

[DECEMBER 2004 VERSION MARKED UP]**PROPOSED INTERNATIONAL STANDARD ON AUDITING XXX
THE AUDIT OF GROUP FINANCIAL STATEMENTS**

(Effective for audits of group financial statements for
periods beginning on or after December 15, 2006)

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International Standard on Auditing (ISA) XXX, “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 provides guidance on matters relating to the audit of group financial statements, in particular, the involvement of other auditors in the group audit.[‡] The group auditor also applies the standards and considers the guidance in the other ISAs.
2. The standards and guidance in this ISA, adapted as necessary in the circumstances, also apply where other auditors are involved in the audit of the financial statements of a single entity. For example, an auditor may plan to use the work of another auditor who observed the inventory count or inspected physical fixed assets at a remote location.
- ~~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.~~
- ~~3.4. 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~~
The group auditor should obtain sufficient appropriate audit evidence on which to base the group audit opinion. To obtain such evidence, the group auditor should (a) determine the audit procedures to be performed on the consolidation, and (b) the scope of work to be performed by the group auditor or other auditors on the financial information of the components.

Definitions

- 4.5. 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 preparing the financial information of a component.
 - (e) “Group auditor”² means the auditor³ who signs the auditor’s report on the group financial statements.

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

² Where the audit of the group financial statements is conducted by joint auditors, the joint auditors collectively constitute the group auditor. This ISA, however, does not establish standards or provide guidance on the relationship between joint auditors and the work that one joint auditor performs in relation to the work performed by the other joint auditor.

- (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 and presentation of the group financial statements.
- (h) “Group-wide controls” means internal controls established by group management over group financial reporting.
- (i) “Other auditor” or “another auditor” means a related auditor ~~or~~ and an unrelated auditor.
- (j) “Parent” means the entity whose management prepares or should prepare group financial statements.
- (k) “Related auditor” means an auditor from the group auditor’s firm or from a network firm ~~that~~ who (i) operates under common monitoring policies and procedures as ~~contemplated~~ provided for 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, and (ii) performs work on one or more components for purposes of the audit of the group financial statements.”⁴
- (l) “Reporting package” ordinarily ~~comprises~~ consists of standard formats ~~to provide for~~ providing financial information for incorporation in the group financial statements. Reporting packages generally ~~are not intended to be~~ do not take the form of complete financial statements ~~that provide a true and fair view of (or present fairly, in all~~

¹ Where there are several components in the group and their names may not be known to the other auditor, it is advisable to list them in the request for the representation.

³ The proposed revised “Glossary of Terms” (~~October~~ December 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.)~~”

⁴ 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.”

material respects) the financial position and performance of the component in conformity prepared and presented in accordance with the applicable financial reporting framework.

- (m) “Significant component” means a component ~~that is of individual financial significance to the group or a component~~ that has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements. This could be due to (i) the nature of, and circumstances specific to, the component (risk), or (ii) the individual financial significance of the component to the group (size). (See paragraphs ~~812-1013~~.)
- (n) “Uniform accounting policies” means the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, ~~and used by that~~ the components use to report ~~like~~ similar transactions consistently.
- (o) “Unrelated auditor” means an auditor other than the group auditor or a related auditor who performs work on one or more components for purposes of the audit of the group financial statements.

~~For purposes of~~ In 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 **Acceptance and Continuance as Group Auditor**

- 6. ISQC 1 and ISA 220, “Quality Control for Audits of Historical Financial Information” establish standards and provide guidance on accepting and continuing client relationships and specific audit engagements.
- 7. In deciding whether to accept or continue an engagement to audit group financial statements, the group auditor should also determine whether the group auditor will be able to obtain sufficient appropriate audit evidence on which to base the group audit opinion. Other auditors may perform work on the financial information of one or more components for purposes of the audit of the group financial statements. It is the group auditor, however, who takes responsibility for the group audit opinion and, consequently, has to obtain sufficient appropriate audit evidence on which to base that opinion.
- ~~5.8.~~ In order to determine whether to accept or continue an engagement to audit group financial statements, ~~t~~The group auditor should obtain a preliminary understanding of the group, its components, and their environments, sufficient to (a) identify significant components and components where other auditors will perform the work on the financial information, and (b) determine whether those other auditors are related auditors.
- ~~6.9.~~ Based on previous experience with the group (in the case of a continuing engagement), In the case of a new engagement, this preliminary understanding is obtained from information provided by group management, and discussions with group management and, where applicable, discussions with the previous group auditor, component management and other auditors the group auditor obtains a preliminary understanding of. In the case of a

continuing engagement, this understanding is supplemented by previous experience with the group.

10. The group auditor's preliminary understanding includes:

- ~~The group structure and any significant changes since the previous audit, for example acquisitions, disposals or reorganizations.~~
- ~~The Components' 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.~~
- ~~A description of Ggroup-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~~ the reason for engaging unrelated auditors.
- ~~Whether group and component management will permit the group auditor to (a) will have unrestricted access to those charged with governance of the group, group management, component management, component information and other auditors; (including relevant parts of their audit documentation), and (b) will be able to perform such necessary work on the financial information of the components as the group auditor may consider necessary.~~

11. In the case of a continuing engagement, the group auditor considers whether there have been significant changes that may affect the group auditor's ability to obtain sufficient appropriate audit evidence on which to base the group audit opinion, for example:

- Changes in the group structure (e.g., acquisitions, disposals, or reorganizations).
- Changes in components' business activities that are significant to the group.
- Changes in the composition of those charged with governance of the group, group management, or key management of significant components.
- Whether the group auditor has experienced difficulties with regard to the integrity and competence of group or component management.
- Changes in group-wide controls.

~~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.~~
12. The group auditor may identify at the group level a component as likely to include one or more significant risks of material misstatement of the group financial statements due to the nature of, and circumstances specific to, that component. 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 to the group.
- 9.13. ~~The group auditor applies professional judgment in deciding whether a component is of individual financial significance to the group. A component may also be likely to include significant risks of material misstatement of the group financial statements due to its individual financial significance to the group. As the individual financial significance of a component increases, the risks of material misstatement of the group financial statements ordinarily increase. Generally, a relatively small number of components will encompass constitute 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 an aid to identify components that are of individual financial significance. Examples of Depending on the nature and circumstances of the group, appropriate benchmarks that might be appropriate, depending on the nature and circumstances of the group, include group assets, liabilities, cash flows, profit or turnover. While Although 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 as financially significant. However, depending on t The nature and circumstances of the group, however, may often make 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.~~

~~13.14. In order to accept or continue an engagement to audit group financial statements~~To obtain sufficient appropriate audit evidence on which to base the group audit opinion, the group auditor or related auditors, at a minimum, should:

- ~~(a)~~ **Perform the work on the financial information of significant components, or**
- ~~(b)~~ **Be involved in the work that unrelated auditors perform on the financial information of significant components** ~~to the extent considered necessary by the group auditor.~~

~~14.15. 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 does 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 significant 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 consist only of components that are not significant of individual financial significance to the group. In order to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements In these circumstances, the group auditor and related auditors ordinarily (a) perform the work on the financial information of some of these components, and (b) are involved in the work performed by unrelated auditors on the financial information of other components to the extent the group auditor considered considers necessary by the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion.~~

~~16. Involvement in the work performed by another unrelated auditor ordinarily involves includes 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.
- Determining and Pperforming 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 auditor's² audit documentation.

