

Mark-up based on March 2006 Exposure Draft**PROPOSED INTERNATIONAL STANDARD ON AUDITING ISA 600
(REVISED AND REDRAFTED)****SPECIAL CONSIDERATIONS—THE AUDITS OF GROUP FINANCIAL
STATEMENTS****(Including the Work of ~~Other~~ Component Auditors)**(Effective for audits of group financial statements for
periods beginning on or after ~~[date]~~ December 15, 2008)**CONTENTS**

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<p>International Standard on Auditing (ISA) 600 (Revised and Redrafted), "<u>Special Considerations—The Audit of Group Financial Statements (Including the Work of Component Auditors)</u>" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the application and authority of ISAs.</p>
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Introduction

Scope of this ISA

1. ~~This~~ The International Standards on Auditing (ISA) apply to audits of group financial statements (“group audits”). This ISA deals with special considerations in the that apply to group audits of group financial statements (“group audit”) and, in particular, the those that involvement of other component auditors, as defined in paragraph 7(i). This ISA, adapted as necessary in the circumstances, also applies where other auditors are involved in the audit of the financial statements of a single entity. (Ref: Para. A1-A2)

The Effect on Audit Risk of Using the Work of Other Component Auditors

2. In accordance with [proposed] ISA 220 (Redrafted), “Quality Control for Audits of Historical Financial Information,” the group engagement partner is required to be satisfied that those performing the group audit engagement collectively have the appropriate capabilities and competence to perform the engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor’s report on the group financial statements that is appropriate in the circumstances. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.
3. The group engagement partner applies the requirements of [proposed] ISA 220 (Redrafted) regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. In the case of the group engagement team, or a component auditor that is from the group engagement partner’s firm, the group engagement partner may be able to rely on the group engagement partner’s firm’s system of quality control with regard to leadership responsibilities for quality within the firm, compliance with ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance, and monitoring (see [proposed] International Standard on Quality Control (ISQC) 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”). Meeting the requirements in this ISA is intended to enable the group engagement partner to meet the requirements of [proposed] ISA 220 (Redrafted) as they relate to component auditors that are not part of the group engagement team or from the group engagement partner’s firm.
24. [Proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and General Principles Governing Principal Concepts Relevant to an Audit of Financial Statements” explains that audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements. In a group audit, this includes the risk that the auditor of a component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement is not detected by the group auditor. This ISA explains the matters that the group engagement team considers when determining the nature, timing and extent of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components. The

purpose of this involvement is to obtain sufficient appropriate audit evidence on which to base the opinion on the group financial statements (“group audit opinion”).

3. ~~This ISA specifies the extent to which the group auditor needs to be involved in the work performed by the other auditors to obtain sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level. The nature, timing and extent of this involvement is affected by factors such as the significance of the components, identified risks of material misstatement of the group financial statements, and the group auditor’s understanding of the other auditors.~~
4. ~~Although other auditors may perform work on the financial information of components for the group audit and as such are responsible for their overall findings, conclusions or opinions in their memoranda or reports of work performed, the group auditor alone is responsible for the audit opinion on the group financial statements (“group audit opinion”).~~

Effective Date

5. This ISA is effective for audits of group financial statements for periods beginning on or after ~~{date}~~ December 15, 2008.¹

Objectives ~~to be Achieved~~

6. ~~In relation to this ISA, {The objectives of the auditor is are:~~
 - ~~(a) {To determine whether the auditor is able to act as the group auditor, and to obtain sufficient appropriate audit evidence to reduce audit risk for of the group financial statements to an acceptably low level by;~~
 - ~~(b) To effectively communicate with component auditors; and~~
 - ~~(c) To obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.~~
 - ~~(a) Determining the audit procedures to be performed on the consolidation process and the work to be performed by the group auditor or the other auditors on the financial information of the components;~~
 - ~~(b) Determining the group auditor’s involvement in the work performed by the other auditors;~~
 - ~~(c) Establishing appropriate communication with the other auditors; and~~
 - ~~(d) Evaluating the audit evidence obtained in relation to the consolidation process and the financial information of the components.~~

Definitions

7. The following terms are introduced in this ISA:

¹ This date will not be earlier than December 15, 2008.

- (a) ~~Component - A head office, parent, division, branch, subsidiary, joint venture, associated company, or other~~ An entity or business activity whose for which group or component management prepares financial information that is or should be included in the group financial statements. (Ref: Para. A3-A6)
- (ib) ~~Other auditor or another Component auditor - An auditor, other than the group engagement partner or a member of the engagement team under the direct supervision of the group engagement partner, who performs work on the financial information of one or more~~ a components for the group audit. (Ref: Para. A7)
- (bc) ~~Component management - Management responsible for preparing the financial information of a component.~~
- (ed) ~~Component materiality -- The M~~ materiality levels for the a components determined by the group auditor engagement team. Component materiality is lower than the materiality level for the group financial statements as a whole.
- (e) Group – All the components whose financial information is included in the group financial statements. A group always has more than one component. (Ref: Para. A5)
- (df) ~~Group auditor engagement partner⁺ - The engagement partner or other person in the firm who is responsible for the group audit engagement and its performance of the group audit, and for the auditor's report on the group financial statements that is issued on behalf of the group engagement partner's firm. The obligations or responsibilities of the group auditor may be fulfilled by either the group engagement partner or another member of the engagement team under the direct supervision of the group engagement partner. Where it is expressly intended that the obligation or responsibility be fulfilled by the group engagement partner, the term "group engagement partner" rather than "group auditor" is used.~~
- (g) Group engagement team – Partners and staff of the group engagement partner's firm who establish the overall group audit strategy, communicate with component auditors and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.
- (eh) ~~Group financial statements - Financial statements that include or should include the financial information of more than one component. The term "group financial statements" also refers to combined financial information aggregating the financial information of prepared by components in circumstances where there is that have no parent.~~
- (fi) ~~Group management - Management responsible for preparing and presenting the group financial statements.~~

⁺ ~~Where the group audit is conducted by joint auditors, the joint auditors collectively constitute the group auditor. This ISA, however, does not deal with the relationship between joint auditors and the work that one joint auditor performs in relation to the work performed by the other joint auditor.~~

- (g) Group-wide controls - ~~Internal e~~Controls established designed, implemented and maintained by group management over group financial reporting.
- (h) ~~Members of the engagement team under the direct supervision of the group engagement partner~~ Personnel of the group engagement partner's firm, including any experts contracted by the group engagement partner's firm in connection with the group audit engagement, who are directed and supervised by the group engagement partner to the same extent that members of an engagement team responsible for the audit of the financial statements of a single entity are directed and supervised by the engagement partner in accordance with ISA 220, "Quality Control for Audits of Historical Financial Information."
- (jk) Significant component - A component identified by the group ~~auditor~~ engagement team (i) that is of individual financial significance to the group, or (ii) that, due to ~~the~~ its specific nature ~~of~~, or circumstances ~~specific to, that component or the individual financial significance of that component to the group, has been identified as, is~~ likely to include significant risks of material misstatement of the group financial statements ~~(i.e., significant risks that require special audit consideration—see ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement").~~ (Ref: Para. A8-A9)
8. Reference to "the applicable financial reporting framework" means the financial reporting framework ~~applicable that applies~~ that applies to the group financial statements. Reference to "the consolidation process" includes (a) the recognition, ~~and measurement and disclosure of the financial information of the components in the group financial statements in accordance with~~ by way of consolidation, proportionate consolidation, or the equity or cost methods of accounting, and (b) the aggregation of the financial information of components in ~~circumstances where there is that have~~ no parent.

Requirements

Responsibility for the Group Audit Opinion

9. Because the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion, the group engagement partner shall not refer to a component auditor in the auditor's report on the group financial statements. (Ref: Para. A10)

Acceptance and Continuance as Group Auditor

910. The group engagement partner shall ~~be satisfied that~~ determine whether appropriate procedures regarding the acceptance or continuance of an engagement to audit group financial statements have been followed ~~(see in accordance with [proposed] ISA 220, "Quality Control for Audits of Historical Financial Information")~~ (Redrafted).
11. ~~and that there is a reasonable expectation of obtaining~~ The group engagement partner shall also determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components ~~to reduce audit risk for the group financial statements to an acceptably low level on which to base the group audit opinion.~~ 10. For this purpose, the group auditor engagement team shall obtain an understanding of the group, its components, and their environments; that

~~is sufficient to determine which of the~~ identify potentially significant components are likely to be significant and, where other component ~~auditors will perform the work on the financial information of such components, whether the group auditor engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those other component auditors to the extent necessary to obtain sufficient appropriate audit evidence.~~ (Ref: Para. A11-A614)

11. ~~The group auditor may not be able to be involved in the work that another auditor will perform on the financial information of a component that is likely to be significant. Where this is the case, it is unlikely that the group auditor will be able to obtain sufficient appropriate audit evidence.~~ (Ref: Para. A7-A9)

12. If the group engagement partner concludes that:

- (a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
- (b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements (see [proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report”),

the group engagement partner shall not accept the engagement. In the case of a continuing engagement, the group engagement partner shall ~~consider resigning~~ determine whether to resign from the engagement. ~~This is subject to paragraph 13.~~ 13. Where law or regulation prohibits an auditor from ~~refusing declining~~ or resigning from, an engagement, the group engagement partner shall express a disclaimer of opinion on the group financial statements. (Ref: Para. A4015-A19)

Terms of Engagement

13. The group engagement partner shall agree on the terms of the group audit engagement in accordance with [proposed] ISA 210 (Redrafted), “Terms of Audit Engagements.” (Ref: Para. A20)

Overall Audit Strategy and Audit Plan

14. The group engagement team shall establish an overall group audit strategy and shall develop a group audit plan in accordance with ISA 300 (Redrafted), “Planning an Audit of Financial Statements.”

