consider whether a finding communicated by the other auditor is of such a nature and significance in relation to the group financial statements that a qualification of the auditor's opinion on the group financial statements is required.**
82. Uncorrected misstatements that are material to the financial information of the component may be immaterial when aggregated at the group level and, as a result, may not affect the group auditor's opinion on the group financial statements. Conversely, uncorrected misstatements that are immaterial to the financial information of the component may be material when aggregated with uncorrected immaterial misstatements of the financial information of the other components. In such circumstances, the group auditor considers the effect of the aggregated uncorrected immaterial misstatements of the financial information of the components on the auditor's opinion on the group financial statements.
83. The group auditor does not ordinarily refer to an unrelated auditor in the auditor's report on the group financial statements. In some jurisdictions, however, it is practice for the group auditor to make reference in the auditor's report on the group financial statements to the fact that an unrelated auditor was involved in the audit of the group financial statements. **If the group auditor refers to an unrelated auditor in the auditor's report on the group financial statements, the reference should be made in an other significant matter paragraph.** (See proposed ISA 701 (Revised), "Qualifications to the Auditor's Opinion in

the Independent Auditor's Report.”) Such a reference does not exempt the group auditor from following the requirements in this ISA. Appendix 3 contains an example of an auditor's report on group financial statements that includes an other significant matter paragraph referring to the audit of another auditor.

Documentation

84. Proposed ISA 230 (Revised), “Audit Documentation” and other ISAs contain standards and guidance on audit documentation. **In the case of an audit of group financial statements, the group auditor should also document the following:**
- (a) **The group auditor's evaluation of the sufficiency of the group auditor's and related auditors' involvement in the audit of the group financial statements, and the basis for the group auditor's conclusion to accept or continue the engagement.**
 - (b) **The results of the evaluation of the professional qualifications, independence, and professional competence of the other auditors, and the quality control systems of their firms, and the effect thereof on the nature, timing and extent of the group auditor's or related auditors' involvement in the work performed by the other auditors.**
 - (c) **Identified and assessed significant risks of material misstatement of the group financial statements, the further audit procedures performed in response to such risks and the results thereof.**
 - (d) **The audit procedures performed on the consolidation and the scope of work performed by the group auditor and other auditors on the financial information of the components.**
 - (e) **The group auditor's communications with other auditors about the group auditor's requirements.**
 - (f) **The group auditor's conclusion as to whether the group auditor has obtained sufficient appropriate audit evidence that the work of the group auditor and other auditors is adequate for the group auditor's purposes.**
 - (g) **The group auditor's conclusion with regard to uncorrected misstatements and the significant findings arising from the work of other auditors.**
 - (h) **Discussions of significant accounting, auditing and financial reporting matters with those charged with governance, group management, component management, or other auditors.**

Effective Date

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

Appendix 1

Examples of Matters to be Included in the Group Auditor's Letter of Instruction (See paragraph 60)

REQUIRED CONFIRMATIONS

- A request that the following confirmations are, whenever possible, submitted to the group auditor before the work on the financial information of the component is commenced:
 - In the case of an unrelated auditor, confirmation that the unrelated auditor's firm's quality control system complies with ISQC 1, remedial action is taken promptly in relation to issues identified in the monitoring program, and there are no issues from recent monitoring reports that are likely to have a significant affect on the work that the unrelated auditor will perform on the financial information of the component.
 - Confirmation of receipt of the group auditor's letter of instruction and confirmation that the other auditor will undertake the work requested.
 - Confirmation that the other auditor has an understanding of and will comply with the *Code of Ethics for Professional Accountants* issued by the International Federation of Accountants, including the independence requirements, and national ethical requirements applicable to the audit of the group financial statements where these are more restrictive, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements.⁷
 - Confirmation that the other auditor has an understanding of the applicable financial reporting framework, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements.
 - Confirmation that the other auditor has an understanding of ISAs, and such additional national standards as may be applicable to the audit of the group financial statements, sufficient to fulfill the other auditor's responsibilities in the context of the audit of the group financial statements.
 - Confirmation that the other auditor understands that the group auditor will consider and may use the other auditor's work for purposes of the audit of the group financial statements.

MATTERS RELEVANT TO THE PLANNING OF THE OTHER AUDITOR'S WORK

- The timetable for completion of the audit.
- Dates of planned visits by group management and the group auditor, and dates of planned meetings with component management and the other auditor.
- A list of key contacts.

