Proposed International Standard on Auditing 600
(Revised and Redrafted)

The Audit of Group Financial Statements
REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB) approved the enclosed exposure draft for publication in March 2006. The proposed International Standard on Auditing (ISA) may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by e-mail or on computer disk, so that they will be received by **July 31, 2006**. All comments will be considered a matter for the public record. Comments should be addressed to:

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  /New York, New York 10017 USA  
Email responses should be sent to: Edcomments@ifac.org

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## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanatory Memorandum</td>
<td>2</td>
</tr>
</tbody>
</table>
| Proposed International Standard on Auditing 600 (Revised and Redrafted),
  “The Audit of Group Financial Statements” | 47   |
EXPLANATORY MEMORANDUM

Introduction
1. This memorandum provides background to, and an explanation of, the proposed International Standard on Auditing (ISA) 600 (Revised and Redrafted), “The Audit of Group Financial Statements,” approved for re-exposure by the International Auditing and Assurance Standards Board (IAASB) in March 2006.

Background
2. Several bodies have asked for guidance on the audit of group financial statements, including the European Commission, the International Organization of Securities Commissions, the former Panel on Audit Effectiveness in the United States, and the International Forum on Accountancy Development. Accordingly, the IAASB commenced a project on the audit of group financial statements (‘‘group audits’’). The objective of the project was to deal with special considerations in group audits and, in particular, the involvement of other auditors. It was agreed that extant ISA 600, “Using the Work of Another Auditor” be revised to deal with such considerations, and that its title be changed accordingly.

3. In December 2003, the IAASB published a proposed revised ISA 600, under the new title of “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements” and a proposed new International Auditing Practice Statement (IAPS), under the title of “The Audit of Group Financial Statements.” Due to the significance of the comments received, and changes proposed based on them, the IAASB concluded that it was necessary to re-expose the proposed revised requirements and guidance.

4. In March 2005, the IAASB published proposed ISA 600 (Revised), “The Audit of Group Financial Statements” (“Exposure Draft”). The comment period closed on July 31, 2005. Based on the comments received, the IAASB processed changes to the Exposure Draft, and redrafted the text to reflect the proposed clarity drafting conventions. The following summarizes the more significant issues raised by respondents, and how the IAASB addressed them.

Significant Issues and Related Proposals

Elimination of the Distinction Between Sole and Divided Responsibility
5. The Exposure Draft did not distinguish between sole and divided responsibility. The proposed requirements and guidance were based on the following:

- The group auditor is responsible for expressing an audit opinion on the group financial statements (“group audit opinion”).
- In order to obtain sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level, the group auditor has to determine the audit procedures to be performed on the consolidation and the work to be performed on the components’ financial information, both by the group auditor and by other auditors.
The group auditor’s procedures are the same whether he or she accepts sole or divided responsibility. As a result, the requirements and guidance apply equally to all audits of group financial statements performed in accordance with ISAs.

Should the group auditor be unable to obtain sufficient appropriate audit evidence in relation to a component, it constitutes a scope limitation and he or she has to consider the effect thereof on the group audit opinion. The group auditor is not able to refer to the other auditor instead of modifying the group audit opinion based on the scope limitation.

6. A majority of respondents supported the elimination of the distinction between sole and divided responsibility. A small number of respondents were of the view that there are situations in which the divided responsibility alternative is particularly useful, for example, where an entity has significant components accounted for by the equity method of accounting that are audited by other auditors. Some noted that the reference to another auditor in the group auditor’s report is necessary to preserving transparency to the users of group financial statements. Others were concerned about the resource and consequential cost implications of the proposed requirements.

7. The IAASB concluded that no new arguments against the proposal to eliminate the distinction between sole and divided responsibility were presented.

- The IAASB confirmed its previous conclusion that the group auditor is responsible for the group audit opinion and, consequently, has to obtain sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level. This is explained in paragraph 4 and reflected in the objective in paragraph 6 of the proposed ISA.

- With regard to the comment on preserving transparency to the users of group financial statements, the IAASB concluded that, should the group auditor not be able to obtain sufficient appropriate audit evidence on which to base the group audit opinion, the Basis for Modified Opinion paragraph in the group auditor’s report will provide the necessary information to the users of the group financial statements.

**Distinction between Related and Unrelated Auditors and the Definition of Group Auditor**

8. The Exposure Draft defined “group auditor” as the auditor who signs the auditor’s report on the group financial statements; “related auditor” as an auditor from the group auditor’s firm or from a network firm who (a) operates under, and complies with, common monitoring policies and procedures as provided for in paragraph 87 of ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” and (b) performs work on one or more components for purposes of the audit of the group financial statements; and “unrelated auditor” as an auditor other than the group auditor or a related auditor, who performs work on one or more component for purposes of the audit of the group financial statements. The distinction between related and unrelated auditor affected the nature, timing and extent of the procedures that the group auditor performs in relation to the other auditor’s work.

9. Although a majority of respondents supported the proposal to strengthen the group auditor’s procedures – in particular those performed in relation to the other auditor’s work – several respondents were concerned about the consistent application of the distinction between...
related and unrelated auditor. Several respondents also asked that the IAASB further clarify
the group auditor’s proposed involvement in the work of another auditor (including the
review of the other auditor’s audit documentation).

10. Some respondents noted that it was not clear whether an auditor from another office of the
group engagement partner’s firm is a member of the group engagement partner’s
engagement team or a related auditor.

11. The IAASB acknowledges that the structures of audit firms and audit firm networks vary and
that it is not possible to develop a distinction between related and unrelated auditors that will
apply consistently in all cases.

12. The IAASB concluded that:

- The nature, timing and extent of the procedures to be performed by the group auditor to
  obtain an understanding of another auditor are affected by factors such as the group
  auditor’s previous experience with or knowledge of the other auditor; the degree to
  which the group auditor and the other auditor perform, or are subject to, common
  policies and procedures; and the consistency or similarity of laws and regulations,
  professional oversight and discipline, education and training, professional
  organizations and standards, and language and culture (see paragraph A15).
- The nature, timing and extent of the group auditor’s involvement in the other auditor’s
  work are affected by the significance of the component, identified significant risks and
  the group auditor’s understanding of the other auditor (see paragraph 26).
- Both these matters are affected by whether the auditors are related or not, but not in a
  clear and consistent way.

13. Consequently, the IAASB has:

- Eliminated the distinction between related and unrelated auditors.
- Deleted the notion that the group auditor can “delegate” his or her responsibilities to a
  related auditor with the group auditor performing very limited or no procedures in
  relation to the work performed by the related auditor on behalf of the group auditor.
- Revised the guidance to explain the effect on audit risk of using the work of another
  auditor (see paragraphs 2-3).
- Revised the requirements to base the group auditor’s decision whether to review
  relevant parts of another auditor’s audit documentation on his or her evaluation of the
  other auditor’s memorandum or report of work performed (see paragraph 41).

14. To clarify the distinction between members of the group engagement partner’s engagement
team and other auditors, the IAASB has defined members of the group engagement partner’s
engagement team as 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 a member of an engagement team responsible for the audit of the financial
statements of a single entity is directed and supervised by the engagement partner in
accordance with ISA 220, “Quality Control for Audits of Historical Financial Information”
(see paragraphs 7(d), (h) and (i)).
Acceptance and Continuance as Group Auditor

15. According to the Exposure Draft, the group auditor’s decision to accept or continue an engagement is subject to the group auditor being able to obtain sufficient appropriate audit evidence on which to base the group audit opinion. This is achieved by the group auditor performing the work on the financial information of significant components, or being involved in the work that other auditors perform on the financial information of significant components. “Significant component” was defined as a component that has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements. This could be due to (a) the nature of, and circumstances specific to, the components (risk), or (b) the individual financial significance of the component to the group (size).

16. The proposed guidance recognized that the group auditor may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. It also explained that a component representing 20% or more of group assets, liabilities, cash flows, profit, or turnover is regarded as financially significant. The nature and circumstances of the group, however, may make a lower percentage appropriate.