17. The extent of ~~the~~ this 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 (a) the significance of the component, (b) the professional qualifications and professional competence of the other auditor, and (c) of the quality control process system of the other auditor's firm. For example, ~~the greater the significance of~~ more significant 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 system~~ 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 ~~69~~ 59-76 ~~65~~ 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 21-22).~~

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.~~
- ~~21.~~ **18. The group auditor should not accept an engagement to audit group financial statements if:**
- ~~(a) The group auditor is aware of restrictions on t~~ **(a) The group auditor's access to component information, component management, or other auditors, (including relevant parts of their audit documentation) will be restricted; and**
 - ~~(b) The possible effect of the group auditor's inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements.~~
 - ~~(b)(c) The restrictions cannot be overcome by group management or by other means; and~~
 - ~~(e)(d) The restrictions are likely to result in a disclaimer of opinion on the group financial statements.~~
- ~~20.~~ **19. In some cases there may be restrictions on t** The group auditor's may not have access to component information, component management, or other auditors, (including relevant parts of their audit documentation); to the extent necessary to obtain sufficient appropriate audit evidence on which to base the group audit opinion. f For example, the group auditor may not have access to a 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.~~

- ~~20. It may also not be practical for the group auditor to be involved in the work of another auditor (see paragraphs 14-17). For example, the group auditor, or a related auditor on behalf of the group auditor, may not be able to be involved in the work of an unrelated auditor in the case of (a) a significant component operating in a foreign jurisdiction, or (b) a tight timetable for completing the audit of the group financial statements.~~
- ~~21. Where restrictions on access cannot be overcome by group management or it is impractical for the group auditor to be involved in the work of another auditor, the group auditor considers whether sufficient appropriate audit evidence can be obtained by other means.~~
- ~~22. If the group auditor concludes that because of restrictions on access or impracticalities the group auditor will not be able to obtain sufficient appropriate audit evidence on which to base an unmodified group audit opinion, the group auditor considers the possible effect of this inability on the group financial statements. In some circumstances, the auditor may not have access to the management, information, or auditor (including relevant parts of the auditor's audit documentation) of a component that is accounted for by the equity method. The group auditor, however, may have a complete set of financial statements, including the auditor's report, of the component. Based on the auditor's consideration of (a) the significance of the component, (b) the professional qualifications, independence, and professional competence of the other auditor, and (c) the complete set of financial statements and the auditor's report, the group auditor may conclude that it is appropriate to express an "except for" opinion on the group financial statements. Appendix 1 contains an example of an "except for" opinion.~~
- ~~23. In other circumstances, the group auditor may not be able to express an "except for" opinion on the group financial statements because the possible effect of the inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements, thus requiring a disclaimer of opinion (see proposed ISA 701 (Revised), "Modifications to the Opinion in the Independent Auditor's Report"). In these circumstances, the group auditor informs group management that it is not possible for the group auditor to accept the engagement.~~
- 22.24. If, restrictions on access occur 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 these restrictions cannot be overcome by group management or by the group auditor obtaining sufficient appropriate audit evidence by other means, the group auditor should consider the possible effect of the scope limitation this inability to obtain sufficient appropriate audit evidence 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. Where**

law or regulation does not permit resignation, the group auditor expresses a disclaimer of opinion on the group financial statements.

TERMS OF ENGAGEMENT

~~24.25.~~ ISA 210, “Terms of Audit Engagements” ~~contains~~ establishes standards and provides guidance on agreeing with a client on the terms of engagement with a client. ~~In the case of~~ an audit of group financial statements, the group auditor may wish to include the following additional matters in terms of engagement ~~ordinarily~~:

- (a) ~~Identifies~~ The applicable financial reporting framework;
- (b) ~~Specifies~~ The fact that the communication between the group auditor and other auditors ~~will~~ should be unrestricted;
- (c) ~~Specifies~~ The fact that important communications between other auditors and component management, including communications on material weaknesses in internal control, ~~will~~ should be made available to the group auditor;
- (d) ~~Specifies~~ The fact that important communications between regulatory authorities and components related to financial reporting matters ~~will~~ should be made available to the group auditor; and
- (e) ~~Specifies~~ The fact that, to the extent that the group auditor considers ~~it~~ necessary, the group auditor ~~will~~ should be permitted ~~to have~~ (i) access to component information, component management, and the other auditors, (including relevant parts of their audit documentation), and (ii) to perform work on the financial information of the components.

~~23.26.~~ **The group auditor should include state, in the terms of engagement, the fact that restrictions on (a) the group auditor’s access to component information, component management, or the other auditors (including relevant parts of their audit documentation), or (b) on the work to be performed on the financial information of a the components, 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 appointment or report on the group financial statements group audit opinion.**

Evaluation-Consideration of Other Auditors

~~25.27.~~ **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.**

~~26.28.~~ The group auditor’s ~~consideration includes whether the other auditor possesses~~ considers, for example, whether the other auditor:

- Possesses ~~A~~ 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 (the group financial reporting procedures manual often describes the characteristics of the applicable financial reporting framework)~~;

- Possesses ~~An~~ understanding of the ~~ISAs, and such additional national auditing and other 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~~
- Possesses ~~The~~ specialist skills necessary to perform the work on the financial information of a particular component; ~~and~~
- Operates in a regulatory environment that effectively monitors the professional qualifications, independence, and professional competence of auditors, and the quality control systems of their firms.

~~27.29.~~ The group auditor's ~~evaluation~~ consideration 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

~~28.31.~~ In the case of a related auditor, ~~t~~The group auditor can ordinarily ~~will be able to~~ rely on the quality control policies and procedures of ~~the other~~ a related auditor's firm regarding the related auditor's professional qualifications, independence, and professional competence, unless there is in the absence of contrary evidence to the contrary. For example, the group auditor ordinarily will be able to rely on established policies and procedures to provide reasonable assurance of the independence of the firm, its personnel, and others who are subject to independence requirements (including experts contracted by the firm and network firm personnel), where independence is required by the relevant ethical requirements (see ISQC 1, paragraph 18).

~~29.32.~~ The group auditor considers the results of the related auditor's quality control monitoring process ~~as evidenced that is found~~ in the latest information circulated in accordance with ISQC 1, paragraph 87. The group auditor considers whether any noted deficiencies ~~noted in that information~~ (a) could affect the audit of the group financial statements, and; (b) 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.

~~30.33.~~ 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~~ performing the work on the financial information of a component, ~~unless there is in the absence of contrary evidence to the contrary.~~ For example, having common quality control and monitoring policies and procedures and applying the same audit methodology ordinarily will result in lower audit risk than having common quality control and monitoring policies and procedures alone. However, the increased audit risk associated with quality control policies and procedures or audit methodologies that are less alike may often be mitigated by the group auditor increasing the group auditor's involvement in the work of the other auditor.

~~31.34.~~ 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's professional competence is not personally known to the group auditor, the group auditor ~~makes inquiries within working with~~ the related auditor's firm ~~about~~ determines whether the related auditor possesses the necessary professional competence ~~of the related auditor~~.

UNRELATED AUDITORS

~~32.35.~~ ~~There are~~ The group auditor uses a number of sources ~~from which the group auditor may~~ to obtain information about the professional qualifications, independence, and professional competence of an unrelated auditor, and the quality control system of ~~the unrelated~~ that auditor's firm. For example the group auditor may:

- ~~Make a v~~ 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, or with a network firm, ~~who have had prior dealings~~ has dealt 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.

~~33.36.~~ ~~In relation to the quality control system of the unrelated auditor's firm, t~~ **The group auditor should 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 whether (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 (ed) there are no any issues from noted in recent monitoring reports that are likely to have a significantly 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, t** The group auditor obtains a copy of ~~the any~~ report of the unrelated auditor's latest inspection review that is published by the body responsible for conducting external quality control reviews, and is publicly available.