Identifying and Assessing the Risks of Material Misstatement of the Group Financial Statements

~~Obtaining Through an Understanding of the Group, Its Components, and Their Environments; and Assessing the Risks of Material Misstatement of the Group Financial Statements~~

1615. ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment” requires the auditor to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its

environment. The group-auditor engagement team shall (a) enhance the its understanding of the group, its components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage, and (b) obtain an understanding of the consolidation process, including the instructions issued by group management to components.
(Ref: Para. A1721-A2427)

~~1416.~~ The group-auditor's engagement team shall obtain an understanding that is sufficient to (a) confirm the group-auditor's its initial identification of potentially significant components, and (b) assess the risks of material misstatement of the group financial statements at the group level in accordance with ISA 315 (Redrafted). (Ref: Para. A18, A2528-A2629)

Obtaining Through an Understanding of the Other Component Auditors

~~1417.~~ As part of determining the group auditor's involvement in the work performed by the other auditors, When the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group-auditor engagement team shall obtain an understanding of the following matters set out below and of any other factors that may affect the ability of the group auditor to be involved in the work performed by the other auditors (Ref: Para. A30-A33):

- (ba) Whether the other component auditors' compliance understands and will comply with those the ethical requirements that are relevant to the group auditor and, in particular, their independence and professional competence is independent; (Ref: Para. A34)
- (ab) The component auditor's professional competence-qualifications of the other auditors; (Ref: Para. A35)
- (c) The quality control systems of the other auditors' firms, including whether their firms have implemented 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
- (dc) Whether the other component auditor will provide the group-auditor engagement team with the necessary access to relevant audit documentation; and (Ref: Para. A12-A16)
- (d) Whether the component auditor operates in a regulatory environment that actively oversees and enforces the independence and professional competence of auditors, and the quality control systems of their firms.

This requirement does not apply to members of the engagement team under direct supervision of the group engagement partner. Such individuals are subject to the requirements of ISA 220, "Quality Control for Audits of Historical Financial Information."

~~1518.~~ When another a component auditor is not independent of the client, or the group-auditor engagement team has serious concerns about any of the other matters listed in paragraph-14 17(b) and (c), the group-auditor engagement team shall obtain sufficient appropriate audit evidence relating to the financial information of the component without using requesting the that component auditor to perform work on the financial information of that component of that other auditor. (Ref: Para. A36-A38)

Materiality

- ~~1819.~~ [Proposed] ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit” requires the group auditor shall to determine the a materiality level for the group financial statements as a whole when establishing the overall audit strategy for the group audit (see [proposed] ISA 320 (Revised), “Materiality in Planning and Performing an Audit”). ~~19.~~ [Proposed] ISA 320 (Revised) It also requires the auditor to determine an one or more amounts lower than the materiality level for the financial statements as a whole for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks.
20. The group engagement team shall determine the materiality level for the group financial statements as a whole when establishing the overall group audit strategy. (Ref: Para. A39)
21. Accordingly, to reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, the group auditor engagement team shall determine component materiality levels for the components that are lower than the materiality level for the group financial statements as a whole for those components whose financial information will be audited or reviewed as part of the group audit. (Ref: Para. A40)
22. Moreover For those components whose financial information will be audited as part of the group audit, the group auditor engagement team shall determine, or shall request the other component auditor shall also to determine, an one or more amounts lower than the component materiality level for the component for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level. Where such lower amounts is are determined by the other component auditor, the group auditor engagement team shall determine whether it is they are appropriate before significant work is performed on the financial information of the component. (Ref: Para. A41)
23. When a component is subject to audit by statute, regulation or other reason, and the group engagement team decides to use that audit to provide audit evidence for the group audit, the group engagement team shall determine whether (a) the materiality level determined for the component financial statements as a whole, and (b) the lower amounts determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level meet the requirements of this ISA.

Responding to Assessed Risks

Determining the Work to Be Performed on the Financial Information of Components

2024. The group auditor shall determine the work to be performed by the group auditor or the other auditors on the financial information of the components (see paragraphs 22-24). This determination is based on the significance of the component, the identified significant risks, and the group auditor’s evaluation of the design of group-wide controls and determination of whether they have been implemented. ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks” requires the auditor to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements. The group engagement team shall determine the type of work to be performed by the group engagement team, or the

component auditors on its behalf, on the financial information of the components (see paragraphs 26-29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30-31). (Ref: Para. A2742)

~~2125.~~ If the nature, timing and extent of the work to be performed on the consolidation process or the financial information of the components are based on an expectation that group-wide controls are operating effectively, or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, the group ~~auditor~~ engagement team shall test, or request ~~another~~ a component auditor to test, the operating effectiveness of those controls.

Determining the Type of Work to Be Performed on the Financial Information of Components

Significant Components

~~2326.~~ For a component that is significant due to its individual financial significance to the group, the group ~~auditor~~ engagement team, or ~~another a component auditor at the request of the group auditor~~ on its behalf, shall perform an audit using either component materiality; or a lower materiality level determined by the ~~other component auditor~~ where the circumstances in paragraph 29 apply component auditor is required by statute, regulation or for any other reason to express an audit opinion on the financial statements of the component.

~~2227.~~ For a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements due to its specific nature and or circumstances, the group ~~auditor~~ engagement team, or ~~another a component auditor at the request of the group auditor~~ on its behalf, shall perform one of the following:

- (a) An audit ~~performed~~ using either component materiality; or a lower materiality level determined by the ~~other component auditor~~ where the circumstances in paragraph 29 apply component auditor is required by statute, regulation or for any other reason to express an audit opinion on the financial statements of the component.
- (b) An audit of ~~specified one or more account balances, classes of transactions or disclosures relating to the identified likely significant risks of material misstatement of the group financial statements.~~ (Ref: Para. A43)
- (c) Specified audit procedures relating to the ~~identified likely significant risks of material misstatement of the group financial statements.~~ (Ref: Para. A44):

Components that Are Not Individually Significant Components

~~2528.~~ For components ~~not selected for the period under audit~~ that are not significant components, the group ~~auditor~~ engagement team shall perform analytical procedures. These analytical procedures form part of the analytical procedures that the group engagement team performs at the group level at or near the end of the group audit (see paragraph 46). (Ref: Para. A45)

~~2429.~~ If the work performed on the financial information of significant components will not result in the group auditor obtaining sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level If the group engagement team concludes that sufficient appropriate audit evidence cannot be obtained from (a) the results of testing the

operating effectiveness of group-wide controls, (b) the work performed on the financial information of significant components, and (c) the analytical procedures performed at group level for components that are not significant, the group-auditor engagement team shall select components that are not individually significant components. ~~For which these components,~~ the group-auditor engagement team, or another a component auditor at the request of the group auditor on its behalf, shall perform one of the following on the financial information of the individual components selected:

- (a) An audit-performed using either component materiality; or a lower materiality level determined by the-other component auditor where the-circumstances in paragraph 29 apply component auditor is required by statute, regulation or for any other reason to express an audit opinion on the financial statements of the component.
- (b) An audit of-specified one or more account balances, classes of transactions or disclosures.
- (~~d~~c) A review of the financial information of the component.
- (~~e~~d) Specified-audit procedures. (Ref: Para. A2846-A3047)

The group engagement team shall vary the selection of components and work to be performed on their financial information over a period of time

Involvement in the Work Performed by-the Other Component Auditors(Ref: Para. A48-A49)

Significant Components—Risk Assessment

~~2730.~~ When-another a component auditor performs the work on an audit of the financial information of a significant component, the group-auditor engagement team shall be involved in the-other component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of-the group auditor's this involvement are affected by the group-auditor engagement team's understanding of the-other component auditor. The group auditor, but at a minimum shall include:

- (a) Discussing with the-other component auditor or component management those of 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) Discussing with the-other component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and
- (c) Reviewing the-other component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may-be in take the form of a memorandum, reflecting that reflects the-other component auditor's conclusion with regard to the identified significant risks.

Identified Significant Risks of Material Misstatement of the Group Financial Statements—Further Audit Procedures

~~2831.~~ When significant risks of material misstatement of the group financial statements have been identified in a component on which-another a component auditor performs the work, the group auditor engagement team shall-be satisfied with determine the appropriateness of the further

audit procedures to be performed to respond to the identified significant risks of material misstatement of the group financial statements. ~~The group auditor~~ Based on its understanding of the component auditor, the group engagement team shall determine whether, based on the group auditor's understanding of the other auditor, it is necessary to be involved in performing the further audit procedures.

Components Subject to Audit by Statute, Regulation or Other Reason

~~2932.~~ The other component auditor may be required by statute, regulation, or for another reason, to express an audit opinion on the financial statements of a component. The group auditor engagement team may decide to use this audit the audit evidence on which the opinion on the financial statements of the component is based to provide audit evidence for the group audit, but the requirements of this ISA shall nevertheless be met. (Ref: Para. A3450)

Consolidation Process

~~3033.~~ The group auditor engagement team shall determine the work to be performed design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating the completeness of components.