17. Although a majority of respondents supported the proposal referred to in paragraph 15 above (subject to further clarification of the meaning of “involvement” as noted in paragraph 9 of this memorandum), many respondents opposed the proposed guidance on the percentage to be applied to the chosen benchmark. Some recommended deletion of the proposed guidance. Others suggested a range of possible percentages, or expansion of the proposed guidance, possibly with more examples.

18. The IAASB is of the view that the proposed guidance on benchmarks and percentages will enhance the consistent application of the proposed requirements. However, recognizing respondents concerns, the IAASB revised the text to be less prescriptive. Furthermore, the text now forms part of the application material. See paragraph A5.

Access to Information

19. According to the Exposure Draft, the group auditor could not accept a group audit engagement if the group auditor’s access to component information, those charged with governance of components, component management, or other auditors (including relevant parts of their audit documentation) will be restricted, and the possible effect of the group auditor’s inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements, such that the group auditor is likely to disclaim an opinion on the group financial statements.

20. Many respondents were concerned that the proposed requirement will give rise to practical difficulty. They noted that jurisdictions exist where, due to legal or regulatory impediments, the group auditor may not have the required access, or the group auditor may be prohibited by law or regulation from refusing or resigning from an engagement. They believed that there should be further guidance on what the group auditor should do if there are restrictions on access.

21. The IAASB is of the view that, before accepting or continuing a group audit engagement, the group auditor should have a reasonable expectation of obtaining sufficient appropriate audit evidence 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. As explained in the proposed ISA, this is achieved by the group auditor performing the work on the consolidation process; and either performing the work on the financial information of significant components, or being involved in the work that the other auditors perform on the financial information of significant components to the extent necessary to obtain sufficient appropriate audit evidence.

22. The IAASB recognizes that circumstances may exist where the group auditor is not 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. The IAASB is of the view that, in such circumstances, it is unlikely that the group auditor will be able to obtain sufficient appropriate audit evidence. Consequently, paragraph 12 of the proposed ISA requires the group engagement partner to refuse or resign from the engagement if he or she concludes that it will not be possible to obtain sufficient appropriate audit evidence, and the possible effect of this inability will result in a disclaimer of opinion on the group financial statements. This is in line with paragraph 17 of the “International Framework for Assurance Engagements.” Where law or regulation prohibits the group engagement partner from refusing or resigning from an engagement, he or she is required to express a disclaimer of opinion on the group financial statements (see paragraph 13).

Distinction between Components that Are Not Significant in the Aggregate and Other Components

23. The Exposure Draft dealt with the group auditor’s procedures in relation to significant components, components that are significant in the aggregate, and components that are not significant in the aggregate. Some respondents were concerned about, or found it difficult to understand, the distinction between components that are significant in the aggregate and components that are not significant in the aggregate. The IAASB was asked not to convey the impression that the group auditor may presumptively decide to limit the work on the financial information of a component that is not significant in the aggregate to analytical procedures performed at the group level.

24. In response to the comments received, the IAASB concluded that the proposed ISA could be simplified by combining the categories of components that are significant in the aggregate and components that are not significant in the aggregate. The combined category is now referred to as “components that are not individually significant.” To obtain sufficient appropriate evidence to reduce audit risk for the group financial statements to an acceptably low level, the group auditor has to select components that are not individually significant for which the group auditor, or another auditor at the request of the group auditor, has to perform an audit of the component’s financial information, an audit of specified account balance, specified audit procedures, or a review of the component’s financial information (see paragraph 24). For components not selected, the group auditor has to perform analytical procedures at the group level (see paragraph 25). Paragraph A28 of the proposed ISA lists factors that may affect the group auditor’s selection of components that are not individually significant, and the work to be performed on the financial information of the individual components selected.
The Responsibilities of Other Auditors

25. Paragraph 15 of extant ISA 600 requires the other auditor, knowing the context in which the group auditor will use the other auditor’s work, to cooperate with the group auditor. This requirement was not included in the Exposure Draft as the IAASB did not consider it appropriate to include a requirement for another auditor in an ISA that primarily contains requirements and guidance for a group auditor. Several respondents, however, noted that it would be helpful to clarify the responsibilities of the other auditor. Their comments mainly related to the other auditor’s responsibility to provide the group auditor with access to relevant parts of their audit documentation.

26. The IAASB continues to be of the view that it will not be possible for the group auditor to obtain audit evidence of another auditor’s compliance with a requirement to cooperate with the group auditor. The group auditor could, however, obtain an understanding (and written confirmation) whether the other auditor will provide him or her with the necessary access to relevant audit documentation. The IAASB therefore revised the Exposure Draft to require the group auditor to obtain this understanding (see paragraph 14(d)).

Presentation of Requirements and Guidance

27. The IAASB has always found the question of the division of the material between ISA and IAPS troublesome. In considering the proposed requirements and guidance for approval as an Exposure Draft in March 2005, the IAASB had before it a single ISA, and an ISA together with a related IAPS. On balance the IAASB took the view that the single ISA should be exposed. In this instance, the single ISA was thought to eliminate the need for repetition, lead to a shorter document, and provide a clearer picture of the application of the audit risk model to the audit of group financial statements than the alternative presentation. A majority of respondents supported the single ISA approach.

28. Some respondents, however, commented that the single ISA was lengthy, duplicated some of the requirements in other ISAs, and was overly prescriptive. Others were concerned about the large number of cross-references and general lack of flow in the document. Several respondents suggested that issues relating to the length, structure, positioning of guidance (ISA vs. IAPS), etc. be considered when it is redrafted as part of the IAASB’s project to improve the clarity of its pronouncements.

29. The IAASB concluded that many of the respondents’ concerns could be addressed by applying the proposed clarity drafting conventions as set out in the Exposure Draft on “Improving the Clarity of IAASB Standards,” which was issued in October 2005. To the extent that the responses to the Exposure Draft on “Improving the Clarity of IAASB Standards” give rise to further changes in the proposed clarity drafting conventions, these will be reflected in the final ISA 600 (Revised and Redrafted).

30. In redrafting the proposed ISA, the IAASB also reconsidered the number of requirements and extent of application material. Some application material was moved to appendices to aid presentation.

31. The Appendix to this memorandum “maps” the “should” requirements and present tense sentences in the March 2005 Exposure Draft to the related “shall” requirements and application material in the proposed ISA.
Effective Date

32. The IAASB will determine the effective date of the final ISA 600 (Revised and Redrafted) in due course, after considering the comments received on exposure.

Guide for Respondents

Request for Specific Comments

33. The IAASB has considered carefully the responses to its initial proposals. It is therefore not seeking further repetition of comments previously made (including in regard to matters in paragraphs 15-26 of this memorandum), but rather views on the effect of substantial changes in the final proposals, such as:

(a) The proposal to eliminate the distinction between related and unrelated auditor gave rise to substantial changes to some of the proposed requirements. Respondents are asked to indicate whether they are in agreement with the proposal, and the effect that it has on the procedures that the group auditor performs in relation to the work of other auditors. Respondents are asked also to consider the proposed definitions of “group auditor,” “member of the engagement team under the direct supervision of the group engagement partner,” and “other auditor or another auditor.”

(b) The IAASB is of the view that the proposed revised ISA will enhance the quality of group audits. Where a group auditor takes sole responsibility for the audit opinion on the group financial statements, it will require that the group auditor obtains sufficient appropriate audit evidence on which to base such an opinion. The IAASB recognizes, however, that current group audit practices vary. This is one reason why the IAASB considers it necessary to be reasonably specific about the steps to be taken, and the work effort required, by the group auditor. Do respondents think that this approach is justified?