⁷ When there are several components in the group and their names may not be known to the other auditor, it is advisable for the group auditor to list them in the letter of instruction to facilitate the other auditor's assessment of compliance with the independence requirements in the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and independence requirements in national ethical requirements applicable to the audit of the group financial statements where these are more restrictive.

- The use that is to be made of the 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 or related auditor's planned involvement in the work of the other auditor.
- Laws and regulations applicable to the parent, and relevant to the work to be performed by the other auditor.
- Work to be performed on intra-group transactions and unrealized profits and intra-group account balances.
- Results of the group auditor's risks assessment performed at group level that are relevant to the other auditor's work.
- The materiality level that the group auditor expects the other auditor to use in fulfilling the group auditor's instructions.
- The threshold for clearly inconsequential misstatements.
- Guidance on other statutory reporting responsibilities, for example reporting on group management's assertion on the effectiveness of internal control.
- Where there is likely to be a time lag between completion of the work on the financial information of the components and the group auditor's conclusion on the group financial statements, specific instructions for a subsequent events review.

MATTERS RELEVANT TO THE CONDUCT OF THE OTHER AUDITOR'S WORK

- The findings of the group auditor's tests of control activities of a processing system that is common for all or some components, and tests of controls to be performed by the other auditor.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- A request that audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which the group auditor originally based the risk assessment performed at 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 or the fact that differences between the accounting policies applied in the financial information of the component and those applied in the group financial statements have been disclosed.
- Matters to be documented by the other auditor.

MATTERS RELEVANT TO THE OTHER AUDITOR'S COMMUNICATION

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

OTHER INFORMATION

- A request that a list of uncorrected misstatements of the financial information of the component 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 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, including any suspected or alleged fraud affecting the component.
 - Instances of non-compliance with laws and regulations applicable to the component that could have a material effect on the group financial statements.
 - 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 2

Example of Another Auditor's Confirmations (See paragraph 61)

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

The group auditor ordinarily requests the other auditor, whenever possible, to submit the confirmations before the work on the financial information of the component is commenced.

[Other Auditor Letterhead]

[To Group Auditor]

[Date]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements give a true and fair view of (present fairly, in all material respects) the financial position of the group as of [date] and of the results of its operations and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].

We acknowledge receipt of your instructions dated [date], requesting us to perform the specified work on the financial information of [name of component] for the year ended [date].

We confirm that:

1. We will be able to comply with the instructions. / We advise you that we will not be able to comply with the following instructions [specify instructions] for the following reasons [specify reasons].
2. The instructions are clear and that we understand them. / We would appreciate it if you could clarify the following instructions [specify instructions].

We also acknowledge that:

1. The financial information of [name of component] for the year ended [date] will be included in the group financial statements of [name of parent] for the year ended [date].
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 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. Our firm's quality control system complies with ISQC 1, remedial action is taken promptly in relation to issues identified in the monitoring program, and there are no issues from recent monitoring reports that are likely to have a significant affect on the work that we will perform on the above.
2. We have an understanding of and will comply with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the Code), and national ethical requirements applicable to the audit of the group financial statements where these are more restrictive, sufficient to fulfill our responsibilities in the context of the audit of the group

financial statements. In particular, and with respect to [name of parent] and the other components in the group, we are independent within the meaning of 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].

3. We have an understanding of International Standards on Auditing and [indicate other national standards applicable to the audit of the group financial statements], sufficient to fulfill our responsibilities in the context of 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.
4. We have an understanding of [indicate applicable financial reporting framework], sufficient to fulfill our responsibilities in the context of the audit of the group financial statements.

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

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Appendix 3

Example Auditor's Report on Consolidated Financial Statements (See paragraph 83)

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying consolidated financial statements of ABC Company, which comprise the consolidated balance sheet as at December 31, 20X1, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of (or present fairly, in all material respects) the financial position of ABC Company and

its subsidiaries as of December 31, 20X1, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Significant Matter – Other Auditor's Involvement

We draw attention to the fact that the financial statements of DEF Company, a wholly-owned subsidiary, were audited by [name of the unrelated auditor's firm]. These financial statements reflect total assets and revenues constituting 20 percent and 22 percent, respectively, of the related consolidated totals. We determined the scope of work performed on the financial statements of DEF Company, and evaluated the sufficiency and appropriateness of audit evidence obtained by [name of the unrelated auditor's firm].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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