~~3134.~~ The group auditor engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and consider shall evaluate whether any fraud risk factors or indicators of possible management bias exist. (Ref: Para. A3251)

~~3235.~~ If a the financial information of a component's financial information has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor engagement team shall evaluate whether the component's financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

~~3336.~~ The group auditor engagement team shall determine whether the financial information identified in the other component auditor's memorandum or report of work performed communication (see paragraph 41) is the financial information that is incorporated in the group financial statements.

~~3437.~~ If the group financial statements include the financial statements of any a components with a financial reporting period-ends that differs from that of the group, and consolidation adjustments have not been made in this respect to account for this difference, the group auditor engagement team shall determine whether this lack of consolidation adjustments is acceptable under the applicable financial reporting framework. Where it is not acceptable, and the effect on the group financial statements may be material, the group auditor engagement team shall determine evaluate whether group management has identified any 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.

Subsequent Events

~~3538.~~ For significant components Where the group engagement team or component auditors perform audits on the financial information of components, the group auditor engagement team or the

component auditors shall perform, ~~or request the other auditors to perform,~~ procedures designed to identify events at those components that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements, and that may require adjustment to or disclosure in the group financial statements.

~~3639. For components that are not individually significant~~ Where component auditors perform work other than audits of the financial information of components, the group auditor engagement team shall request the other component auditors to communicate to notify the group auditor engagement team if they become aware of subsequent events that may require an adjustment to or a disclosure in the group financial statements.

Communication with the ~~Other~~ Component Auditors

~~3740. Communication with other auditors that perform work on the financial information of components in accordance with paragraphs 22-24 takes place throughout the group audit. The group auditor engagement team shall communicate, as early as possible, the group auditor's its requirements to the other component auditor on a timely basis. (Ref: Para. A52-A53) This communication, ordinarily in the form of a letter of instruction, shall sets out the work to be performed and the form and content of the other component auditor's memorandum or report of work performed communication with the group engagement team. It shall also include the following:~~

~~38. The group auditor's communication about the work to be performed in accordance with paragraphs 22-24 shall include the following:~~

- ~~(a) Where applicable~~ In the case of an audit or review of the financial information of the component, component materiality, the lower amount for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level, and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.
- ~~(b) In the case of an audit of the financial information of the component, the lower amount(s) determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assess risks at the component level, or a request that the component auditor determines such amount(s).~~
- ~~(c) Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor. The group engagement team shall request the component auditor to communicate any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and the component auditor's responses to such risks.~~

~~(b) Identified significant risks, including fraud risks, that are relevant to the work of the other auditor. This communication occurs when the group auditor is not involved in the other auditor's risk assessment procedures. The group auditor shall request the other auditor to inform the group auditor of any other identified significant risks that may affect the group financial statements.~~

- (c) ~~Laws and regulations applicable to the parent that could have a direct bearing on the work that the other auditor performs at the component level. The group auditor shall request the other auditor to communicate any identified non-compliance with laws and regulations applicable to the component that could materially affect the group financial statements.~~
- (d) A list of related parties prepared by group management, and any other related parties of which the group auditor engagement team is aware of. The group auditor engagement team shall request the other component auditor to communicate the names of any additional related parties, and the types of transactions with such related parties not previously identified by group management or the group engagement team. The group auditor engagement team shall determine whether to communicate to identify such additional related parties to the other component auditors. Related parties are those defined in the applicable financial reporting framework. ~~(Ref: Para. A33 and Appendix 5)~~
3941. ~~The other auditor's memorandum or report of work performed in accordance with paragraphs 22-24 shall contain~~ The group engagement team shall request the component auditor to communicate matters relevant to the group auditor engagement team's conclusion with regard to the group audit. In particular, it shall:
- ~~(a) State whether the other auditor has complied with the quality control policies and procedures of that auditor's firm;~~
 - ~~(b)(a) State w~~ Whether the other component auditor has complied with those ethical requirements that are relevant to the group auditor, including independence and professional competence;
 - ~~(c)(b) State w~~ Whether the other component auditor has complied with the group auditor engagement team's requirements;
 - ~~(d)(c) Identify~~ Identification of the financial information of the component on which the other component auditor is reporting;
 - (d) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements.
 - ~~(e) A list of uncorrected misstatements of the financial information of the component (the list does is not to include misstatements that were are below the threshold communicated by the group auditor for clearly trivial misstatements)~~ communicated by the group engagement team (see paragraph 40(a)), and note noting identified indicators of possible management bias;
 - ~~(f) Describe~~ Description of any identified material weaknesses in internal control over financial reporting at the component level;
 - ~~(g) Set out o~~ Other significant matters that the other component auditor communicated or expects to communicate to those charged with governance of the component;
 - ~~(h) Set out a~~ Any other matters that may be relevant to the group audit, or that the other component auditor wishes to draw to the attention of the group auditor engagement team,

including exceptions noted in the written representations that the component auditor requested from component management; and

- (i) ~~Set out~~ The other component auditor's overall findings, conclusions or opinion.

40. ~~To the extent not already communicated to the group auditor, the other auditor's memorandum or report of work performed shall also include a list of significant risks that have been identified in the component, the other auditor's response to such risks, and the results thereof.~~

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Evaluating the ~~Other Component Auditor's~~ Memoranda or Reports of Work Performed Communication and Adequacy of Their Work

4142. ~~Based on the group auditor's evaluation of the other auditors' memoranda or reports of work performed, The group engagement team shall evaluate the component auditor's communication (see paragraph 41). The group auditor engagement team shall determine whether it is necessary to (a) discuss significant matters arising from another auditor's memorandum or report of work performed that evaluation with the other component auditor, component management or group management; and whether it is necessary to (b) review other relevant parts of another the component auditor's audit documentation. (Ref: Para. A3454)~~

4243. ~~If the group auditor engagement team concludes that the work of another the component auditor is insufficient for the group auditor's purposes, the group auditor engagement team shall determine what additional procedures are to be performed, and whether such additional procedures they are to be performed by the other component auditor or by the group auditor engagement team.~~

Sufficiency and Appropriateness of Audit Evidence

4344. ~~[Proposed] ISA 200 (Revised and Redrafted) requires the auditor to obtain sufficient appropriate audit evidence on which to base the audit opinion. The group auditor engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group auditor engagement team and the other component auditors on the financial information of the components, on which to base the group audit opinion. (Ref: Para. A55)~~

Considering the Effect of the Other Auditors' Memoranda or Reports of Work Performed on the Auditor's Report on the Group Financial Statements

4445. ~~The group auditor engagement team shall consider evaluate the effect on the group audit opinion of any disagreement with component management material misstatement of the financial information of the components or inability to obtain sufficient appropriate audit evidence on the group audit opinion. (Ref: Para. A56)~~

45. ~~The group auditor shall consider the aggregate effect of the uncorrected immaterial misstatements of the financial information of the components on the group audit opinion.~~

Performing Analytical Procedures in the Overall Review at the End of the Group Audit

46. The group engagement team shall perform analytical procedures at group level at or near the end of the group audit in accordance with ISA 520, "Analytical Procedures." (Ref: Para. A57)

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

Communication with Group Management

~~4647.~~ The group ~~auditor~~ engagement team shall make group management aware, on a timely basis and at an appropriate level of responsibility, of:

- (a) Material weaknesses in the design or ~~operation~~ operating effectiveness of group-wide controls; ~~including controls over the preparation and presentation of the group financial statements;~~
- (b) Material weaknesses the group engagement team has identified in internal controls at components ~~that have been identified by the group auditor, or; and~~
- (c) Material weaknesses ~~that have been brought~~ to the attention of the group ~~auditor~~ engagement team by the ~~other component~~ auditors; that the group ~~auditor~~ engagement team judges are of significance to the group.

~~4748.~~ If fraud has been identified ~~in components~~ by the group engagement team or brought to its attention by a component auditor, or information indicates that a fraud may exist, the group ~~auditor~~ engagement team shall communicate this ~~as soon as practicable on a timely basis~~ to group management. If the group ~~auditor~~ engagement team believes or suspects that group or component management may be involved in the fraud, the group ~~auditor~~ engagement team shall communicate this to those charged with governance of the group instead.

~~4849.~~ ~~Where another~~ A component auditor ~~is~~ may be required by statute, regulation, or for another reason, to express an audit opinion on the financial statements of a component, ~~and. In that case,~~ the group ~~auditor~~ engagement team shall request group management to inform component management of any matter of which the group engagement team becomes aware ~~of matters~~ that may be significant to the financial statements of the component, but of which component management may be unaware, ~~the group auditor shall request group management to inform component management of such matters.~~ If group management refuses to communicate the matter to component management, the group ~~auditor~~ engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved. (Ref: Para. A3659)

Communication with Those Charged with Governance of the Group

~~4950.~~ ~~In a group audit,~~ The group auditor engagement team shall communicate with those charged with governance of the group the following matters, in addition to those required by [proposed] ISA 260 (Revised and Redrafted), "Communications with Those Charged with Governance:" and other ISAs:

- (a) ~~The planned~~ An overview of the type of work to be performed on the financial information of the components.
- (b) ~~The group auditor's~~ An overview of the nature of the group engagement team's planned involvement in the work to be performed by the ~~other component~~ auditors on the financial information of significant components.