(c) The IAASB is aware that, at this stage of the Project to Improve the Clarity of IAASB Standards there are those who think that further exposure drafts should not be issued until the clarity drafting conventions are finalized. However, the IAASB considers that to avoid further delay in this project it is appropriate, given the changes from the previous exposure draft, to seek views on the proposed revised ISA at this stage. The effect of finalizing the clarity proposals will be taken into account in finalizing the resulting ISA. With regard to the application of the proposed clarity drafting conventions, respondents are asked to respond in particular to the following questions:

(i) Is the objective to be achieved by the auditor, stated in paragraph 6 of the proposed ISAs, appropriate?

(ii) Have the guidelines identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements are at a level that promotes consistency in performance and the use of professional judgment by auditors?

1 In accordance with the Exposure Draft on “Improving the Clarity of IAASB Standards,” the IAASB will determine the requirements of a Standard as follows:

- The requirement is necessary to achieve the objective stated in the Standard;
34. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

• The requirement is expected to be applicable in virtually all engagements to which the Standard is relevant; and
• The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.
• In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.

These guidelines, which are intended only to assist the IAASB in appropriately and consistently determining requirements, may be refined as further experience is gained.
Proposed ISA 600 (Revised and Redrafted): Mapping Document

This supplement to the IAASB Exposure Draft, Proposed ISA 600 (Revised and Redrafted), “The Audit of Group Financial Statements,” has been prepared by IAASB staff to demonstrate how the “should” requirements and sentences in the present tense in the March 2005 Exposure Draft (appropriately amended based on the comments received on the March 2005 Exposure Draft) have been reflected in proposed ISA 600 (Revised and Redrafted).

The material included herein is provided only to assist readers of the Exposure Draft. It is for information purposes only and does not form part of the Exposure Draft. The IAASB has not approved, disapproved, or otherwise acted upon this supplement. It is neither authoritative nor an official pronouncement nor statement of the IAASB.

<table>
<thead>
<tr>
<th>“Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft</th>
<th>“Shall” in Proposed ISA 600 (Revised and Redrafted)?</th>
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<th>Comments (Paragraph References are to Proposed ISA 600 (Revised and Redrafted))</th>
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<tbody>
<tr>
<td>Introduction</td>
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<td>1. This International Standard on Auditing (ISA) deals with special considerations in the audit of group financial statements (“group audit”) and, in particular, the involvement of other 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.</td>
<td>Matter is addressed by the reference to “special consideration in the audit of group financial statements.”</td>
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<td>1. … The group auditor also applies the standards and considers the guidance in the other ISAs.</td>
<td>No</td>
<td>4. The group auditor should obtain sufficient appropriate audit evidence on which to base the group audit opinion. To obtain such audit evidence, the group auditor should determine (a) the audit objective to be achieved</td>
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<td>6. In relation to this ISA, the objective of the auditor is 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 the group financial</td>
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### “Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft

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<tr>
<td>procedures to be performed on the consolidation, and (b) the type of work to be performed by the group auditor or other auditors on the financial information of the components.</td>
<td>statements to an acceptably low level by: (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.</td>
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<td>Acceptance and Continuance as Group Auditor</td>
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<td>7. In deciding whether to accept or continue an engagement to audit group financial statements, the group auditor should also determine whether the group auditor will be able to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements … In order to obtain sufficient appropriate audit evidence, the group auditor performs the work on the consolidation and, as described in this ISA, either performs the work, or is involved in the work to be performed by other auditors, on the financial information of the components.</td>
<td>Yes</td>
<td>9. The group engagement partner shall be satisfied that appropriate procedures regarding the acceptance or continuance of an engagement to audit group financial statements have been followed (see ISA 220, “Quality Control for Audits of Historical Financial Information), and that there is a reasonable expectation of obtaining sufficient appropriate audit evidence 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.</td>
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<td>7. … The group auditor, however, takes responsibility for the audit opinion on the group financial statements (for purposes of this ISA referred to as “group audit</td>
<td>No</td>
<td>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,</td>
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EXPLANATORY MEMORANDUM

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<td>“opinion” … 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”).</td>
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<td></td>
<td>The requirement is embedded in other requirements of the proposed ISA.</td>
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<td>10. To obtain sufficient appropriate audit evidence on which to base the group audit opinion, the group auditor, at a minimum, should:</td>
<td>Paragraph has been deleted</td>
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<td>(a) Perform the work on the financial information of significant components, or</td>
<td></td>
<td></td>
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<tr>
<td>(b) Be involved in the work that other auditors perform on the financial information of significant components.</td>
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<td>11. For purposes of determining whether to accept or continue an engagement to audit group financial statements, the group auditor should obtain an understanding of the group, its components, and their environments, sufficient to identify components where other auditors will perform the work on the financial information, and determine which of those components are likely to be significant.</td>
<td>Yes</td>
<td>10. For this purpose, the group auditor shall obtain an understanding of the group, its components, and their environments, sufficient to determine which of the components are likely to be significant and, where other auditors will perform the work on the financial information of such components, whether the group auditor will be able to be involved in the work of those other auditors to the extent necessary to obtain sufficient appropriate audit evidence.</td>
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<td>12. In the case of a new engagement, this understanding is obtained from information provided by group management, discussions with group management and, where applicable, discussions with the previous group auditor, component management and other auditors. In the case of a continuing engagement, the group auditor considers significant changes that may affect previous experience with the</td>
<td>No</td>
<td>Now application material to paragraph 10. See paragraph A1, which lists possible sources from which the group auditor may obtain the required understanding. The list is not exhaustive.</td>
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<td>group.</td>
<td>No</td>
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| **13.** The group auditor’s understanding includes:  
• The group structure … | No |  | Now application material to paragraph 10. See paragraph A2, which provides a list of matters about which the group auditor may obtain an understanding. The list is not exhaustive. |
| **14.** In the case of a continuing engagement, the group auditor considers whether there have been significant changes that may affect the group auditor’s ability to obtain sufficient appropriate audit evidence on which to base the group audit opinion … | No |  | Now application material to paragraph 10. See paragraph A3, which lists significant changes that may affect the group auditor’s ability to obtain sufficient appropriate audit evidence. The list is not exhaustive. |
| **17.** A group may consist only of components that are not of individual financial significance to the group. In these circumstances, the group auditor and related auditors (a) perform the work on the financial information of some of these components, and (b) are involved in the work performed by unrelated auditors on the financial information of other components to the extent the group auditor considers necessary to obtain sufficient appropriate audit evidence on which to base the group audit opinion. | No |  | Now application material to paragraph 10. See paragraph A6, which explains the circumstances in which the group engagement partner can reasonably expect to obtain sufficient appropriate audit evidence if a group consists only of components that are not likely to be significant. |