~~34.37.~~ When the unrelated auditor is not independent, or the group auditor has serious concerns about the professional qualifications ~~and or~~ professional competence of the unrelated auditor, ~~and or~~ the quality control system of the unrelated auditor's firm, the group auditor ~~plans to~~ obtains 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 this~~ scope limitation on the ~~group auditor's~~

~~report on the group financial statements or the group auditor's appointment (see paragraph 22) group audit opinion.~~

Obtaining an Understanding of the Group, Its Components, and Their Environments, and of the Consolidation Process

~~40.38.~~ The group auditor should obtain an understanding of the group, its components, and their environments, and ~~of the consolidation process.~~ sufficient to:

(a) Perform a risk assessment at the group level;

(b) Determine the audit procedures to be performed on the consolidation; and

(c) Determine the work to be performed on the financial information of the components.

~~41.39.~~ ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" ~~contains~~ establishes standards and provides guidance on the understanding the auditor is to ~~be~~ obtained of an entity and its environment, and the assessment of risks of material misstatement. The application of ISA 315 ~~in to~~ an audit of group financial statements is affected by the fact that the group auditor's understanding and risk assessment includes a number of components, and that other auditors may perform the work on the financial information of some of these components.

~~42.40.~~ ~~The nature, timing and extent of the risk assessment procedures to~~ How the group auditor obtains an understanding of the group, its components, and their environments, and of the consolidation process depends on the group auditor's preliminary understanding of ~~the group, its components, and their environments~~ these matters (see paragraphs ~~58-1013~~) and the group auditor's experience with the group. The group auditor's understanding is sufficient to confirm whether the group auditor's initial identification of significant components was appropriate. To obtain this understanding, ~~The group auditor performs the following risk assessment procedures:~~

- (a) Inquiries of group management, internal audit, and those responsible for ~~the consolidation and preparation of~~ consolidating and preparing the group financial statements.
- (b) Application of analytical procedures to financial information prepared at both the group ~~level~~ and ~~at the~~ component level.
- (c) Observation and inspection of group-wide controls ~~(see paragraph 44),~~ and controls relevant to the consolidation.

MATTERS ABOUT WHICH THE GROUP AUDITOR OBTAINS AN UNDERSTANDING

~~41.~~ Matters about which group auditor obtain an understanding are set out in Appendix 2.
[Paragraphs 43-55 have been moved to Appendix 2.]

Materiality

~~35.42.~~ Proposed ISA 320 (Revised), "Audit Materiality in the Identification and Evaluation of Misstatements" ~~contains~~ establishes standards and provides guidance on materiality and the evaluation of misstatements.

- ~~36.43.~~ The group auditor ~~should~~ determine ~~s-a group~~ materiality level(s) for the group financial statements as a whole 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.~~
- ~~37.44.~~ The group auditor should also determine the materiality level(s) to be used by other auditors in audits of performing the work on the financial information of the components ~~performed~~ for purposes of ~~reporting on the audit of~~ the group financial statements. To allow for ~~the~~ aggregation of identified misstatements and ~~the~~ possible ~~existence of~~ undetected misstatements, the component materiality level(s) ~~for a component~~ is lower than the group materiality level(s).
- ~~38.45.~~ ~~The group auditor's determination of materiality levels for individual components may be affected by t~~The structure of the group may affect the group auditor's determination of materiality level(s) for individual components. For example, it is likely that the ~~larger~~ greater the number of components that are of similar ~~individual~~ financial significance, the lower the materiality level(s) for ~~the individual~~ components will be.
- ~~39.46.~~ When planning the ~~audit of work to be performed on~~ the financial information of a component for purposes of the audit of the group financial statements, the auditor responsible for performing ~~the audit that work~~ ordinarily establishes one or more levels of tolerable error lower than the ~~component~~ materiality level(s) referred to in paragraph 44. to This will allow for the possibility that some misstatements, of lesser amounts than the materiality level(s) for the component, could be material in the aggregate.

Assessing the Risks of Material Misstatement of the Group Financial Statements

- ~~56.47.~~ The group auditor should assess the risks of material misstatement of the group financial statements at the group level.
- ~~57.48.~~ In assessing the risks of material misstatement of the group financial statements at the group level, ~~T~~the group auditor uses ~~the (a)~~ 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 (b) information obtained through discussions with other auditors, ~~to assess the risks of material misstatement of the group financial statements at group level. Appendix 3 contains E~~examples of conditions or events that may indicate risks of material misstatement of the group financial statements, including risks ~~of due to~~ fraud, ~~are contained in Appendix 2.~~
- ~~58.49.~~ ISA 550, "Related Parties" ~~contains~~ establishes standards and provides guidance on the auditor's responsibilities regarding related parties and transactions with such parties. In ~~the case of~~ a complex group structure, there is ~~a~~ heightened risk ~~that of not identifying~~ related parties and related party transactions ~~may not be identified. Consequently, i~~It is therefore important that, in assessing the risks of material misstatement of the group financial statements, the group auditor and other auditors is are alert for transactions that appear unusual in the circumstances, and that may indicate the existence of previously unidentified related parties.

Responding to Assessed Risks

59.50. 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

60.51. 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 ~~(see paragraph 44)~~. The diagram in Appendix ~~3.4~~ illustrates how the group auditor may decide on the ~~scope of~~ work to be performed on the financial information of the components.

Significant Components

61. ~~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.~~

62.52. For a component that, due to the nature of an circumstances specific to that component, has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph ~~40~~ 12), 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 where the circumstances in paragraph 57 apply.
- An audit of specified account balances relating to the identified significant risks.
- Specified audit procedures relating to the identified significant risks.

53. For a component that, due to its individual financial significance to the group, is likely to include significant risks of material misstatement of the group financial statements (see paragraph 13), 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 where the circumstances in paragraph 57 apply.

Insignificant Components that are Not Significant in the Aggregate

63.54. After determining the ~~scope of~~ work to be performed on the financial information of significant components ~~that are of individual financial significance~~ (see paragraphs ~~61~~ 52-53) ~~and components identified at group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph 62)~~, the group auditor identifies components that are not in significant in the aggregate, even when aggregated with other such insignificant components. As discussed in paragraph ~~9~~ 13, the group auditor may apply a percentage to a chosen benchmark as a step in identifying an aid to determine the individual financial significance of components to the group. While in

practice there are ranges of possible percentages, ~~a~~ components that in the aggregate representing represent less than ~~2%~~ 5% of group assets, liabilities, cash flows, profit or turnover will ordinarily be regarded as not in significant in the aggregate. The group auditor may consider it appropriate not to perform audit or review procedures at ~~insignificant~~ components that are not significant in the aggregate. For these components, the group auditor's procedures ordinarily ~~performs are limited to the~~ analytical procedures performed at the group level.

Components ~~That may be~~ are Significant in the Aggregate

~~64.55. The remaining components, although not significant due to their size or risk, may, together with other such components, be significant in the aggregate. The scope of work to be performed on the financial information of such the remaining 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 where the circumstances in paragraph 57 apply.
- An audit of specified account balances.
- Specified audit procedures.
- A review of the financial information of the component.

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~~ has been 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 risks posed by, or the individual financial significance of ~~and risks posed by,~~ the component in comparison with other components within this category.

~~65.56.~~ For example, analytical procedures performed at the group level might have indicated a significant increase in sales revenue and accounts receivables. Discussions with group management may have revealed that the increase is due to the establishment of a new market for one of the group's products. The new market ~~was~~ may have been established in a country with severe economic problems, which might affect the collection of the accounts receivables. In this example, ~~The~~ the group auditor determined that the product is manufactured and sold by three ~~of the group~~ subsidiaries in the group. Although these subsidiaries are not individually significant ~~by themselves~~, they might be significant in the aggregate. Based on the ~~group auditor's~~ risk assessment performed at the group level ~~(see paragraph 56-57)~~, the group auditor performs, or requests the other auditors to perform, an audit of the accounts receivables at these three components.