- (c) Instances where the group ~~auditor~~ engagement team's evaluation of the work of ~~another a component~~ auditor gave rise to a concern about the quality of ~~the~~ that auditor's work performed by that other auditor.
- (d) Any limitations on the group audit. For example, where the group ~~auditor~~ engagement team's access to ~~component~~ information, ~~those charged with governance of components,~~ component management, or the other auditors (including relevant audit documentation sought by the group auditor) may have been restricted. (Ref: Para. A3760)

Documentation

5051. ~~In a group audit,~~ The group auditor engagement team shall document the following matters in addition to those required by [proposed] ISA 230 (Redrafted), "Audit Documentation" and the other ISAs:

- (a) An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.
- ~~(a)~~(b) The nature, timing and extent of the group auditor engagement team's involvement in the work performed by the other component auditors and the basis thereof on significant components.
- ~~(b)~~(c) The group auditor's eCommunications with between the group engagement team and the other component auditors about the group auditor engagement team's requirements.

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

- A1. An auditor of a single entity may find this ISA, adapted as necessary in the circumstances, useful when other auditors are involved in the audit of the financial statements of the single entity.
- A2. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

Definitions

Component (Ref: Para. 7(a))

- A3. The structure of a group affects how components are identified. Because groups may be structured differently, the identification of components is based on the group engagement team's professional judgment. For example, the group financial reporting system may be based on an organizational structure that provides for financial information to be prepared by a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity or cost methods of accounting; by a head office and one or more divisions or branches; or by a combination of both. Some groups, however, may organize their financial reporting system by function, process, product or service (or by groups of products or services), or geographical

locations. In these cases, the entity or business activity for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographical location.

A4. Various levels of components may exist within the group financial reporting system, in which case it may be more appropriate to identify components at certain levels of aggregation rather than individually.

A5. Components aggregated at a certain level may constitute a component for purposes of the group audit; however, it may also prepare group financial statements that incorporate the financial information of the components it encompasses (i.e., a subgroup). This ISA may therefore be applied by different group engagement partners and teams at different subgroups within a larger group.

A6. Although all identified components will have component management, it may not be possible to identify those charged with governance for all identified components.

Component Auditor (Ref: Para 7(b))

A7. A component auditor may be from the group engagement partner's firm and may or may not be a member of the group engagement team. When an auditor performs work on the financial information of a component at the request of the group engagement team, that auditor is a component auditor. Paragraph A31 explains that the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or knowledge of the component auditor and the degree to which the group engagement team and the component auditor perform, or are subject to, common policies and procedures.

Identifying Significant Components (Ref: Para. ~~40~~ 8(k))

~~A58. 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 constitute a large portion of the group's operations and financial position, making them financially significant. The group auditor engagement team may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. The group auditor engagement team exercises professional judgment in identifying a benchmark and determining a percentage to be applied to such benchmark it. Depending on the nature and circumstances of the group, appropriate benchmarks might include group assets, liabilities, cash flows, profit or turnover. For example, after identifying components that are likely to include significant risks of material misstatement of the group financial statements, the group auditor engagement team may consider that other components, which exceeding 15% of the chosen benchmark, are also significant components. A higher or lower percentage may, however, may be deemed appropriate in the circumstances.~~

A49. The group auditor engagement team may also identify a component as likely to include one or more significant risks of material misstatement of the group financial statements due to the its

~~specific nature of and or circumstances specific to that component~~ (i.e., significant risks that require special audit consideration – see ISA 315 (Redrafted)). 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 otherwise of individual financial significance to the group.

Responsibility for the Group Audit Opinion (Ref: Para. 9)

A10. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner is responsible for the group audit opinion. The group engagement partner does not, therefore, refer to a component auditor in the auditor's report on the group financial statements.

Acceptance and Continuance as Group Auditor

Obtaining an Understanding at the Acceptance or Continuance Stage (Ref: Para. 10)

A11. In the case of a new engagement, the group-auditor engagement team's understanding of the group, its components, and their environments may be obtained from:

- Information provided by group management;
- ~~Discussions~~ Communication with group management; and
- Where applicable, ~~discussions~~ communication with the previous ~~group-auditor engagement team~~, component management, ~~and other or component~~ auditors.

A12. The group-auditor engagement team's understanding may include matters such as the following:

- The group structure, including both the legal and organizational structure (i.e., how the group financial reporting system is organized).
- Components' business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
- The use of service organizations, including shared service centers.
- A description of group-wide controls.
- The complexity of the group financial statements consolidation process.
- Whether other component auditors that are not from the group engagement partner's firm or network will perform work on the financial information of any of the components and group management's rationale for appointing more than one auditor.
- Whether the group-auditor engagement team:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information, and the ~~other component~~ auditors (including relevant audit documentation sought by the ~~group-auditor engagement team~~); and

- Will be able to perform necessary work on the financial information of the components.

A13. In the case of a continuing engagement, the group ~~auditor engagement team~~'s ability to obtain sufficient appropriate audit evidence ~~to reduce audit risk for the group financial statements to an acceptably low level~~ may be affected by significant changes, for example:

- Changes in the group structure (e.g., acquisitions, disposals, ~~or~~ reorganizations, or changes in how the group financial reporting system is organized).
- 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.
- ~~Difficulties experienced by~~ Concerns the group auditor engagement team has with regard to the integrity and competence of group or component management.
- Changes in group-wide controls.
- Changes in the applicable financial reporting framework.

Expectation to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. ~~40~~ 11)

A614. A group may consist only of components ~~that are not judged~~ considered to be significant components. In these circumstances, the group engagement partner can reasonably expect to obtain sufficient appropriate audit evidence ~~to reduce audit risk for the group financial statements to an acceptably low level on which to base the group audit opinion~~ if the group ~~auditor engagement team~~ will be able to:

- (a) Perform the work on the financial information of some of these components; and
- (b) Be involved in the work performed by ~~the other component~~ auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.

Access to Information (Ref: Para. ~~41-43~~ 12)

A715. ~~The group auditor may not be able to be involved in the work that another auditor will perform on the financial information of a component that is likely to be significant. This may be because the group auditor's access to component information, those charged with governance of components, component management, or the other auditors (including relevant audit documentation sought by the group auditor) is restricted, and group management is not able to overcome such restrictions; or it is impractical for the group auditor to be involved in the work of that other auditor.~~ The group engagement team's access to information may be restricted by circumstances that cannot be overcome by group management, for example laws relating to confidentiality and data privacy, or denial by the component auditor of access to relevant audit documentation sought by the group engagement team. It may also be restricted by group management.

A816. ~~The group auditor's access may be restricted by circumstance or group management.~~ Where access to information is restricted by circumstances, the group ~~auditor engagement team~~

~~nevertheless~~ may still be able to obtain sufficient appropriate audit evidence; however, this is less likely as the significance of the component increases. For example, the ~~group-auditor engagement team~~ may not have access to those charged with governance, ~~the management, or the auditor (including relevant audit documentation sought by the group-auditor engagement team)~~ of a component that is accounted for by the equity method of accounting. If the component is not a significant component and ~~The group-auditor engagement team, however, may have~~ has a complete set of financial statements of the component, including the auditor's report thereon, and has access to information ~~retained kept~~ by group management in relation to that component, ~~– The group-auditor engagement team may conclude that, based on the relative insignificance of the component, this information constitutes sufficient appropriate audit evidence in relation to that component. As the significance of the component increases, however, this is less likely to constitute sufficient appropriate audit evidence. If the component is a significant component, however, the group engagement team will not be able to comply with the requirements of this ISA relevant in the circumstances of the group audit. For example, the group engagement team will not be able to comply with the requirement in paragraphs 30-31 to be involved in the work of the component auditor. The group engagement team will not, therefore, be able to obtain sufficient appropriate audit evidence in relation to that component. The effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of [proposed] ISA 705 (Revised and Redrafted).~~

A917. ~~Where access is restricted by group management, it is unlikely that the group auditor will be able to obtain sufficient appropriate audit evidence. The group engagement team will not be able to obtain sufficient appropriate audit evidence if group management restricts the access of the group engagement team or a component auditor to the information of a significant component. Although the group engagement team may be able to obtain sufficient appropriate audit evidence if such restriction relates to a component considered not a significant component, the reason for the restriction may affect the group audit opinion. For example, it may affect the reliability of group management's responses to the group engagement team's inquiries and group management's representations to the group engagement team.~~

A1018. ~~There may be circumstances where~~ Law or regulation may prohibits an auditor ~~the group engagement partner from refusing declining or resigning from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from resigning before the end of that period. Also, in the public sector, the option of not accepting declining or resigning from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, this ISA is applied still applies to the group audit, and the effect of the group-auditor engagement team's inability to obtain sufficient appropriate audit evidence on which to base the group audit opinion is considered in terms of [proposed] ISA 705 (Revised and Redrafted).~~

A19. Appendix 1 contains an example of an auditor's report containing a qualified opinion based on the ~~group-auditor engagement team's~~ inability to obtain sufficient appropriate audit evidence in relation to a component accounted for by the equity method of accounting, but where, in the ~~group-auditor engagement team's~~ judgment, the effect is material but not pervasive.