**ACCESS TO INFORMATION**

| 18. The group auditor should not accept an engagement to audit group financial statements if:  
(a) The group auditor’s access to component | Paragraph has been deleted, but see |  | Paragraph has been deleted based on comments received. Respondents noted that the |
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<td>information, those charged with governance of components, component management, or other auditors (including relevant parts of their audit documentation) will be restricted; and (b) The possible effect of the group auditor’s inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements, such that the group auditor is likely to disclaim an opinion on the group financial statements.</td>
<td>paragraphs 12-13 of proposed ISA 600 (Revised and Redrafted)</td>
<td>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.</td>
<td>acceptance/continuance decision should be based on the group auditor’s expectation to obtain sufficient appropriate audit evidence; not on whether he or she will have access. See, however, paragraphs 12-13.</td>
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<td>21. Where restrictions on access cannot be overcome by group management or it is impractical for the group auditor to be involved in the work of another auditor, the group auditor considers whether sufficient appropriate audit evidence can be obtained by other means … If the group auditor concludes that it does not constitute sufficient appropriate audit evidence, the group auditor considers the possible effect on the group financial statements and the group audit opinion …</td>
<td>No, but text has been retained in the requirements section</td>
<td>22. If the group auditor concludes that, because of restrictions on access or impracticalities, the group auditor will not be able to obtain sufficient appropriate audit evidence on which to base an unmodified group audit opinion, the group auditor considers the possible effect of this inability on the group financial statements.</td>
<td>See paragraphs 19-22 of the Explanatory Memorandum.</td>
</tr>
<tr>
<td>22. If the group auditor concludes that, because of restrictions on access or impracticalities, the group auditor will not be able to obtain sufficient appropriate audit evidence on which to base an unmodified group audit opinion, the group auditor considers the possible effect of this inability on the group financial statements.</td>
<td>Yes</td>
<td>12. If the group engagement partner concludes that it will not be possible to obtain sufficient appropriate audit evidence and the possible effect of this inability will result in a disclaimer of opinion on the group financial statements (see [proposed] ISA 705, “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 from the engagement. This is subject to paragraph 13.</td>
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<td>23. In some circumstances, the possible effect of the inability to obtain sufficient appropriate audit evidence is in the group auditor’s judgment material and pervasive to the group financial statements, thus</td>
<td>13. Where law or regulation prohibits an auditor from</td>
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<td>requiring a disclaimer of opinion (see [proposed] ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report”). In these circumstances, the group auditor informs group management that it is not possible for the group auditor to accept the engagement.</td>
<td>refusing or resigning from an engagement, the group engagement partner shall express a disclaimer of opinion on the group financial statements.</td>
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<tr>
<td>24. If restrictions on access occur after accepting an engagement and these restrictions cannot be overcome by group management, or by the group auditor obtaining sufficient appropriate audit evidence by other means, the group auditor should consider the possible effect of this inability to obtain sufficient appropriate audit evidence on the group financial statements …</td>
<td>Paragraph has been deleted</td>
<td>Covered by paragraphs 12-13.</td>
<td></td>
</tr>
<tr>
<td>25. … When the possible effect of this inability is material and pervasive to the group financial statements, the group auditor considers resigning from the engagement. Where law or regulation does not permit resignation, the group auditor expresses a disclaimer of opinion on the group financial statements.</td>
<td>Paragraph has been deleted</td>
<td>Covered by paragraphs 12-13.</td>
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</table>

**TERMS OF ENGAGEMENT**

26. The group auditor should state, in the terms of engagement, that restrictions on (a) the group auditor’s access to component information, those charged with governance of components, component management, or the other auditors (including relevant parts of their audit documentation), or (b) the work to be performed on... | No |  | This was not considered an essential step in an engagement to audit group financial statements. Now application material. See paragraph A11, which lists matters that may be included in the terms of engagement in addition to those... |
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<td>the financial information of the components, imposed after the group auditor’s acceptance of the engagement, constitute a scope limitation that may affect the group audit opinion.</td>
<td></td>
<td></td>
<td>required by ISA 210, “Terms of Engagements.” The list is not exhaustive. This is in line with paragraph 8 of ISA 210, which notes that “[w]hen relevant, the following points could also be made … arrangements concerning the involvement of other auditors and experts in some aspects of the audit …”</td>
</tr>
<tr>
<td>Consideration of Other Auditors</td>
<td>Obtaining an Understanding of the Other Auditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. The group auditor should consider the professional qualifications, independence, and professional competence of the other auditors, and the quality control systems of their firms.</td>
<td>Yes</td>
<td>14. As part of determining the group auditor’s involvement in the work performed by the other auditors, the group auditor shall obtain an understanding of the 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: (a) The professional qualifications of the other auditors; (b) The other auditors’ compliance with those ethical requirements relevant to the group auditor and, in particular, their independence and professional competence; (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 (d) Whether the other auditor will provide the group</td>
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<td>auditor with the necessary access to audit documentation. 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.”</td>
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</tr>
<tr>
<td>28. The group auditor considers, for example, whether the other auditor:</td>
<td>No</td>
<td></td>
<td>Now application material to paragraph 14. See paragraphs A12-16. Paragraph A12 lists examples of the group auditor’s understanding of the other auditors’ compliance with relevant ethical requirements and, in particular, their independence and professional competence.</td>
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<td>- Possesses an understanding of the applicable financial reporting framework…</td>
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<tr>
<td>- Possesses an understanding of auditing and other standards applicable to the audit of the group financial statements …</td>
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<td>- Possesses the special skills necessary …</td>
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<td>- Operates in a regulatory environment …</td>
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<tr>
<td>RELATED AUDITORS</td>
<td></td>
<td></td>
<td>The distinction between related and unrelated auditors has been eliminated. See paragraphs 8-14 of the Explanatory Memorandum.</td>
</tr>
<tr>
<td>32. The group auditor considers any communications received in accordance with ISQC 1, paragraph 87, regarding the result of the related auditor’s quality control process that are relevant to the audit of the group financial statements. The group auditor considers whether any noted deficiencies (a) could affect the audit of the group financial statements, and (b) if so, whether measures taken by the related</td>
<td>Paragraph has been deleted</td>
<td></td>
<td>Paragraph 14(c) requires the group auditor to obtain an understanding of the quality control systems of the other auditors’ firms, including whether their firms have implemented ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information.”</td>
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<td>audior’s firm to rectify such deficiencies appear to be sufficient in the audit of the group financial statements.</td>
<td></td>
<td></td>
<td>Financial Information, and Other Assurance and Related Services Engagements.”</td>
</tr>
<tr>
<td>34. When a related auditor will perform the work, or will be involved in the work to be performed by an unrelated auditor, on the financial information of a significant component, and the related auditor’s professional competence is not personally known to the group auditor, the group auditor working with the related auditor’s firm determines whether the related auditor possesses the necessary professional competence.</td>
<td></td>
<td>Paragraph has been deleted</td>
<td></td>
</tr>
<tr>
<td>UNRELATED AUDITORS</td>
<td></td>
<td></td>
<td>The distinction between related and unrelated auditors has been eliminated. See paragraphs 8-14 of the Explanatory Memorandum.</td>
</tr>
<tr>
<td>35. The group auditor uses a number of sources to obtain information about the professional qualifications, independence, and professional competence of an unrelated auditor, and the quality control system of that auditor’s firm…</td>
<td>No</td>
<td></td>
<td>Now application material to paragraph 14. See paragraph A16, which lists sources that may provide information about the other auditors. The list is not exhaustive.</td>
</tr>
<tr>
<td>36. The group auditor should confirm whether: (a) The unrelated auditor’s firm’s quality control system complies with ISQC 1; and (b) There are any issues noted in recent monitoring reports that are likely to affect significantly the work that the unrelated auditor</td>
<td>Paragraph has been deleted</td>
<td></td>
<td>Paragraph 14(c) requires the group auditor to obtain an understanding of the quality control systems of the other auditors’ firms, including whether their firms have implemented ISQC 1.</td>
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<td>will perform on the financial information of the component …</td>
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<tr>
<td>36. … This confirmation is obtained either directly by the group auditor, or by the person assigned operational responsibility for the group auditor’s firm’s quality control system, from the engagement partner, who will be responsible for the work to be performed on the financial information of the component, or the person assigned operational responsibility for the unrelated auditor’s firm’s quality control system.</td>
<td>Paragraph has been deleted</td>
<td></td>
<td>Viewed as application material, but concluded that it was not necessary.</td>
</tr>
<tr>
<td>37. The group auditor obtains a copy of any report of the unrelated auditor’s latest review that is published by the body responsible for conducting external quality control reviews, and is publicly available.</td>
<td>Paragraph has been deleted</td>
<td></td>
<td>Based on comments received on the March 2005 Exposure Draft, the IAASB concluded that such reports often are not publicly available. Furthermore, they may not be specific enough for the group auditor to draw any conclusion.</td>
</tr>
<tr>
<td>38. When the unrelated auditor is not independent, or the group auditor has serious concerns about the professional qualifications or professional competence of the unrelated auditor, or the quality control system of the unrelated auditor’s firm, the group auditor obtains audit evidence relating to the financial information of the component without using the work of the unrelated auditor. Where the group auditor is unable to obtain sufficient appropriate audit evidence relating to the financial information of the component, the group auditor considers the effect of this scope limitation on the independence is considered to be so fundamental to an audit that action needs to be taken in response to a lack of it.</td>
<td>Yes</td>
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<tr>
<td>Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements</td>
<td>Yes</td>
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</table>

39. The group auditor should enhance the understanding of the group, its components, and their environments, obtained in accordance with paragraph 11, and obtain an understanding of the consolidation process, sufficient to:

(a) Identify, at group level, significant risks of material misstatement of the group financial statements, and confirm the group auditor’s initial identification of significant components (see paragraph 11);

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

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

40. To enhance the understanding of the group, its components, and their environments, and to obtain an understanding of the consolidation process, the group auditor performs the following procedures:

(a) Inquiries...