Sufficient Appropriate Audit Evidence

~~66. 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 61-62), 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

~~67.57. Statute, regulation or other authority may require the audit of T~~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~~ these circumstances, the group auditor evaluates the effect of the financial reporting framework applied in ~~the preparation of preparing~~ the financial statements of the component, and the auditing standards applied by the other auditors. The group auditor also considers whether the audit of the financial statements of the component will be performed in time ~~for to communicate~~ the other auditor's report or memorandum of work performed to be communicated to the group auditor (see paragraph ~~114~~ 102).

~~68.58.~~ 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 may 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, t~~To meet the requirements described in paragraphs ~~69 59-76~~ 65, the group auditor 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

~~69.59.~~ When another auditor is requested to perform ~~an audit of the work on~~ 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.

~~70.60.~~ When a related auditor performs ~~an audit of the work on~~ 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 level~~⁵ in order to identify significant risks of material misstatement of the group financial statements. Such documentation may be in the form of

⁵ ~~See ISA 315, paragraph 122(e).~~

a memorandum, reflecting the related auditor's conclusion with regard to the identified and assessed risks of material misstatement.

~~71.61.~~ When an unrelated auditor performs ~~an audit of the work on~~ 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 the component's business activities that are significant to the group, including the regulatory, economic and political environments in which those activities take place;
- (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~~.⁶ Such documentation may be in the form of a memorandum, reflecting the related auditor's conclusion with regard to the identified and assessed risks of material misstatement.

~~72.62.~~ When a related auditor performed the review described in paragraph ~~71.61~~(c), the group auditor ordinarily reviews the related auditor's ~~documentation of the review in order to identify significant risks of material misstatement of the group financial statements~~ review memorandum, reflecting the related auditor's conclusion with regard to the identified and assessed risks of material misstatement.

~~73.63.~~ 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 and the other auditor together should determine ~~together with the other auditor~~ the further audit procedures to be performed ~~as a response to respond~~ 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 performing~~ further audit procedures. The nature, timing and extent of ~~the group auditor's or related auditor's~~ this 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~~ the component is subject, its individual financial significance, 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~~ that auditor's firm.

~~74.64.~~ When a related auditor (on behalf of the group auditor) has been involved in the risk assessment or 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~~

⁶ ~~See ISA 315, paragraph 122(c).~~

~~with ISA 330, paragraph 73 that involvement.~~⁷ Such documentation may be in the form of a memorandum.

Components ~~that may be~~ are Significant in the Aggregate

~~75.65. In order for the group auditor to~~ To obtain sufficient appropriate audit evidence on which to base the group 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~~ is significant in the aggregate. ~~The group auditor's or related auditor's~~ This 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 the 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

~~76. 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 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.~~

Performing Further Audit Procedures

~~TESTING INTERNAL CONTROLS~~

~~77. The group auditor's risk assessment at group level (see paragraph 56-57) and the group auditor's determination of the scope of work to be performed on the financial information of the components (see paragraphs 60-68) may be based on an expectation that group-wide controls are operating effectively. Where there is such an expectation, the group auditor performs, or requests another auditor to perform, tests of the operating effectiveness of the controls. When the group-wide controls include a central IT system that is controlled by the same general IT controls, for example at a shared service center, the group auditor tests the operating effectiveness of those controls centrally. When the control activities of an IT~~

⁷ ~~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."~~

~~system are common for all or some components, the group auditor may obtain audit evidence relevant to those components from testing, or requiring another auditor to test, the control activities for one or more components.~~

CONSOLIDATION

66. The group auditor should determine the work to be performed on the consolidation to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process.

~~78.67.~~ The consolidation process may require adjustments to amounts reported in the group financial statements that do not pass through the usual transaction processing systems and that may not be subject to the same internal controls ~~that to which~~ other financial information is subject ~~to~~. These adjustments typically ~~comprise~~ consist of consolidation adjustments and reclassifications. ~~The group auditor assesses the risks of material misstatement of the group financial statements arising from the consolidation and determines the work to be performed on the consolidation accordingly.~~ The group auditor:

- (a) Considers the appropriateness and completeness of the consolidation adjustments, as well as the ~~arithmetical~~ accuracy of calculations;
- (b) Considers whether the consolidation adjustments appropriately reflects the events and transactions underlying the adjustments;
- (c) Determines whether significant adjustments have been correctly processed, ~~have been~~ authorized by group management and, where applicable, by component management and are supported by sufficient appropriate documentation; and
- (d) Checks the reconciliation and elimination of intra-group transactions and unrealized profits and intra-group account balances.

~~79.68.~~ ~~Inconsistent accounting policies may exist where c~~Components that operate in diverse industry segments, or are located in jurisdictions that require different financial reporting frameworks, may use inconsistent accounting policies. If required ~~in terms of by~~ the applicable financial reporting framework, group management will ordinarily eliminate such inconsistencies ~~ordinarily will be eliminated either~~ by group management (a) requiring components to prepare financial information consistent with the accounting policies applied ~~in to~~ the group financial statements, or (b) by group management requiring component management to disclose the differences between the accounting policies applied in to the component's financial information ~~of the component~~ and those applied ~~in to~~ the group financial statements and making the adjustments on consolidation.

~~80.~~ ~~Where uniform accounting policies are required in terms of the applicable financial reporting framework and they have not been adopted by a component~~In these circumstances, the group auditor considers whether group ~~management~~ or component management has made appropriate adjustments to the component's financial information ~~of the component~~ for purposes of preparing and presenting the group financial statements. Where another auditor performs the work on the financial information of a component, and such adjustments have been made by component management, the group auditor requests the other auditor to confirm to the group auditor that such adjustments have been made.

81-69. The group auditor should determine whether the financial information identified in the communication of the other auditor is the financial information that ~~was~~ is incorporated in the group financial statements. (See paragraph ~~114~~ 102(e).)

82-70. If the group financial statements include the financial statements of any components with year-ends that differ from that of the group, the group auditor determines whether this is acceptable under the applicable financial reporting framework. The group auditor also considers the component's results between its financial year-end and the date of the group financial statements, and identifies significant transactions, including intra-group transactions and unrealized profits, or other events and disclosures that need to be reflected in or eliminated from the group financial statements. Where another auditor performs the work on the financial information of a component, the group auditor requests the other auditor to perform the procedures ~~considered necessary by~~ the group auditor ~~under the circumstances~~ considers necessary for that consideration and identification.

83-71. Sometimes adjustments that are processed on consolidation relate to misstatements. Where ~~such~~ these adjustments have not been processed in the relevant components' accounting records, the group auditor requests group management to have them processed appropriately and, if applicable and not prohibited by confidentiality requirements, informs the other auditor.

SUBSEQUENT EVENTS

~~84. 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.~~

85-72. For significant components, the group auditor should ~~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. The group auditor determines the date up to which subsequent events reviews at components are performed, i.e., the date of the auditor's report on the group financial statements.

86-73. 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 require~~ an adjustment to or a disclosure in the group financial statements.

MANAGEMENT REPRESENTATIONS

87-74. ISA 580, "Management Representations" and other ISAs, for example ISA 240 (Revised), ~~contain~~ establish standards and provide guidance on management representations. In ~~the case of~~ an audit of group financial statements, the group auditor also obtains written representations from group management, acknowledging its responsibility for:

- The establishment and maintenance of internal controls, including controls over the preparation and presentation of the group financial statements;
- The fair presentation of the group financial statements in accordance with the applicable financial reporting framework;
- ~~That Including~~ all components ~~have been included~~ in the group financial statements in accordance with the applicable financial reporting framework;
- ~~That The appropriateness and completeness of the~~ disclosures in the group financial statements ~~are appropriate and complete~~, including ~~that~~ the disclosures of related party relationships and transactions and reportable segments ~~are~~ in accordance with the applicable financial reporting framework;
- ~~That Obtaining~~ accurate and complete financial information ~~has been obtained~~ from components; and
- ~~That The appropriateness and completeness of the~~ consolidation adjustments ~~are appropriate and complete~~, including the elimination of intra-group transactions and unrealized profits and intra-group account balances, and, where required ~~in terms of~~ by the applicable financial reporting framework, adjustments for inconsistent accounting policies.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

~~DETERMINING-EVALUATING~~ THE ADEQUACY OF ANOTHER AUDITOR'S WORK

~~88.75.~~ The group auditor should ~~obtain sufficient appropriate audit evidence that the~~ evaluate the adequacy of the work of another auditor ~~is adequate~~ for the group auditor's purposes.