Terms of Engagement (Ref: Para. 13)

~~A1120. In a group audit, matters such as the following may be included in the terms of engagement in addition to those As required by in [proposed] ISA 210 (Redrafted), “Terms of Audit Engagements the terms of engagement identifies the applicable financial reporting framework. Additional matters may be included in the terms of a group audit engagement, such as the fact that:”~~

- ~~The applicable financial reporting framework.~~
- ~~The fact that the communication between the group auditor engagement team and the other component auditors should be unrestricted to the extent permitted by law or regulation.~~
- ~~The fact that i~~Important communications between the ~~other component~~ auditors, those charged with governance of the component, and component management, including communications on material weaknesses in internal control, should be ~~made available communicated as well~~ to the group auditor engagement team.
- ~~The fact that i~~Important communications between regulatory authorities and components related to financial reporting matters should be ~~made available communicated~~ to the group auditor engagement team.
- ~~The fact that, t~~To the extent the group auditor engagement team considers necessary, ~~the group auditor it~~ should be permitted:
 - Access to component information, those charged with governance of components, component management, and the ~~other component~~ auditors (including relevant audit documentation sought by the group auditor engagement team); and
 - To perform work or request a component auditor to perform work on the financial information of the components.
- ~~The fact that r~~Restrictions on:
 - the group auditor engagement team’s access to component information, those charged with governance of components, component management, or the ~~other component~~ auditors (including relevant audit documentation sought by the group auditor engagement team); or
 - the work to be performed on the financial information of the components,

imposed after the group auditor engagement partner’s acceptance of the engagement, constitute a scope limitation that may affect the group audit opinion. In exceptional circumstances, it may even ~~give rise~~ lead to resignation from the engagement, i.e., where that is not prohibited by law or regulation.

Identifying and Assessing the Risks of Material Misstatement of the Group Financial Statements

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

Matters About Which the Group ~~Auditor~~ Engagement Team Obtains an Understanding (Ref: Para. ~~46~~ 15)

A~~47~~21. ISA 315 (Redrafted) contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance. Appendix 2 contains guidance on matters specific to a group, including the consolidation process.

A18. ~~The group auditor's understanding is the basis for confirming the group auditor's initial identification of significant components at the acceptance or continuance stage, and for assessing risks of material misstatement of the group financial statements at the group level.~~

Instructions Issued by Group Management to Components (Ref: Para. ~~46~~ 15)

A~~49~~22. To achieve uniformity and comparability of financial information, group management ordinarily issues instructions to components. Such instructions specify the requirements for financial information of the components to be included in the group financial statements and often include financial reporting procedures manuals and a reporting package. A reporting package ordinarily consists of standard formats for providing financial information for incorporation in the group financial statements. Reporting packages generally do not, however, take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework.

A~~20~~23. The instructions ordinarily cover:

- The accounting policies to be applied;
- Statutory and other disclosure requirements applicable to the group financial statements, including:
 - The identification and reporting of segments;
 - Related party relationships and transactions;
 - Intra-group transactions and unrealized profits; ~~and~~
 - Intra-group account balances; and
- A reporting timetable.

A~~21~~24. The group ~~auditor~~ engagement team's evaluation understanding of the instructions may include the following:

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

- Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework;
 - Provide for disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example disclosure of related party relationships and transactions, and segment information;
 - Provide for the identification of consolidation adjustments, for example intra-group transactions and unrealized profits, and intra-group account balances; and
 - Provide for the approval of the financial information by component management.

Fraud (Ref: Para. ~~46~~ 15)

A2225. ISA 240 (Redrafted), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” requires the auditor to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include 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 identified by group management, or account balances, classes of transactions, or disclosures for which a risk of fraud is likely.
- Whether there are particular components for which a risk of fraud is likely.
- How those charged with governance of the group monitor group management’s processes for identifying and responding to the risks of fraud in the group, and the controls ~~that~~ group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, internal audit (and if considered appropriate, component management, the ~~other~~ component auditors, and others) to the group ~~auditor~~ engagement team’s inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Discussion among Group Engagement Team Members and Component Auditors Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud (Ref: Para. ~~46~~ 15)

A2326. ISA 315 (Redrafted) and ISA 240 (Redrafted), “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” require the key 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 specifically emphasis on~~ emphasizing the risks due to fraud. In a group audit, these discussions may also include the ~~other~~ component auditors. The group engagement partner’s determination of who to include in the discussions, how and when they occur, and their extent, is affected by factors such as prior experience with the group ~~and~~

~~knowledge of current developments. The discussions, however, may include the other auditors who perform work on the financial information of significant components.~~

A2427. The discussions provide an opportunity to:

- Share knowledge of the components and their environments, including group-wide controls.
- Exchange information about the business risks of the components or the group.
- 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 or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting, for example revenue recognition practices that do not comply with the applicable financial reporting framework.
- Consider 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~~ or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk that group or component management may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements, and whether differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).
- Discuss fraud that has been identified in components, or information that indicates existence of a fraud 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.

Risk Factors (Ref: Para. ~~47~~ 16)

A2528. ~~Appendix 3 sets out Examples of conditions or events that, individually or together, may indicate risks of material misstatement of the group financial statements, including risks due to fraud, are set out in Appendix 3.~~

Risk Assessment (Ref: Para. ~~47~~ 16)

A2629. The group ~~auditor engagement team's~~ assessment at the group level of the risks of material misstatement of the group financial statements is based on information such as the following:

- 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 that are relevant to the consolidation.

- Information obtained ~~through discussions with~~ from the other component auditors.

~~Obtaining Through an Understanding of the Other Component Auditors~~ (Ref: Para. ~~44~~ 17)

A30. The group engagement team obtains an understanding of a component auditor only when it plans to request the component auditor to perform work on the financial information of a component for the group audit. For example, it will not be necessary to obtain an understanding of the auditors of those components for which the group engagement team plans to perform analytical procedures at group level only.

Group Engagement Team's Procedures to Obtain an Understanding of the Component Auditor and Sources of Audit Evidence (Ref: Para. 17)

~~A14~~ A31. The nature, timing and extent of the group auditor engagement team's procedures to obtain an understanding of and involvement in the work performed by the other component auditors may also be are affected by factors such as ~~the following:~~ Previous experience with or knowledge of the other component auditors, and The degree to which the group auditor engagement team and the other component auditors perform, or are subject to, common policies and procedures, For example, whether the group auditor and another auditor share:

- Whether the group engagement team and a component auditor share:
 - Common policies and procedures for performing the work (e.g., audit methodologies);
 - Common quality control policies and procedures; or
 - Common monitoring policies and procedures.
- The consistency or similarity of:
 - Laws and regulations or legal system;
 - Professional oversight ~~and~~ discipline, and external quality assurance;
 - Education and training;
 - Professional organizations and standards;
 - Language and culture.

A32. These factors interact and are not mutually exclusive. For example, the extent of the group engagement team's procedures performed by the group auditor to obtain an understanding of another Component aAuditor A, who is subject to consistently applies common quality control and monitoring policies and procedures and a common audit methodology or operates in the same jurisdiction as the group engagement partner, may be less than those performed the extent of the group engagement team's procedures to obtain an understanding of another Component aAuditor B, who is not subject to consistently applying common quality control and monitoring policies and procedures and a common audit methodology or operates in a

foreign jurisdiction. The nature of the procedures performed in relation to Component Auditors A and B may also be different.

A15. ~~Similarly, the extent of the group auditor's involvement in the work of another auditor that is subject to common policies and procedures or operates in the same jurisdiction as the group engagement partner may be less than the extent of the group auditor's involvement in the work of another auditor who is not subject to common policies and procedures or operates in a foreign jurisdiction.~~

A16~~33~~. ~~A number of sources may provide information about the other auditors. For example, the group auditor may:~~ The group engagement team may obtain an understanding of the component auditor in a number of ways. In the first year of involving a component auditor, the group engagement team may, for example:

- Evaluate the results of the quality control monitoring system where the group engagement team and component auditor are from a firm or network that operates under and complies with common monitoring policies and procedures as provided for in paragraph 87 of ISQC 1;
- Visit the ~~other~~ component auditors to discuss the matters in paragraphs 17(a)-(d);
- Request the component auditor to confirm the matters referred to in paragraph 17(a)-(d) in writing. Appendix 4 contains an example of written confirmations by a component auditor;
- Request the ~~other~~ component auditors to complete questionnaires ~~or written representations~~ about the matters in paragraphs 17(a)-(d);
- Discuss the ~~other~~ component auditors with colleagues in the group ~~auditor~~ engagement partner's firm, or with a ~~network firm who has dealt with them~~ reputable third party that has knowledge of the component auditor; or
- Obtain confirmations from the professional body or bodies to which the ~~other~~ component auditors belongs, the authorities by which they component auditor ~~are~~ is licensed, or other third parties; ~~or.~~
- Consider the results of previous contacts with the other auditors.

In subsequent years, the understanding of the component auditor may be based on the group engagement team's previous experience with the component auditor. The group engagement team may request the component auditor to confirm whether anything in relation to the matters listed in paragraphs 17(a)-(d) has changed since the previous year.

Ethical Requirements that are Relevant to the Group Audit (Ref: Para. 17(a))

A12~~34~~. When performing work on the financial information of a component for a group audit, the ~~other component~~ auditor ~~may be~~ is subject to ethical requirements ~~in addition to those relevant to the other auditor~~ that are relevant to the group audit. ~~Such additional requirements are those relevant to the group auditor. Such requirements may be different or in addition to those applying to the component auditor when performing a statutory audit in the component auditor's jurisdiction. The group engagement team therefore obtains an understanding whether~~

the component auditor understands and will comply with the ethical requirements that are relevant to the group audit, sufficient to fulfill the component auditor's responsibilities in the group audit.

The Component Auditor's Professional Competence (Ref: Para. 17(b))

A35. The group auditor engagement team's understanding of the ~~other~~ component auditor's² compliance with those ethical requirements relevant to the group auditor professional competence may include, for example, whether they component auditor:

- ~~Possess an understanding of those ethical requirements relevant to the group auditor, sufficient to fulfill their responsibilities in the group audit;~~
- Possesses an understanding of auditing and other standards applicable to the group audit, that is sufficient to fulfill ~~their~~ the component auditor's responsibilities in the group audit ~~of the group financial statements; and~~
- Possesses the special skills (e.g., industry specific knowledge) necessary to perform the work on the financial information of the particular components; and
- Where relevant, Possesses an understanding of the applicable financial reporting framework that is sufficient to fulfill ~~their~~ the component auditor's responsibilities in the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework).