(b) Application of analytical procedures...

(c) Observation and inspection...

Paragraph has been deleted

16. The group auditor shall enhance the understanding of the group, its components, and their environments obtained during the acceptance or continuance stage, and obtain an understanding of the consolidation process, including the instructions issued by group management to components.  

17. The group auditor’s understanding shall be sufficient to confirm the group auditor’s initial identification of significant components and assess risks of material misstatement of the group financial statements at the group level.

See paragraph 7 of ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.” The IAASB did not consider it necessary to repeat the requirement in proposed ISA 600 (Revised and Redrafted).
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<tbody>
<tr>
<td>Assessing the Risks of Material Misstatement of the Group Financial Statements at the Group Level</td>
<td>Paragraph has been deleted</td>
<td>No</td>
<td>Section was revised and restructured based on comments received on the March 2005 Exposure Draft. The requirement to assess the risks of material misstatement is established in ISA 315.</td>
</tr>
<tr>
<td>42. The group auditor should assess, at the group level, the risks of material misstatement of the group financial statements…</td>
<td></td>
<td></td>
<td>Now application material to paragraph 17. See paragraph A26.</td>
</tr>
<tr>
<td>43. The group auditor’s assessment of the risks at the group level is based on (a) information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls relevant to the consolidation, and (b) information obtained through discussions with other auditors…</td>
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<td>44. The application of ISA 550, “Related Parties” to an audit of a complex group structure, will need to recognize that there is heightened risk of not identifying related parties and related party transactions. It is therefore important that, in assessing the risks of material misstatement of the group financial statements, the group auditor and other auditors are alert for transactions that appear unusual in the circumstances, and that may indicate the existence of previously unidentified related parties.</td>
<td>No</td>
<td></td>
<td>Now application material to paragraph 17. See Appendix 3, which lists examples of conditions or events that may indicate risks of material misstatement of the group financial statements. Also see paragraph 38(d).</td>
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<td><strong>Materiality</strong></td>
<td>46. The group auditor determines materiality level(s) for the group financial statements as a whole when establishing the overall audit strategy for the audit of the group financial statements.</td>
<td>Yes</td>
<td>18. The group auditor shall determine the 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”). To ensure that the requirements on materiality are complete.</td>
</tr>
<tr>
<td>47. The group auditor should also determine the materiality level(s) to be used by other auditors in performing the work on the financial information of the components for purposes of the audit of the group financial statements. To allow for aggregation of identified misstatements and possible undetected misstatements, the component materiality level(s) are lower than the group materiality level(s).</td>
<td>Yes</td>
<td>19. [Proposed] ISA 320 (Revised) requires the auditor to determine an amount 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. 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 shall determine materiality levels for the components that are lower than the materiality level for the group financial statements as a whole. Moreover, the group auditor or the other auditor shall also determine an amount lower than the 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 amount is determined by the other auditor, the group auditor shall determine whether it is appropriate before significant work is performed on the financial information of the component.</td>
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**Responding to Assessed Risks** |  

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<td><strong>DETERMINING THE WORK TO BE PERFORMED ON THE FINANCIAL INFORMATION OF COMPONENTS</strong></td>
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<tr>
<td>50. The group auditor should determine the type of work to be performed by the group auditor or other auditors on the financial information of the components to respond to the assessed risks of material misstatement of the group financial statements.</td>
<td>Yes</td>
<td>20. 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. (Ref: Para. A27)</td>
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<td>21. If the nature, timing and extent of the work to be performed on the financial information of the components are based on an expectation that group-wide controls are operating effectively, the group auditor shall test, or request another auditor to test, the operating effectiveness of those controls.</td>
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<td><strong>Significant Components</strong></td>
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<td>52. For a component that, due to the nature of and circumstances specific to that component, has been identified at the group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph 15), the group auditor ordinarily performs or requests other auditors to perform one of the following:</td>
<td>Yes</td>
<td>22. For a component that is significant due to its nature and circumstances, the group auditor, or another auditor at the request of the group auditor, shall perform one of the following:</td>
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<td></td>
<td>(a) An audit performed using either component materiality; or a lower materiality level determined by the other auditor where the circumstances in paragraph 29 apply.</td>
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<td></td>
<td>To enhance consistency in practice, the IAASB concluded that this should be a requirement.</td>
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| or a lower materiality level determined by the other auditor where the circumstances in paragraph 57 apply.  
- An audit of specified account balances relating to the identified significant risks.  
- Specified audit procedures relating to the identified significant risks. |  | (b) An audit of specified account balances relating to the identified significant risks.  
(c) Specified audit procedures relating to the identified significant risks. |  |
| 53. For a component that, due to its individual financial significance to the group, is likely to include significant risks of material misstatement of the group financial statements (see paragraph 16), the group auditor ordinarily performs or requests other auditors to perform an audit in accordance with ISAs, using either a materiality level determined by the group auditor; or a lower materiality level determined by the other auditor where the circumstances in paragraph 57 apply. | Yes | 23. For a component that is significant due to its individual financial significance to the group, the group auditor, or another auditor at the request of the group auditor, shall perform an audit using either component materiality; or a lower materiality level determined by the other auditor where the circumstances in paragraph 29 apply. | To enhance consistency in practice, the IAASB concluded that this should be a requirement. |
| Components that are Not Significant in the Aggregate | Components that Are Not Individually Significant |  | Based on comments received on the March 2005 Exposure Draft, the categorization of components has been changed. See paragraphs 23-24 of the Explanatory Memorandum. |
| 54. After determining the work to be performed on the financial information of significant components (see paragraphs 52-53), the group auditor identifies components that are not significant in the aggregate … For these components, the group auditor’s procedures ordinarily are limited to the analytical procedures | Yes, but requirement has been revised | 24. 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, the group auditor shall select components that are not individually significant for | To enhance consistency in practice, the IAASB concluded that this should be a requirement. |
**EXPLANATORY MEMORANDUM**

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| performed at the group level. |  | which the group auditor, or another auditor at the request of the group auditor, 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 auditor where the circumstances in paragraph 29 apply.  
(b) An audit of specified account balances.  
(c) Specified audit procedures.  
(d) A review of the financial information of the component. (Ref: Para. A28-A30) | 25. For components not selected for the period under audit, the group auditor shall perform analytical procedures at the group level. |
| COMPONENTS SUBJECT TO AUDIT BY STATUE, REGULATION OR OTHER REASON | | 57. Stature, regulation or other authority may require the audit of the financial statements of a component. The group auditor may decide to use this audit to provide audit evidence for the purposes of the audit of the group financial statements. In these circumstances, the group auditor evaluates the effect of the financial reporting framework applied in preparing the financial statements of the component, and the auditing standards applied by the other auditors. The group auditor also considers whether the audit of the financial statements of the component will be performed in time to communicate the other auditor’s memorandum or  | 29. The other 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 may decide to use this audit to provide audit evidence for the group audit, but the requirements of this ISA shall nevertheless be met. To reinforce the key point that the statutory audit of a component’s financial statements may be useful, but that it does not allow the group auditor to ignore the requirements of the proposed ISA. |