~~89.76.~~ The nature, timing and extent of the group auditor's ~~procedures to determine the~~ adequacy of the other auditor's work evaluation 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 group auditor and the related auditor applies ~~a common~~ the same audit methodology (see paragraph ~~30~~ 33).
- 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 that 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.

~~90.77.~~ When ~~an~~ other auditors performed the work on the financial information of ~~a~~ significant components or ~~a~~ components that is not significant but that may, together with other such ~~components, be~~ are significant in the aggregate, the group auditor reads the other auditor's' reports or memorandums of work performed, including the other auditor's' lists of uncorrected misstatements. (See paragraph ~~114~~ 102.)

- 91.78. 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.
- 92.79. 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.
- 93.80. The extent of the review of another auditor's audit documentation may vary depending on the circumstances, ~~but~~ and is focused on ~~the~~ audit documentation that is relevant to the significant risks of material misstatement of the group financial statements.
- 94.81. When a related auditor (on behalf of the group auditor) has reviewed an unrelated auditor's audit documentation, the group auditor should review the ~~related auditor's~~ documentation of ~~the that~~ review ~~of the unrelated auditor's audit documentation, and including~~ the conclusions reached ~~by the related auditor as to whether on the adequacy of~~ the work of the unrelated auditor ~~is adequate~~ for the group auditor's purposes.
- 95.82. 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. Depending on the circumstances, ~~Such~~ additional procedures are, ~~depending on the circumstances,~~ performed by the other auditor or by the group auditor.

SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE

- 96.83. The group auditor evaluates whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation, and the work performed on the financial information of the components on which to base the group audit opinion ~~on the group financial statements~~. This evaluation includes the work performed by other auditors.
- 97.84. If the group auditor concludes that sufficient appropriate audit evidence has not been obtained, the group auditor obtains further audit evidence, if possible. In the case of components on which other auditors performed the work, the group auditor may request the other auditors to perform additional procedures ~~or,~~ –if this is not feasible, the group auditor performs the group auditor's own procedures on the financial information of the components. When the group auditor has not been able to perform sufficient additional audit procedures, the group auditor considers the effect of this scope limitation on the group audit opinion ~~auditor's report on the group financial statements~~.

Considering the Findings of Another Auditor's Report or Memorandum of Work Performed

- 98.85. The group auditor should consider ~~how the findings of another auditor affect~~ effect of the auditor's report or memorandum of work performed on the auditor's report on group financial statements.
- 99.86. The group auditor may consider it appropriate to discuss significant matters arising from the other auditor's report or memorandum of work performed (see paragraph 102) with the ~~another auditor,~~ or component management or group management ~~significant matters affecting the financial information of the component and.~~ The group auditor may also

conclude that additional audit procedures are necessary. Depending on the circumstances, ~~Such~~ additional audit procedures are, ~~depending on the circumstances,~~ performed by the other auditor or by the group auditor.

Reporting Considerations

~~100. 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.~~

~~101.~~^{87.} The group auditor ~~should~~ considers whether a finding matters communicated by another auditor ~~is~~ are of such a nature and significance in relation to the group financial statements that a qualification modification of the auditor's opinion on the group financial statements is required.

~~102.~~^{88.} 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, they~~ 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 aggregated effect of the ~~aggregated~~ uncorrected immaterial misstatements of the financial information of the components on the auditor's group audit opinion ~~on the group financial statements.~~

~~103. 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 6 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.~~

Communication ~~W~~with Group Management and Those Charged ~~W~~with Governance

COMMUNICATION ~~W~~wITH GROUP MANAGEMENT

~~104.~~^{89.} The group auditor makes group management aware, as soon as ~~practical~~ practicable and at an appropriate level of responsibility, of material weaknesses in the design or operation of group-wide controls ~~and in, including~~ controls over the preparation and presentation of the group financial statements. The group auditor also makes group management aware of material weaknesses in internal controls at components that have

been identified by the group auditor, or that have been brought to the attention of the group auditor by other auditors, ~~and~~ that the group auditor judges are of significance ~~in the context of to~~ the group.

~~105.90.~~ If fraud has been identified in components, or information ~~has been obtained that~~ indicates that a fraud may exist ~~in a component~~, the group auditor communicates ~~these matters this~~ as soon as practicable to group management. If the group auditor believes or suspects that group management may be involved in the fraud, the group auditor communicates ~~the matters this~~ to those charged with governance.

COMMUNICATION ~~W~~wITH THOSE CHARGED ~~W~~wITH GOVERNANCE

~~106.91.~~ ISA 260, “Communication ~~W~~with Those Charged ~~W~~with Governance” and other ISAs, for example ISA 240 (Revised), ~~contain establish~~ standards and provide guidance on communication with those charged with governance. The matters that the group auditor communicates to those charged with governance of the group include those matters brought to the attention of the group auditor by other auditors that the group auditor judges to be of governance significance to the group.

~~92.~~ **In ~~the case of~~ an audit of group financial statements, the group auditor should also communicate the following 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~~ consideration of the professional qualifications, independence, and professional competence of the unrelated auditors and the ~~affect thereof~~ related effect on (i) the ~~scope of~~ work to be performed on the financial information of the components, and (b) ~~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 components.**
- (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) The results of the group auditor’s evaluation whether the work of the other auditors is adequate for the group auditor’s purposes.**

~~(f)(g)~~ **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 relevant parts of their audit documentation) may have been restricted.

~~107.93.~~ Communication with those charged with governance of the group takes place at various times during the audit of the group financial statements. For example, the matters referred to in paragraph ~~106.94~~ (a)-(e) will be communicated after the group auditor has

determined the ~~scope of~~ work to be performed on the financial information of the components, ~~while. On the other hand,~~ the matter referred in paragraph ~~106 94~~(f) will be communicated at the end of the audit, and the matter referred to in paragraph 94(g) will be communicated when it occurs.

- ~~108. The matters that the group auditor communicates to those charged with governance of the group include those matters brought to the attention of the group auditor by other auditors that the group auditor judges to be of governance significance in the context of the group.~~

Communications ~~W~~with Another Auditor

- ~~109.94.~~ When another auditor ~~will~~ performs the work on the financial information of a component, the group auditor should communicate ~~with the other auditor to provide the other auditor with~~ the group auditor's requirements to the other auditor. The group auditor's issues this communication ~~is issued~~ as early as possible, ~~and~~ ordinarily ~~is~~ in the form of a letter of instruction, ~~which that~~ sets out (a) the ~~scope of~~ work to be performed, (b) the nature of the other auditor's report or memorandum of work performed, and (c) the confirmations required by the group auditor. Appendix ~~4 5~~ contains examples of matters to be included in the group auditor's letter of instruction.