~~The group auditor may consider it appropriate to request the other auditor to confirm in writing these and other relevant matters early in the audit process to enable the group auditor to consider their possible effect on the group audit. Appendix 4 contains an example of written confirmations by another auditor.~~

~~A13. The group auditor's understanding may include whether the other auditors operate in a regulatory environment that actively oversees and enforces the professional qualifications, independence, and professional competence of auditors, and the quality control systems of their firms.~~

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 18)

A36. The group engagement team cannot overcome the fact that a component auditor is not independent by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component.

A37. However, the group engagement team may be able to overcome less than serious concerns about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees and enforces the independence and professional competence of auditors and the quality control systems of their firms, by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component.

A38. Where law or regulation prohibits access to specific elements of the audit documentation of the component auditor, the group engagement team may request the component auditor to overcome this by preparing a memorandum that covers the relevant information.

Materiality (Ref: Para. 19-23)

A39. In the context of a group audit, materiality levels are established for both the group financial statements as a whole, and for the financial information of the components. The materiality level for the group financial statements as a whole is used when establishing the overall group audit strategy.

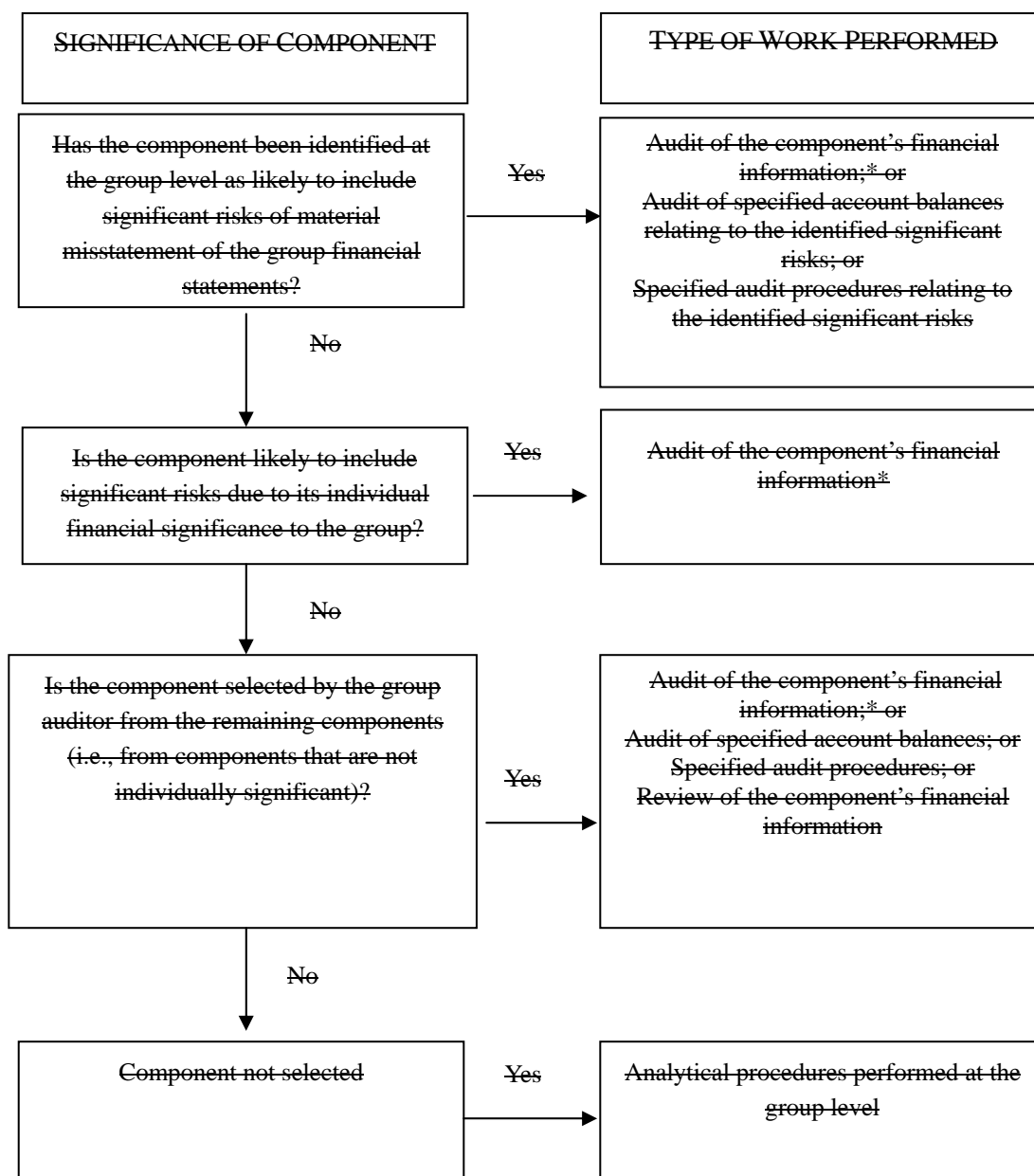
A40. To reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, the component materiality level is set lower than the group materiality level. Different materiality levels may be established for different components. The component materiality level may not be an arithmetical portion of the group materiality level. Consequently, the aggregate of the component materiality levels may exceed the group materiality level. The component materiality level is used when establishing the overall audit strategy for a component.

A41. It is important to reduce the risk that the aggregate of detected and undetected misstatements in the financial information of a component exceeds the component materiality level. To accomplish this, one or more amounts lower than the component materiality level are determined for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks.

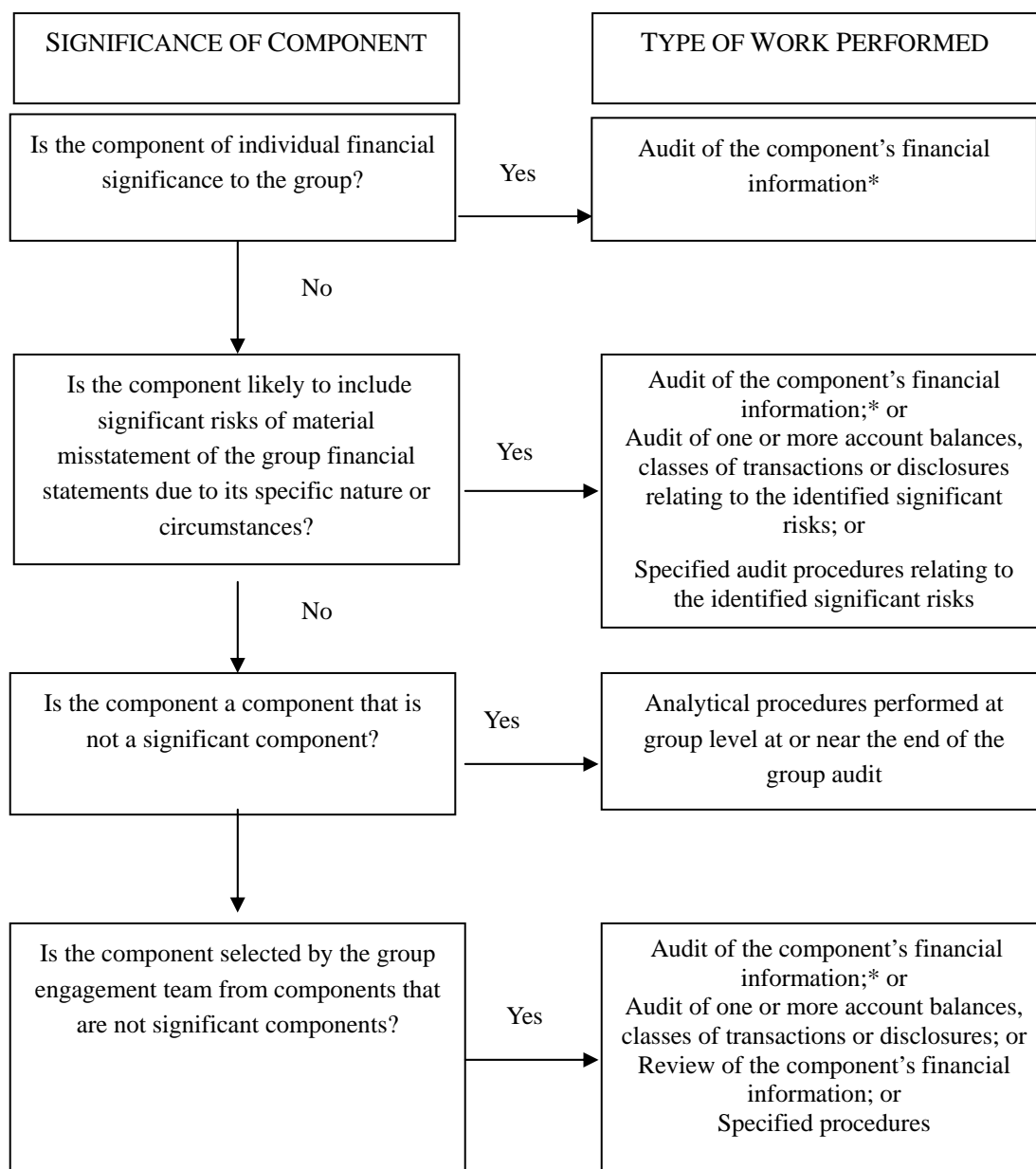
Responding to Assessed Risks

Determining the Type of Work to be Performed on the Financial Information of Components (Ref: Para. ~~20-25~~ 24-29)

A2742. The group engagement team's determination of the type of work to be performed on the financial information of a component and its involvement in the work of the component auditor is affected by (a) the significance of the component, (b) the identified significant risks of material misstatement of the group financial statements, (c) the group engagement team's evaluation of the design of group-wide controls and determination whether they have been implemented, (d) and the group engagement team's understanding of the component auditor. The diagram below illustrates shows how the significance of the component affects the group auditor engagement team's ~~may decide on~~ determination of the type of work to be performed on the financial information of the components.