To reinforce the key point that the statutory audit of a component’s financial statements may be useful, but that it does not allow the group auditor to ignore the requirements of the proposed ISA.
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<td>report of work performed to the group auditor …</td>
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<tr>
<td>58. When the group auditor decides to use the audit of the financial statements of a component performed by another auditor to provide audit evidence for purposes of the audit of the group financial statements, the risk assessment procedures and further audit procedures may have already been performed by the other auditor at the component (for example a component acquired close to the group reporting date). To meet the requirements described in paragraphs 59-68, the group auditor reviews the risk assessment procedures and further audit procedures already performed, and determines the additional audit procedures to be performed.</td>
<td>INVOLVEMENT IN THE WORK PERFORMED BY THE OTHER AUDITORS</td>
<td>To enhance consistency in practice, the IAASB concluded that, in the first instance, the group auditor should be required to determine his/her involvement in the other auditor’s work. Paragraph 41 requires the group auditor, based on his/her evaluation of the other auditor’s memorandum or report of work performed, to determine whether it is necessary to review other relevant parts of that auditor’s audit documentation. (Paragraph 26(f) is in line with that</td>
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| between the other auditor and component management.  
• Reviewing relevant parts of the other auditor’s audit documentation.  
In the case of an unrelated auditor, the group auditor may request a related auditor to undertake the actions on behalf of the group auditor. |  | (c) Performing risk assessment procedures and participating in the assessment of risks of material misstatement at the component level. These may be performed with the other auditors, or by the group auditor.  
(d) Determining and performing further audit procedures. These may be determined and performed with the other auditors, or by the group auditor.  
(e) Participating in the closing and other key meetings between the other auditors and component management.  
(f) Reviewing other relevant parts of the other auditors’ audit documentation. |  |
| **Significant Components – Risk Assessment**  
61. **When another auditor is requested to perform the work on the financial information of a significant component, the group auditor should be involved in the other auditor’s risk assessment to identify significant risks of material misstatement of the group financial statements.**  
62. When an unrelated auditor performs the work on the financial information of a significant component, the group auditor, or a related auditor on behalf of the group auditor, is involved in the unrelated auditor’s risk assessment procedures. As part of this involvement, the group auditor or the related auditor:  
(a) Discusses with component management the component’s business activities that are significant to | Yes | 27. When another auditor performs the work on the financial information of a significant component, the group auditor shall be involved in the other 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 involvement are affected by the group auditor’s understanding of the other auditor. The group auditor shall:  
(a) Discuss with the other auditor or component management the component’s business activities that are significant to the group, including the regulatory, economic and political environments in which those activities take place; |  |

The distinction between related and unrelated auditors has been eliminated. See paragraphs 8-14 of the Explanatory Memorandum.
EXPLANATORY MEMORANDUM

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</tr>
</thead>
<tbody>
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<td>the group, including the regulatory, economic and political environments in which those activities take place; (b) Discusses with the unrelated auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and (c) Reviews the unrelated auditor’s documentation of the identified and assessed risks of material misstatement …</td>
<td>(b) Discuss with the other auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and (c) Review the other auditor’s documentation of identified significant risks. Such documentation may be in the form of a memorandum, reflecting the other auditor’s conclusion with regard to the identified significant risks.</td>
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<tr>
<td>63. When a related auditor performs the work on the financial information of a significant component, the group auditor reviews the related auditor’s documentation of the identified and assessed risks of material misstatement …</td>
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<tr>
<td>64. When a related auditor, on behalf of the group auditor, has been involved in the risk assessment procedures of an unrelated auditor, the group auditor reviews the related auditor’s documentation of that involvement …</td>
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<tr>
<td><strong>Significant Components – Further Audit Procedures</strong></td>
<td><strong>Identified Significant Risks of Material Misstatement – Further Audit Procedures</strong></td>
<td></td>
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</tr>
<tr>
<td>65. <strong>When significant risks of material misstatement of the group financial statements have been identified in a component on which another auditor performs the work, the group auditor and the other auditor together should determine the further audit procedures to be performed to respond to the identified significant risks.</strong></td>
<td>Yes</td>
<td>28. When significant risks of material misstatement of the group financial statements have been identified in a component on which another auditor performs the work, the group auditor shall be satisfied with the further audit procedures to be performed to respond to the identified significant risks. The group auditor shall determine whether, based on the group auditor’s understanding of</td>
<td>Based on comments received, the IAASB concluded that the group auditor should be satisfied with the further audit procedures to be performed (rather than the group auditor and other auditor together having to determine them).</td>
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### “Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft

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<tbody>
<tr>
<td>67. When a related auditor, on behalf of the group auditor, has been involved in the further audit procedures of an unrelated auditor, the group auditor reviews the related auditor’s documentation of that involvement…</td>
<td></td>
<td>the other auditor, it is necessary to be involved in performing further audit procedures.</td>
<td>The requirement was further revised to reflect the elimination of the distinction between related and unrelated auditors. See paragraphs 8-14 of the Explanatory Memorandum.</td>
</tr>
<tr>
<td><strong>Consolidation</strong></td>
<td><strong>Consolidation Process</strong></td>
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<tr>
<td>69. The group auditor should determine the work to be performed on the consolidation to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process.</td>
<td>Yes</td>
<td>30. The group auditor shall determine the work to be performed on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process.</td>
<td></td>
</tr>
<tr>
<td>70. The consolidation process may require adjustments to amounts reported in the group financial statements that do not pass through the usual transactions processing system, and that may not be subject to the same internal controls to which other financial information is subject. These adjustments typically consist of consolidation adjustments and reclassifications. The group auditor: (a) Considers the appropriateness and completeness of the consolidation adjustments, as well as the accuracy of calculations; (b) Considers whether the consolidation adjustments appropriately reflect the events and transactions underlying the adjustments; (c) Determines whether significant adjustments have been correctly processed, authorized by group management and, where applicable, by component</td>
<td>Yes, but parts have been moved to the application material</td>
<td>31. The group auditor shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and consider whether any fraud risk factors or indicators of possible management bias exist.</td>
<td>Essential requirement identified as such; considerations relevant to the appropriateness, completeness and accuracy of the adjustments are now described in the application material. See paragraph A32.</td>
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<td>management, and are supported by sufficient appropriate documentation; and (d) Checks the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.</td>
<td></td>
<td></td>
<td>The IAASB viewed this step as an essential part of a group audit.</td>
</tr>
</tbody>
</table>

71. Components that operate in diverse industry segments, or are located in jurisdictions that require different financial reporting frameworks, may use inconsistent accounting policies … In these circumstances, the group auditor considers whether group or component management has appropriately adjusted the component’s financial information for purposes of preparing and presenting the group financial statements. Where another auditor performs the work on the financial information of a component, and component management has made such adjustments, the group auditor requests the other auditor to confirm to the group auditor that such adjustments have been made.

72. **The group auditor should determine whether the financial information identified in the communication of the other auditor is the financial information that is incorporated in the group financial statements.** (See paragraph 103(e).)

73. If the group financial statements include the financial statements of any components with year-ends that differ from that of the group, the group auditor determines whether this is acceptable under the applicable financial reporting framework. The group auditor also considers the component’s results between

| | Yes | 32. If a component’s financial information has not been prepared in accordance with the accounting policies applied to the group financial statements, the group auditor shall evaluate whether the component’s financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements. | The IAASB viewed this step as an essential part of a group audit. |

| | Yes | 33. The group auditor shall determine whether the financial information identified in the other auditor’s memorandum or report of work performed is the financial information that is incorporated in the group financial statements. | |

<p>| | Yes | 34. If the group financial statements include the financial statements of any components with financial reporting period-ends that differ from that of the group, and consolidation adjustments have not been made in this respect, the group auditor shall determine whether this is acceptable under the applicable financial | The IAASB viewed this step as an essential part of a group audit. |</p>
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<td>its financial year-end and the date of the group financial statements, and identifies significant transactions, including intra-group transactions and unrealized profits, or other events and disclosures that need to be reflected in or eliminated from the group financial statements. Where another auditor performs the work on the financial information of a component, the group auditor requests the other auditor to perform the procedures the group auditor considers necessary for that consideration and identification.</td>
<td>reporting framework. Where it is not acceptable, and the effect on the group financial statements may be material, the group auditor shall determine 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.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>74. Sometimes adjustments that are processed on consolidation relate to misstatements. Where these adjustments have not been processed in the relevant component’s accounting records, the group auditor requests group management to have them processed appropriately and, if applicable and not prohibited by confidentiality requirements, informs the other auditor.</td>
<td>Paragraph has been deleted</td>
<td></td>
<td>Viewed as an accounting matter rather than an audit matter.</td>
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**Subsequent Events**