- ~~95. The group auditor requests the other auditor to confirm (a) receipt of the group auditor's letter of instruction, (b) whether the other auditor will undertake the requested work, and (c) whether 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.~~

- ~~96. In the case of an unrelated auditor, the group auditor requests confirmation whether (a) the unrelated auditor's firm's quality control system complies with ISQC 1, and (b) there are any issues noted in recent monitoring reports that are likely to significantly affect the work that the unrelated auditor will perform on the financial information of the component (see paragraph 36).~~

- ~~110. The group auditor's requests confirmations requirements should include the following 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 33).~~
- ~~(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 whether the other auditor has an understanding of understands and will complied with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants relevant ethical requirements, 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 whether~~ the other auditor ~~has an understanding of~~ understands the applicable financial reporting framework, sufficient to fulfill the other auditor's responsibilities in the ~~context of the~~ audit of the group financial statements. (The group financial reporting procedures manual often describes the characteristics of the applicable financial reporting framework.)
- (e) Confirmation ~~that whether~~ the other auditor ~~has an understanding of ISAs, and such additional national~~ understands the auditing or other standards ~~as may apply 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.
- (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 to~~ obtains these confirmations as early as possible in the audit process to enable the group auditor to consider their possible effect ~~that they may have~~ on the audit of the group financial statements. Appendix ~~5~~ 6 contains an example of confirmations by another auditor's ~~confirmations~~.

~~111.98.~~ The group auditor should communicate, ~~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~~ trivial to the group financial statements. ~~This communication occurs when the scope of work to be performed on the component's financial information is an audit performed using a materiality level determined by the group auditor.~~
- (c) Significant risks, including fraud risks, identified at the group level ~~(see paragraph 56-57)~~ 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 ~~69~~ 59-71~~65~~). The group auditor should request the other auditor to inform the group auditor ~~if the other auditor identifies of any~~ other identified 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.~~

99. The group auditor also communicates to the other auditor laws and regulations applicable to the parent that are relevant to the other auditor's work. The group auditor requests the other auditor to communicate any non-compliance with laws and regulations applicable to the component that could materially affect the group financial statements.

~~112.~~100. The group auditor should provides the other auditor with a list of related parties prepared by group management, and requests the other auditor to be alert for transactions that appear unusual in the circumstances and that may indicate the existence of previously unidentified related parties. The group auditor should request the other auditor to communicate ~~to the group auditor~~ the names of any additional related parties ~~they identify in addition to those on the list,~~ and the types of transactions with such related parties.

~~113.~~101. The group auditor should requests ~~the other auditor to communicate in a~~ timely ~~manner to the group auditor~~ communication of 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.

~~114.~~102. The other auditor's report or memorandum ~~on the of~~ work performed ~~is~~ should be obtained at the conclusion of the work performed on the financial information of the component and:

- (a) ~~Confirms that State whether~~ the other auditor has complied with the quality control policies and procedures of ~~the other that~~ 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 relevant ethical requirements, 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 State whether~~ the other auditor has complied with ~~ISAs, and such additional national~~ auditing and other standards ~~as may apply applicable~~ to the audit of the group financial statements;
- (d) ~~Confirm States whether the other auditor has~~ compliance complied with the group auditor's other instructions;
- (e) ~~Identifies Identify~~ 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 trivial misstatements);~~
- (h) Explains material weaknesses in internal control over financial reporting;
- (i) Sets out information ~~relating to on~~ any significant ~~findings or issues~~ final conclusions that are inconsistent with or contradict the other auditor's initial conclusions (see proposed ISA 230 (Revised), paragraph 11);
- (j) Set out other significant matters that the other auditor communicated or expects to communicate to those charged with governance of the component;

~~(j)(k)~~ **Sets out any other matters that the other auditor wishes to draw to the attention of the group auditor; and**

~~(k)(l)~~ **Sets out the other auditor's findings, conclusions or opinion.**

103. **Where the group auditor is unable to obtain the other auditor's report or memorandum of work performed, the group auditor considers the effect of this scope limitation on the group audit opinion.**

Communication ~~W~~with Another Auditor Who is Required to Audit the Financial Statements of a Component

~~115.~~104. **Where another auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the group auditor becomes aware of matters that may be significant to the financial statements of the component that of which component management may be unaware of, the group auditor ~~considers requesting should request~~ group management to inform component management of such matters. Examples of such matters include the following:**

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

~~116.~~105. **~~There may be occasions when g~~Group management may need to keep ~~confidential~~ certain material sensitive information confidential. In these circumstances, the group auditor ordinarily discusses with group management the risk of component management issuing misleading financial statements, and requests group management to ~~communicate to require~~ component management ~~that they should~~ not to issue the financial statements of the components. In addition, the group auditor may consider it necessary to ~~communicate to direct~~ the other auditor ~~that they should~~ not to issue the auditor's report on the financial statements of the component until ~~such time as~~ group management has resolved the outstanding matter. When group management remains of the opinion that the matter should not be communicated to component management, the group auditor considers resigning from the engagement.**

Documentation

117. Proposed ISA 230 (Revised), "Audit Documentation" and other ISAs ~~contain~~ establish standards and provide 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 basis for the group auditor's conclusion to accept or continue the engagement as regards the group auditor's ability to obtain sufficient appropriate audit**

evidence on which to base the group audit opinion where other auditors will perform the work on the financial information of some components.

- ~~(b)~~(c) The results of the ~~evaluation consideration~~ 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.
- ~~(e)~~(d) ~~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.~~
- ~~(e)~~(e) ~~The results of the risk assessment performed at the group level, and a description of Tthe audit procedures to be performed on the consolidation and the scope of work to be performed by the group auditor and other auditors on the financial information of the components.~~
- (f) Identified and assessed significant risks of material misstatement of the group financial statements, the further audit procedures performed to respond to such risks, and the related results.
- ~~(e)~~(g) The group auditor's communications with other auditors about the group auditor's requirements.
- ~~(f)~~(h) The group auditor's conclusion as to whether the group auditor has obtained sufficient appropriate audit evidence ~~that of the adequacy of~~ the work of the group auditor and other auditors ~~is adequate~~ for the group auditor's purposes.
- ~~(g)~~(i) The group auditor's conclusion ~~with regard to on~~ uncorrected misstatements, and the ~~significant findings arising from the work of effect of the~~ other auditors' reports or memorandums of work performed on the group audit opinion.
- ~~(h)~~(j) Discussions of significant accounting, auditing and financial reporting matters with those charged with governance, group management, component management, or other auditors.

Effective Date

118. This ISA is effective for audits of group financial statements for periods beginning on or after ~~insert date~~ December 15, 2006.

Appendix 1

Example of an “Except for” Opinion where the Group Auditor is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion (See paragraph 22)

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited ... (remaining words are as illustrated in the introductory paragraph of the example auditor’s report in paragraph 60 of ISA 700 (Revised) (adapted as necessary for consolidated financial statements)

Management’s Responsibility for the Financial Statements

Management is responsible for ... (remaining words are as illustrated in the management’s responsibility paragraph of the example auditor’s report in paragraph 60 of ISA 700 (Revised) (adapted as necessary for consolidated financial statements)

Auditor’s Responsibility

Our responsibility is ... (remaining words of the first two paragraphs are as illustrated in the first two paragraphs of the auditor’s responsibility in the example auditor’s report in paragraph 60 of ISA 700 (Revised) (adapted as necessary for consolidated financial statements)

Except for the matter described in the following paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Modified Opinion

We were unable to obtain access to the accounting records, management, and the auditor of XYZ Company, a foreign associate accounted for by the equity method. Consequently, we were unable to perform the planned procedures on the financial information of XYZ Company. Our procedures were limited to reading the audited financial statements of XYZ Company as at December 31, 20X1, including the auditor’s report of PQR Accounting Firm. ABC Company’s investment in XYZ Company is stated at \$15 million as at December 31, 20X1, and ABC Company’s share of profit of XYZ Company is stated at \$1 million for the year ended December 31, 20X1. On this basis we modify our opinion as described below.