* Performed using either a materiality level determined by the group auditor or a lower materiality level determined by the other auditor.



* Performed using either a materiality level determined by the group engagement team or a lower materiality level determined by the component auditor.

Significant Components (Ref: Para. 27(b)-(c))

A43. The group engagement team may identify a component as a significant component because that component is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances. In that case, the group engagement team may be able to identify the account balances, classes of transactions or disclosures affected by the likely significant risks. Where this is the case, the group engagement team may decide to perform, or request a component auditor to perform, an audit of only those account balances, classes of transactions or disclosures. For example, in the situation described in paragraph A9, the work on the financial information of the component may be limited to an audit of the account balances, classes of transactions and disclosures affected by the foreign exchange trading of that component.

A44. The group engagement team may also design audit procedures that respond to a likely significant risk of material misstatement of the group financial statements. For example, in the case of a likely significant risk of inventory obsolescence, the group engagement team may perform, or request a component auditor to perform, specified audit procedures on the valuation of inventory at a component that holds a large volume of potentially obsolete inventory, but that is not otherwise significant.

Components that Are Not Individually Significant Components (Ref: Para. ~~24~~ 28-29)

A45. The analytical procedures for components that are not significant components are performed at group level at or near the end of the group audit when forming an overall conclusion as to whether the group financial statements as a whole are consistent with the group engagement team's understanding of the group (see paragraphs 46 and A57). The results of the analytical procedures corroborate the group engagement team's conclusions about the insignificance of the components.

~~A28~~46. The group engagement team's selection of components that are not individually significant decision as to how many components to select, which components to select, and the type of work to be performed on the financial information of the individual components selected may be affected by factors such as the following:

- The extent of audit evidence expected to be obtained on the financial information of the significant components.
- Whether the component has been newly formed or acquired.
- Whether significant changes have taken place in the component.
- Whether internal audit has performed work at the component and ~~the any~~ the effect, ~~if any, it has of that work~~ on the group audit.
- Whether the components apply common systems and processes.
- The operating effectiveness of group-wide controls.
- Abnormal fluctuations identified by analytical procedures performed at ~~the~~ group level.
- ~~The risks posed by, or the~~ the individual financial significance of, ~~or the risk posed by, the~~ the component in comparison with other components within this category.

- Whether the component is subject to audit required by statute, regulation or for another reason.

~~The group auditor may vary the selection of components and work to be performed on their financial information over a period of time. Including an element of unpredictability in selecting components in this category may increase the likelihood of identifying material misstatement of the components' financial information.~~

A29. ~~For example, analytical procedures performed at the group level might have indicated a significant increase in revenue and accounts receivable. 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 may have been established in a country with severe economic problems, which might affect the collection of the accounts receivable. In this example, the group auditor determined that the product is manufactured and sold by three subsidiaries in the group. Although these subsidiaries are not individually significant, they might be significant in the aggregate. Based on the risk assessment performed at the group level, the group auditor may decide to include the subsidiaries in the selection of components on which to perform, or require the other auditors to perform, work and the group auditor may decide that an audit of the accounts receivable at these three components may be the appropriate work.~~

A3047. A review of the financial information of a component may be performed in accordance with International Standard on Review Engagements (ISRE) 2400, "Engagements to Review Financial Statements" or ISRE 2410, "Review of Interim Financial Information Performed by the Auditor of the Entity," ~~modified adapted as appropriate necessary in the circumstances.~~ The group auditor engagement team may also specify additional procedures to supplement this work.

Involvement in the Work Performed by Component Auditors (Ref: Para. 30-31)

A48. The group engagement team's involvement in the work of the component auditor is affected by (a) the significance of the component, (b) the identified significant risks of material misstatement of the group financial statements, and (c) the group engagement team's understanding of the component auditor. In the case of a significant component or identified significant risks, the group engagement team performs the procedures described in paragraphs 30-31. In the case of a component that is not a significant component, the nature, timing and extent of the group engagement team's involvement in the work of the component auditor work will vary based on the group engagement team's understanding of that component auditor. The fact that the component is not a significant component becomes secondary. For example, even though a component is not considered a significant component, the group engagement team nevertheless may decide to be involved in the component auditor's risk assessment, because it has less than serious concerns about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the component auditor does not operate in an environment that actively oversees and enforces the independence and professional competence of auditors and the quality control systems of their firms (see paragraph A37).

~~26A49.~~ ~~The group auditor shall determine the nature, timing and extent of the group auditor's involvement in the work performed by the other auditors in accordance with paragraphs 22-24. This determination is based on the significance of the component, the identified significant risks, and the group auditor's understanding of the other auditors. The group auditor engagement team is always involved in the work of the component auditor through shall evaluate evaluating the other component auditor's memorandum or report of work performed communication (see paragraph 42) and where considered necessary undertake. Other forms of involvement in the work of a component auditor may, based on the group engagement team's understanding of the component auditor, include one or more of the following actions:~~

- (a) Meeting with component management or the ~~other component~~ auditors to obtain an understanding of the component and its environment.
- (b) Reviewing the ~~other component~~ auditors' overall audit strategy and audit plan.
- (c) Performing risk assessment procedures ~~and participating in the~~ to identify and assessment of the risks of material misstatement at the component level. These may be performed with the ~~other component~~ auditors, or by the ~~group auditor engagement team.~~
- (d) ~~Determining~~ Designing and performing further audit procedures. These may be ~~determined~~ designed and performed with the ~~other component~~ auditors, or by the ~~group auditor engagement team.~~
- (e) Participating in the closing and other key meetings between the ~~other component~~ auditors and component management.
- (f) Reviewing other relevant parts of the ~~other component~~ auditors' audit documentation.

Components Subject to Audit by Statute, Regulation or Other Reason (Ref: Para. ~~29~~ 32)

A3150. Factors that may affect the ~~group auditor engagement team's~~ decision whether to use an audit required by statute, regulation or for another reason to provide audit evidence for the group audit, include the following:

- The effect of the financial reporting framework applied in preparing the financial statements of the component and the auditing standards applied by the ~~other component~~ auditor where they are different from those applied in preparing the group financial statements and in their audit thereof, and whether additional audit procedures are necessary; and
- Whether the audit of the financial statements of the component will be completed in time to meet the group reporting timetable.

Consolidation Process

Consolidation Adjustments and Reclassifications (Ref: Para. ~~34~~ 34)

A3251. 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 to which other financial information is subject. The ~~group auditor engagement team's~~ evaluation of the appropriateness, completeness and accuracy of the adjustments may include:

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Checking the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.

Communication with the ~~Other~~ Component Auditors

~~Letter of Instruction~~ (Ref: Para. ~~38~~ 40-41)

A52. If effective two-way communication between the group engagement team and the component auditors does not exist, there is a risk that the group engagement team may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. Clear and timely communication of the group engagement team's requirements forms the basis of effective two-way communication between the group engagement team and the component auditor.

A3353. The group engagement team's requirements are often communicated in a letter of instruction. Appendix 5 contains guidance on required and additional matters, in addition to those listed in paragraph 39, that may be included in the group auditor's such a letter of instruction. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

~~Reviewing Another the Component Auditor's Audit Documentation~~ (Ref: Para. ~~41~~ 42)

A3454. The What parts of another auditor's the audit documentation of the component auditor that will be relevant to the group audit may vary depending on the circumstances. Often the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review often is may be affected by the fact that the other component auditor's audit documentation has been subjected to the other component auditor's firm's review procedures.

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 44-45)

A55. If the group engagement team concludes that it has not obtained sufficient appropriate audit evidence on which to base the group audit opinion, it may request the component auditor to perform additional procedures. If this is not feasible, the group engagement team may perform its own procedures on the financial information of the component.

A56. The group engagement team's evaluation of the effect on the group audit opinion of any material misstatement of the financial information of the components, for example, includes its evaluation of the aggregate effect on the group audit opinion of the uncorrected immaterial misstatements of the financial information of the components.

Performing Analytical Procedures in the Overall Review at the End of the Group Audit (Ref: Para. 46)

A35. In accordance with ISA 520, "~~Analytical Procedures~~," analytical procedures are performed at group level at or near the end of the group audit, when the group engagement team forming forms an overall conclusion as to whether the group financial statements as a whole are consistent with ~~the group auditor's~~ its understanding of the group. The resulting conclusions ~~drawn from the results of such audit procedures~~ are intended to corroborate conclusions formed during the work performed on the financial information of the components or elements of the group financial statements. For example, the ~~group-auditor engagement team~~ group engagement team may consider whether information obtained from the components about complex transactions between them reflects the ~~group-auditor engagement team's~~ group engagement team's understanding of such transactions when consolidated.

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

Communication with Group Management (Ref: Para. 48-49)

A58. ISA 240 (Redrafted) contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.