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<tr>
<td>75. For significant components, the group auditor should perform, or request other auditors to perform, procedures designed to identify events at those components between the dates of the financial information of the components and the date of the auditor’s report on the group financial statements. The group auditor determines the date up to which subsequent events reviews at components are performed, i.e., the date of the auditor’s report on the group financial statements.</td>
<td>Yes</td>
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<tr>
<td>76. For components that are significant in the</td>
<td>Yes</td>
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<tr>
<td>aggregate, the group auditor ordinarily inquires from other auditors whether they are aware of subsequent events that may require an adjustment to or a disclosure in the group financial statements.</td>
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<tr>
<td>Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained</td>
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</tr>
<tr>
<td>EVALUATING THE ADEQUACY OF ANOTHER AUDITOR’S WORK</td>
<td>EVALUATING THE OTHER AUDITOR’S MEMORANDA OR REPORTS OF WORK PERFORMED</td>
</tr>
<tr>
<td>77. The group auditor should evaluate the adequacy of the work of another auditor for the group auditor’s purposes.</td>
<td>No</td>
</tr>
<tr>
<td>79. When other auditors performed the work on the financial information of significant components or components that are significant in the aggregate, the group auditor reads the other auditors’ reports or memorandums of work performed, including the other</td>
<td>No</td>
</tr>
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<td>auditors’ lists of uncorrected misstatements…</td>
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</tr>
<tr>
<td>80. <strong>When another auditor performed the work on the financial information of a significant component, the group auditor should review relevant parts of the other auditor’s audit documentation…</strong></td>
<td>No</td>
</tr>
<tr>
<td>81. The parts of another auditor’s audit documentation that will be relevant may vary depending on the circumstances. Ordinarily the group auditor, or a related auditor on behalf of the group auditor, focuses on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements…</td>
<td>No</td>
</tr>
<tr>
<td>82. When a related auditor, on behalf of the group auditor, has reviewed an unrelated auditor’s audit documentation, the group auditor reviews the related auditor’s review memorandum, including the conclusions reached on the adequacy of the work of the unrelated auditor for the group auditor’s purposes.</td>
<td>No</td>
</tr>
<tr>
<td>83. If the group auditor concludes that the work of another auditor is inadequate for the group auditor’s purposes, the group auditor determines additional procedures to be performed. Depending on the circumstances, such additional procedures are performed by the other auditor or by the group auditor.</td>
<td>Yes</td>
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</table>

**SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE**

<p>| SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE | SUFFICIENCY AND APPROPRIATENESS OF AUDIT EVIDENCE |  |  |</p>
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<tr>
<td>84. The group auditor evaluates whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation, and the work performed on the financial information of the components on which to base the group audit opinion. This evaluation includes the work performed by other auditors.</td>
<td>Yes</td>
<td>43. The group auditor 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 and the other auditors on the financial information of the components, on which to base the group audit opinion.</td>
<td></td>
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<tr>
<td>85. If the group auditor concludes that sufficient appropriate audit evidence has not been obtained, the group auditor obtains further audit evidence, if possible. In the case of components on which other auditors performed the work, the group auditor may request the other auditors to perform additional procedures. If this is not feasible, the group auditor performs the group auditor’s own procedures on the financial information of the components. When the group auditor has not been able to perform sufficient additional audit procedures, the group auditor considers the effect of this scope limitation on the group audit opinion...</td>
<td>No</td>
<td></td>
<td>See paragraph 41.</td>
</tr>
<tr>
<td>Considering the Other Auditor’s Memorandum or Report of Work Performed</td>
<td>Consider the Effect of the Other Auditor’s Memoranda or Reports of WorkPerformed on the Auditor’s Report on the Group Financial Statements</td>
<td>44. The group auditor shall consider the effect of any disagreement with component management or inability to obtain sufficient appropriate audit evidence on the group audit opinion.</td>
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<tr>
<td>86. The group auditor should consider the effect of the other auditor’s memorandum or report of work performed (see paragraph 103) on the auditor’s report on the group financial statements.</td>
<td>No</td>
<td>See paragraphs 41 and 44.</td>
<td></td>
</tr>
<tr>
<td>REPORTING CONSIDERATIONS</td>
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<tr>
<td>88. The group auditor considers whether matters communicated by another auditor are of such a nature and significance in relation to the group financial statements that a modification of the auditor’s opinion on the group financial statements is required.</td>
<td>No</td>
<td>Not considered unique to group audits. Concept dealt with in proposed ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report.”</td>
<td></td>
</tr>
<tr>
<td>89. … The group auditor considers the aggregated effect of the uncorrected immaterial misstatements of the financial information of the components on the group audit opinion.</td>
<td>Yes</td>
<td>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. The IAASB viewed this step as an essential part of a group audit.</td>
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</tr>
<tr>
<td>Communication with Group Management and Those Charged with Governance</td>
<td>Communication with Group Management and Those Charged with Governance of the Group</td>
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<tr>
<td>COMMUNICATION WITH GROUP MANAGEMENT</td>
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<tr>
<td>90. The group auditor makes group management aware, as soon as practicable and at an appropriate level of responsibility, of material weaknesses in the design or operation of group-wide controls, including controls over the preparation and presentation of the group financial statements. The group auditor also makes group management aware of material weaknesses in internal controls at components that have been identified by the group auditor, or that have</td>
<td>Yes</td>
<td>46. The group auditor 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 of group-wide controls, including controls over the preparation and presentation of the group financial statements; (b) Material weaknesses in internal controls at</td>
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<tr>
<td>components that have been identified by the group auditor, or that have been brought to the attention of the group auditor by the other auditors, that the group auditor judges are of significance to the group.</td>
<td>Yes</td>
<td>47. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor shall communicate this as soon as practicable to group management. If the group auditor believes or suspects that group or component management may be involved in the fraud, the group auditor shall communicate this to those charged with governance of the group.</td>
<td>The paragraph has been revised based on comments received on the March 2005 Exposure Draft and further deliberations by the IAASB.</td>
</tr>
<tr>
<td>91. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor communicates this as soon as practicable to group management. If the group auditor believes or suspects that group management may be involved in the fraud, the group auditor communicates this to those charged with Governance.</td>
<td>Yes</td>
<td>47. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor shall communicate this as soon as practicable to group management. If the group auditor believes or suspects that group or component management may be involved in the fraud, the group auditor shall communicate this to those charged with governance of the group.</td>
<td>The paragraph has been revised based on comments received on the March 2005 Exposure Draft and further deliberations by the IAASB.</td>
</tr>
</tbody>
</table>

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

| 93. In an audit of group financial statements, the group auditor should also communicate the following to those charged with governance of the group: | Yes | 49. In a group audit, the group auditor shall communicate with those charged with governance of the group the following matters in addition to those required by [proposed] ISA 260, “Communications with Those Charged with Governance:” | The paragraph has been revised based on comments received on the March 2005 Exposure Draft and further deliberations by the IAASB. |
| (a) The portion of the group financial statements on which the group auditor and related auditors will perform the work, and the portion of the group financial statements on which unrelated auditors will perform the work. | | (a) The planned work to be performed on the financial information of the components. | |
| (b) The components that have been identified as significant. | | (b) The group auditor’s planned involvement in the work to be performed by the other auditors on the financial information of significant components. | |
| (c) Instances where the group auditor is concerned about the professional qualifications, independence, and professional competence of another auditor and the related effect on the group auditor’s planned | | (c) Instances where the group auditor’s evaluation of the work of another auditor gave rise to a concern about the quality of the work performed by that other auditor. | |
| | | (d) Any limitations on the group audit. For example, | |
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| involvement in the work to be performed by that other auditor.  
(d) The planned type of work to be performed on the financial information of the components.  
(c) The group auditor’s planned involvement in the work to be performed by other auditors on the financial information of significant components.  
(f) Instances where the group auditor’s evaluation of the work of another auditor gave rise to a concern about the quality of the work performed by that other auditor.  
(g) Any limitations on the audit of the group financial statements. For example, the group auditor’s access to component information, those charged with governance of components, component management, or other auditors (including relevant parts of their audit documentation) may have been restricted. | where 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) may have been restricted. |  |