Modified Opinion

In our opinion, except for the possible effects of the matters described in the preceding paragraph, 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.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Appendix 1 2

Matters ~~About the Consolidation Process of W~~ which the Group Auditor Obtains an Understanding (See paragraph ~~48~~ 41)

GROUP CONTROL ENVIRONMENT

~~43.1.~~ The group auditor obtains an understanding of the group control environment. The group control environment includes the attitude, awareness and actions of those charged with governance and management ~~concerning that relate to~~ the group-wide controls and their importance in the group.

~~44.2.~~ The group auditor obtains an understanding of the group-wide controls ~~in order to perform the risk assessment at group level (see paragraph 56-57), and to 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.~~ Group-wide controls may include a combination of the following:

- Regular meetings between group ~~management~~ and component management to discuss business developments and to review performance.
- Monitoring of components' operations and their results ~~thereof~~, including regular reporting routines, ~~enabling which enables~~ group management to monitor components' performance against budgets, and to take appropriate action.
- Group management's risk assessment process, i.e., the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.
- Monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances at the group level.
- A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components.
- A central IT system controlled by the same general IT controls for all or part of the group.
- Control activities within an IT system that is common for all or some components.
- Monitoring of controls, including activities of internal audit and self-assessment programs.
- Consistent policies and procedures, including a group financial reporting procedures manual.
- Group-wide programs, such as codes of conduct and fraud prevention programs.
- Arrangements ~~for the assignment of~~ assigning authority and responsibility to component management.

~~45.3.~~ Where internal audit is regarded as part of group-wide controls, for example ~~a centralized when the internal audit function as opposed to a decentralized internal audit function is~~

centralized, and the group auditor plans to use the work of internal audit, the group auditor evaluates the competence and objectivity of the internal auditors.

- ~~46. Obtaining an understanding of group wide controls involves evaluating their design and determining whether they have been implemented. When the group auditor intends to use information about group wide controls obtained in prior periods, the group auditor makes inquiries of group management and performs other audit procedures, such as walk-through tests, to determine whether changes have occurred that may affect the relevance of such information in the current audit of the group financial statements.~~

Components and Their Environments

- ~~47. The group auditor determines the extent of the understanding required of the components and their environments. The group auditor's primary consideration is whether the group auditor's own understanding is sufficient to confirm the group auditor's initial identification of significant components (see paragraphs 7-10).~~

CONSOLIDATION PROCESS

- ~~48.4. The group auditor obtains an understanding of the consolidation process, including relevant controls relevant to the consolidation. Matters about which ~~the group auditor's~~ the group auditor's obtains an understanding are included in Appendix 1 includes:~~

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

- The extent to which component management has an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for components in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied in the group financial statements, changes from those of the previous financial year, and changes ~~as a~~ resulting of from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with components ~~that have~~ with financial year-ends different from ~~that of~~ the group's.

Matters relating to the consolidation process, including the following:

- Group management's process for obtaining an understanding of the accounting policies used by components, and ~~for~~ ensuring that uniform accounting policies are used to prepare the financial information of the components for purposes of the group financial statements, and that differences in accounting policies are identified, and adjusted (where required in terms of the applicable financial reporting framework); adjusted.

- Group management's process for ensuring complete, accurate and timely financial reporting by the components for purposes of the consolidation.
- The process for translating the financial information of foreign components into the currency of the group financial statements.
- ~~The organization of~~ How IT is organized for purposes of the consolidation, including the manual and automated stages of the process, and the manual and programmed controls in place at the various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments, including the following:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required ~~in terms of~~ by the applicable financial reporting framework.
- Business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between components.
- Procedures for monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by a component (for example, an obligation of the minority interest to make good such losses).

~~49.5. In order to~~ To achieve uniformity and comparability of financial information, group management may issue financial reporting procedures manuals, reporting packages, and related instructions to components, specifying the requirements ~~relating to the~~ for financial information of the components to be included in the group financial statements. The instructions ordinarily cover (a) the accounting policies to be applied; (b) statutory and other disclosure requirements applicable to the group financial statements, including (i) the identification and reporting of segments, (ii) related party relationships and transactions, (iii) intra-group transactions and unrealized profits, and (iv) intra-group account balances; and (c) a reporting timetable.

~~49.6.~~ The group auditor ordinarily considers the proposed reporting package for components at an early stage of the audit of the group financial statements to determine whether it will provide sufficient appropriate information to prepare and present the group financial statements. The group auditor's consideration may include the following:

- The clarity and practicality of the instructions ~~for completion of~~ completing the reporting package.

- ~~The likelihood of component management having an understanding of the applicable financial reporting framework.~~
- Whether the reporting package ~~provides for~~:
 - Adequately describes the characteristics of the applicable financial reporting framework;
 - Provides for ~~Disclosures~~ disclosures sufficient to comply with the requirements of the applicable financial reporting framework, for example disclosure of related party relationships and transactions, and segment information;
 - Provides for ~~The~~ the identification of consolidation adjustments, for example intra-group transactions and unrealized profits, and intra-group account balances; and
 - Provides for the ~~Approval~~ approval of the completed package by component management.

FRAUD

~~50.7.~~ ISA 240 (Revised), “The Auditor’s Responsibility to Consider Fraud in the Audit of Financial Statements” ~~contains~~ establishes standards and provides guidance on the auditor’s responsibility with regard to fraud. ~~In the case of an audit of group financial statements, the group auditor obtains an understanding of the following:~~

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

~~51.8.~~ The group auditor inquires of those charged with governance of the group, group management, internal audit (and, if considered appropriate, component management, other auditors, and others), whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Laws and Regulations

~~52.~~ ISA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” ~~contains standards and guidance on the auditor’s responsibility to consider laws and regulations in an audit of financial statements. In the case of an audit of group financial statements, the group auditor obtains a general understanding of the laws and regulations applicable to the parent that may affect the group financial statements.~~

DISCUSSION AMONG ENGAGEMENT TEAM MEMBERS REGARDING THE RISKS OF MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS, INCLUDING RISKS OF FRAUD

~~53.9.~~ ISA 315 and ISA 240 (Revised) require the members of the engagement team to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, with a specific emphasis on the risks ~~of material misstatement~~ due to fraud. The group auditor ~~uses professional judgment to determine who is to be included in the discussions, how and when they occur, and their extent of the discussions.~~ determines, based on prior experience with the group and knowledge of current developments, to determine who is to be included in the discussions, how and when they occur, and their extent of the discussions. ~~In the case of an audit of group financial statements, there these matters may also be discussions that involve discussed by the group auditor and other auditors or key members of their teams.~~

~~54.10.~~ The group auditor, or a related auditor on behalf of the group auditor, holds discussions with other auditors, ~~or key members of their teams,~~ who perform work on the financial information of significant components.

~~55.11.~~ These discussions provide an opportunity to:

- Share knowledge of the components and their environments, including group-wide controls.
- Exchange information about the business risks ~~to which the~~ of components or the group ~~are subject.~~
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error, how group management and component management could perpetrate and conceal fraudulent financial reporting, and how assets of the components could be misappropriated.
- Identify practices followed by group ~~management~~ or component management that may be biased or to manage earnings that could lead to fraudulent financial reporting, for example revenue recognition practices that ~~are do not in accordance~~ comply with the applicable financial reporting framework.
- Consider ~~the~~ known external and internal factors affecting the group that may create an incentive or pressure for group management, component management or others to commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk ~~of that~~ group ~~management~~ or component management ~~overriding~~ may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for purposes of the group financial statements and whether differences in accounting policies are identified, and, adjusted (where required ~~in terms of by~~ the applicable financial reporting framework, ~~adjusted~~).
- Discuss fraud that has been identified in components, or information that ~~has been obtained that~~ indicates existence that of a fraud ~~may exist~~ in a component.
- Share information that may indicate non-compliance with national laws or regulations, for example payments of bribes and improper transfer pricing practices.