A3659. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

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

Communication with Those Charged with Governance of the Group (Ref: Para. ~~49~~ 50)

A3760. The matters ~~that the group-auditor engagement team~~ the group engagement team communicates to those charged with governance of the group may include those ~~matters~~ brought to the attention of the group ~~auditor engagement team by other component~~ auditors that the ~~group-auditor engagement team~~ group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group takes place at various times during the group audit. For example, the matters referred to in paragraph ~~49~~ 50(a)-(b) may be communicated after the ~~group-auditor engagement team~~ group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph ~~49~~ 50(c) may be communicated at the end of the audit, and the matter referred to in paragraph ~~49~~ 50(d) may be communicated when it occurs.

Appendix 1

(Ref: Para. A21)

Example of a Qualified Opinion where the Group Auditor Engagement Team is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion (Paragraph A10)

In this example, the group ~~auditor engagement team~~ is unable to obtain sufficient appropriate audit evidence ~~in relation~~ relating to a significant component accounted for by the equity method (recognized at \$15 million in the balance sheet, which reflects total assets of \$60 million) because the group ~~auditor engagement team~~ did not have access to the accounting records, management, or auditor of the component.

The group ~~auditor engagement team~~ has read the audited financial statements of the component as of December 31, 20X56, including the auditor's report thereon, and considered related financial information ~~retained~~ kept by group management in relation to the component.

In the auditor's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements²

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 20X56, and the consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated 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.

² The subheading "Report on ~~the~~ Consolidated Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. ~~Except for the matter described in the Basis for Qualified Opinion paragraph, w~~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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.² An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is recognized ~~carried~~ at \$15 million ~~in on~~ the balance sheet as at December 31, 20X5~~6~~, and ABC Company's share of ~~profit of XYZ's Company is recognized at~~ net income of \$1 million is included in the ABC's income statement for the year then ended December 31, 20X5. Although ABC Company provided us with XYZ Company's audited financial statements for the year ended December 31, 20X5, we were unable to obtain the access to the accounting records, management, or auditor of XYZ Company necessary for us to obtain sufficient appropriate audit evidence in relation to the financial information of XYZ Company. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X6 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

² In circumstances where the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances."

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion 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, 20X5~~6~~, and of their financial performance and 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 2

(Ref: Para. A17)

Examples of Matters About Which the Group Auditor Engagement Team Obtains an Understanding (Paragraph A17)

Group-wide Controls

1. Group-wide controls may include a combination of the following:
 - Regular meetings between group and component management to discuss business developments and to review performance.
 - Monitoring of components' operations and their financial results, including regular reporting routines, 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 assigning authority and responsibility to component management.
2. Internal audit may be regarded as part of group-wide controls, for example, when the internal audit function is centralized. [Proposed] ISA 610 (Redrafted), "The Auditor's Consideration of the Internal Audit Function Using the Work of Internal Audit" deals with the group ~~auditor~~ engagement team's evaluation of the competence and objectivity of the internal auditors where ~~the group auditor~~ it plans to use their work.

Consolidation Process

3. The group ~~auditor~~ engagement team's understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- 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 to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with components with financial year-ends different from the group's year-end.

Matters relating to the consolidation process:

- Group management's process for obtaining an understanding of the accounting policies used by components, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the components for the group financial statements, and that differences in accounting policies are identified, and adjusted (where required in terms of the applicable financial reporting framework). Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the components use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.
- Group management's process for ensuring complete, accurate and timely financial reporting by the components for the consolidation.
- The process for translating the financial information of foreign components into the currency of the group financial statements.
- How IT is organized for the consolidation, including the manual and automated stages of the process, and the manual and programmed controls in place at various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments:

- 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 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).

Appendix 3

(Ref: Para. A28)

Examples of Conditions or Events that may Indicate Risks of Material Misstatement of the Group Financial Statements (~~Paragraph A25~~)

- 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 on monitoring of components' operations and their results.
- 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' financial information require incorporation in the group financial statements in accordance with the applicable financial reporting framework, for example whether any special purpose entities or non-trading entities exist and require incorporation.
- Unusual ~~R~~related party relationships and transactions.
- Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
- The existence of complex transactions that are accounted for in more than one component.
- Components' application of accounting policies that differ from those applied ~~in~~ to 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.
- Frequent changes of auditors engaged to audit the financial statements of components.

Appendix 4

(Ref: Para. A33)

Examples of Another a Component Auditor's Confirmations (Paragraphs A12)

The following ~~letter~~ is not intended to be a standard letter. Confirmations may vary from one auditor to another and from one period to the next.

Confirmations often are obtained before the work on the financial information of the component ~~is commenced~~ commences.

[~~Other~~ Component Auditor Letterhead]

[To Group ~~Auditor~~ Engagement Partner]

[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 its 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].
3. We will provide you with ~~the necessary~~ access to relevant audit documentation.

We acknowledge that:

1. The financial information of [name of component] will be included in the group financial statements of [name of parent].
2. You may consider it necessary to be involved in the work you have requested us to perform on the financial information of [name of component] for the year ended [date].
3. You intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of [name of parent].

In connection with the work that we will perform on the financial information of [name of component], a [describe component, e.g. wholly-owned subsidiary, subsidiary, joint venture, ~~associate company~~ investee accounted for by the equity or cost methods of accounting] of [name of parent], we confirm the following:

~~1. Our firm has implemented a quality control system in accordance with ISQC 1.~~

~~2.1.~~ We have an understanding of and will comply with [indicate relevant ethical requirements]; that is sufficient to fulfill our responsibilities in 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 [indicate relevant ethical requirements] and ~~are in compliance~~ comply with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].

~~3.2.~~ We have an understanding of International Standards on Auditing and [indicate other national standards applicable to the audit of the group financial statements]; that is sufficient to fulfill our responsibilities in 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~~ with those standards.

~~4.3.~~ We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual]; that is sufficient to fulfill our responsibilities in 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].

[Auditor's signature]

[Date]

[Auditor's address]

Appendix 5

(Ref: Para. A53)

Required and Additional Matters to be Included in the Group Auditor Engagement Team's Letter of Instruction (Paragraph A33)

Matters required by this ISA to be communicated to the component auditor are shown in italicized text.

Matters that are relevant to the planning of the ~~other auditor's~~ work of the component auditor:

- The timetable for completing the audit.
- Dates of planned visits by group management and the ~~group auditor engagement team~~, and dates of planned meetings with component management and the ~~other~~ component auditor.
- A list of key contacts.
- ~~The use to be made of the other auditor's work, t~~*The work to be performed by the component auditor, the use to be made of that work*, and arrangements for ~~the coordination of~~ coordinating efforts at the initial stage of and during the audit, including the ~~group auditor engagement team's~~ planned involvement in the work of the other component auditor.
- *In the case of an audit or review of the financial information of the component, component materiality, and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.*
- *In the case of an audit of the financial information of the component, the lower amount(s) for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level, or a request that the component auditor determines such an amount.*
- *A list of related parties prepared by group management, and any other related parties that the group engagement team is aware of, and a request that the component auditor communicates to the group engagement team related parties not previously identified by group management or the group engagement team.*
- Work to be performed on intra-group transactions and unrealized profits and intra-group account balances.
- 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 engagement team's conclusion on the group financial statements~~ is likely, specific instructions for a subsequent events review.

Matters that are relevant to the conduct of the work of the ~~other~~ component auditor's work:

- The findings of the group ~~auditor~~ engagement team'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~~ component auditor.
- Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor, and a request that the component auditor communicates any other significant risks of material misstatement of the group financial statements, due to fraud or error, identified in the component and the component auditor's response to such risks.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- A request 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~~ engagement team originally based the risk assessment performed at ~~the~~ group level.
- A request for a written representation on component management's compliance with the applicable financial reporting framework, or a statement that differences between the accounting policies applied to the financial information of the component and those applied to the group financial statements have been disclosed.
- Matters to be documented by the ~~other~~ component auditor.

Other information

- A request that the following ~~are~~ be reported to the group ~~auditor~~ engagement team in a timely basis:
 - Significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.
 - Matters relating to the going concern status of the component.
 - Matters relating to litigation and claims.
 - Material weaknesses in controls that have come to the attention of the ~~other~~ component auditor during the performance of the work on the financial information of the component, and information that indicates ~~that a fraud may exist~~ the existence of fraud.
- A request that the group ~~auditor~~ engagement team be notified of any significant or unusual events as early as possible.
- A request that the matters listed in paragraph 41 be communicated to the group engagement team when the work on the financial information of the component is completed.

Proposed Conforming Amendment to ISA 220 (Redrafted), “Quality Control for Audits of Historical Financial Information”

A new paragraph is added after paragraph 20 as follows:

Assignment of Engagement Teams

- 19. The engagement partner should be satisfied that the engagement team collectively has the appropriate capabilities, competence and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor’s report that is appropriate in the circumstances to be issued.**
- 20. The appropriate capabilities and competence expected of the engagement team as a whole include the following:**
 - An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
 - An understanding of professional standards and regulatory and legal requirements.
 - Appropriate technical knowledge, including knowledge of relevant information technology.
 - Knowledge of relevant industries in which the client operates.
 - Ability to apply professional judgment.
 - An understanding of the firm’s quality control policies and procedures.
- 20a. [Proposed] ISA 600 (Revised and Redrafted) contains additional requirements and guidance for audits of group financial statements that involve component auditors. An auditor of a single entity may find [proposed] ISA 600 (Revised and Redrafted), adapted as necessary in the circumstances, useful when other auditors are involved in the audit of the financial statements of the single entity.**

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