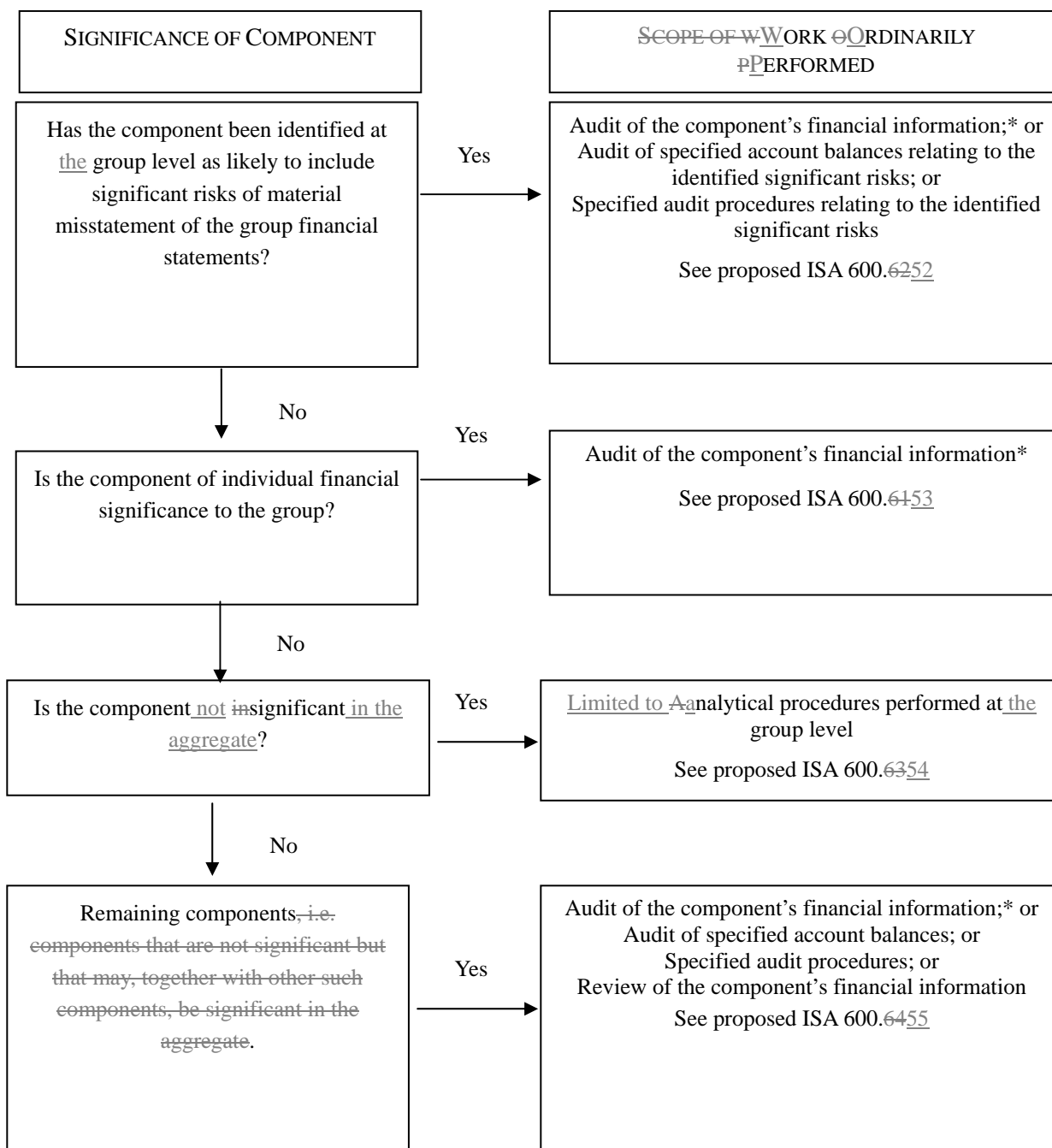
Appendix ~~2~~ 3

Examples of Conditions or Events ~~T~~h~~at~~ ~~M~~a~~y~~ Indicate Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud (See paragraph ~~57~~ 48)

- A complex group structure, especially where there are frequent acquisitions, disposals, or reorganizations.
- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective group-wide controls, including inadequate group management information ~~to~~ on monitoring components' operations and ~~their~~ its results ~~thereof~~.
- Components operating in foreign jurisdictions that may be exposed to factors such as unusual government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.
- Business activities of components that involve high risk, such as long-term contracts or trading in innovative or complex financial instruments.
- Uncertainties regarding which components require incorporation in the group financial statements in accordance with the applicable financial reporting framework, for example, ~~the existence of whether any~~ special purpose entities or non-trading entities exist or require incorporation.
- Related party relationships and transactions.
- Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
- Components' application of accounting policies that ~~are not uniform with~~ differ from those applied in the group financial statements.
- Components with different financial year-ends, which may be utilized to manipulate the timing of transactions.
- Prior occurrences of unauthorized or incomplete consolidation adjustments.
- Aggressive tax planning within the group or large cash transactions with entities in tax havens.
- ~~Multiple~~ More than one other auditors engaged to audit the financial statements of the components, and frequent changes of these auditors within the group.

Appendix 3 4

Determining the Scope of Work to be Performed on the Financial Information of Components (See paragraph 51)



Before finalizing the scope of work to be performed on components' financial information, 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 (see proposed ISA 600.66)

*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.

Appendix 4.5

Examples of Matters to be Included in the Group Auditor's Letter of Instruction (See paragraph 109.94)

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 whether~~ 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 any issues from noted in~~ recent monitoring reports that are likely to ~~have a significantly~~ 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 whether~~ the other auditor will undertake the ~~work~~ requested work.
 - Confirmation ~~that whether~~ the other auditor ~~has an understanding of~~ understands and will comply with the ~~Code of Ethics for Professional Accountants~~ issued by the ~~International Federation of Accountants~~ relevant ethical requirements, 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.⁸
 - Confirmation ~~that whether~~ the other auditor ~~has an understanding of~~ understands 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 whether~~ the other auditor ~~has an understanding~~ understands of ISAs, and such additional national the auditing or other 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 whether~~ 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~~ completing 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.

⁸ 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 relevant 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.~~

- A list of key contacts.
- 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~~ that are 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 the 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~~ trivial 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~~ for timely communication of audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which the group auditor originally based the risk assessment performed at the 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 a statement~~ that differences between the accounting policies applied ~~in~~ to the financial information of the component and those applied ~~in~~ to 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 of work performed to be provided to the group auditor.

OTHER INFORMATION

- A request ~~that~~ for a list of uncorrected misstatements of the financial information of the component ~~is provided to the group auditor~~. The list does not include uncorrected misstatements that ~~were not corrected because they~~ are below the threshold set by the group auditor for clearly ~~inconsequential~~ trivial 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~~ be notified of any significant or unusual events as early as possible.
- A request for the names of related parties ~~identified in addition to those~~ that were not listed by ~~the group auditor~~ management, and the types of related party transactions.

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Example of Another Auditor's Confirmations (See paragraphs 95-97)

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~~ financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].

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

We confirm that:

1. We will be able to comply with the instructions. / We advise you that we will not be able to comply with the following instructions [specify instructions] for the following reasons [specify reasons].
2. The instructions are clear and 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 noted in~~ recent monitoring reports that are likely to ~~have a significantly~~ 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]~~ indicate relevant 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 ethical 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 or group financial reporting procedures manual], 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 6

Example Auditor's Report on Consolidated Financial Statements (See paragraph 103)

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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