**Communications with Another Auditor**

<p>| 95. When another auditor performs the work on the financial information of a component, the group auditor should communicate the group auditor’s requirements to the other auditor. The group auditor issues this communication as early as possible, ordinarily in the form of a letter of instruction that sets out (a) the work to be performed, (b) the nature of the other auditor’s memorandum or report of work performed, and (c) the confirmations required by the group auditor … | Yes | 37. 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 shall communicate, as early as possible, the group auditor’s requirements to the other auditor. This communication, ordinarily in the form of a letter of instruction, sets out the work to be performed and the form and content of the other auditor’s memorandum or report of work performed. |  |</p>
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<tr>
<td>96. The group auditor requests the other auditor to confirm (a) receipt of the group auditor’s letter of instruction, (b) that the other auditor will undertake the requested work, and (c) that the other auditor understands that the group auditor will consider and may use the other auditor’s work for purposes of the audit of the group financial statements.</td>
<td>No</td>
<td>Viewed as application material. See paragraphs A12 and Appendix 4.</td>
<td></td>
</tr>
<tr>
<td>97. In the case of an unrelated auditor, the group auditor requests confirmation whether (a) the unrelated auditor’s firm’s quality control system complies with ISQC 1, and (b) there are any issues noted in recent monitoring reports that are likely to significantly affect the work that the unrelated auditor will perform on the financial information of the component (see …</td>
<td>No</td>
<td>The distinction between related and unrelated auditors has been eliminated. See paragraphs 8-14 of the Explanatory Memorandum.</td>
<td></td>
</tr>
<tr>
<td>98. The group auditor’s confirmation requirements should include the following: (a) Confirmation whether the other auditor sufficiently understands, and will comply with, the relevant ethical requirements, including independence, to fulfill the other auditor’s responsibilities in the audit of the group financial statements. (b) Confirmation whether the other auditor sufficiently understands the applicable financial reporting framework to fulfill the other auditor’s responsibilities in the audit of the group financial statements. (The group financial reporting procedures manual often describes the characteristics of the applicable financial reporting</td>
<td>No</td>
<td>Based on respondents’ request that the IAASB reconsider the number and appropriateness of the proposed requirements, the IAASB has concluded that this paragraph could be viewed as application material. See paragraphs A12 and Appendix 4.</td>
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<td>framework.)</td>
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<tr>
<td>(c) Confirmation whether the other auditor sufficiently understands the auditing or other standards applicable to the audit of the group financial statements to fulfill the other auditor’s responsibilities in the audit of the group financial statements …</td>
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<td></td>
</tr>
<tr>
<td>99. The group auditor should communicate the following to the other auditor:</td>
<td>Yes</td>
<td>38. The group auditor’s communication about the work to be performed in accordance with paragraphs 22-24 shall include the following:</td>
<td></td>
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<tr>
<td>(a) The type of work to be performed on the financial information of the component.</td>
<td></td>
<td>(a) Where applicable, 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.</td>
<td></td>
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<tr>
<td>(b) The materiality level for the component and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.</td>
<td></td>
<td>(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.</td>
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<tr>
<td>(c) Significant risks, including fraud risks, identified at the group level that are relevant to the work of the other auditor … The group auditor should request the other auditor to inform the group auditor of any other identified significant risks that may affect the group financial statements.</td>
<td></td>
<td>(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.</td>
<td>The IAASB viewed this information as relevant as the other matters referred to in this paragraph.</td>
</tr>
<tr>
<td>100. The group auditor communicates to the other auditor laws and regulations applicable to the parent that are relevant to the other auditor’s work. The group auditor requests the other auditor to communicate any non-compliance with laws and regulations applicable to the component that could materially affect the group financial statements.</td>
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<td>101. The group auditor should provide the other</td>
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<td>auditor with the following:</td>
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<tr>
<td>“Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft</td>
<td>“Shall” in Proposed ISA 600 (Revised and Redrafted)?</td>
<td>Equivalent in Proposed ISA 600 (Revised and Redrafted)</td>
<td>Comments (Paragraph References are to Proposed ISA 600 (Revised and Redrafted))</td>
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<tr>
<td>auditor with a list of related parties prepared by group management, and request the other auditor to be alert for transactions that appear unusual in the circumstances and that may indicate the existence of previously unidentified related parties. The group auditor should request the other auditor to communicate the names of any additional related parties, and the types of transactions with such related parties.</td>
<td>No</td>
<td>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 the group auditor is aware of. The group auditor shall request the other auditor to communicate the names of any additional related parties, and the types of transactions with such related parties. The group auditor shall communicate such additional related parties to the other auditors.</td>
<td>Based on respondents’ request that the IAASB reconsider the number and appropriateness of the proposed requirements, the IAASB has concluded that this paragraph could be viewed as application material. See Appendix 5.</td>
</tr>
<tr>
<td>102. The group auditor should request timely communication of material weaknesses in controls that have come to the attention of the other auditor during the performance of the work on the financial information of the component, and information that indicates that a fraud may exist.</td>
<td>No</td>
<td>39. The other auditor’s memorandum or report of work performed in accordance with paragraphs 22-24 shall contain matters relevant to the group auditor’s conclusion with regard 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) State whether the other auditor has complied with those ethical requirements relevant to the group auditor, including independence and professional competence; (c) State whether the other auditor has complied with the</td>
<td>The IAASB is of the view that, at a minimum, it will always be necessary for the group auditor to obtain the information listed in paragraph 39. This information forms the basis of the group auditor’s evaluation as to whether sufficient appropriate audit evidence in relation to the financial information of the components has been obtained (and assists in meeting the audit documentation requirements). Based on this information, the group auditor</td>
</tr>
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<td>103. The group auditor should obtain from the other auditor a memorandum or report of the work performed on the financial information of the component. In particular, this memorandum or report: (a) States whether the other auditor has complied with the quality control policies and procedures of that auditor’s firm; (b) States whether the other auditor has complied with the relevant ethical requirements, including independence; (c) States whether the other auditor has complied with auditing or other standards applicable to the audit of</td>
<td>Yes</td>
<td></td>
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<tr>
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<td>the group financial statements; (d) States whether the other auditor has complied with the group auditor’s other instructions; (e) Identifies the financial information of the component on which the other auditor is reporting; (f) Sets out the work performed by the other auditor; (g) Lists uncorrected misstatements of the financial information of the component (the list does not include misstatements that were below the threshold communicated by the group auditor for clearly trivial misstatements); (h) Explains material weaknesses in internal control over financial reporting; (i) Sets out other significant matters that the other auditor communicated or expects to communicate to those charged with governance of the component; (j) Sets out any other matters that the other auditor wishes to draw to the attention of the group auditor; and (k) Sets out the other auditor’s findings, conclusions or opinion.</td>
<td>“Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft</td>
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| group auditor’s requirements; (d) Identify the financial information of the component on which the other auditor is reporting; (e) List uncorrected misstatements of the financial information of the component (the list does not include misstatements that were below the threshold communicated by the group auditor for clearly trivial misstatements), and note identified indicators of possible management bias; (f) Describe any identified material weaknesses in internal control over financial reporting at the component level; (g) Set out other significant matters that the other auditor communicated or expects to communicate to those charged with governance of the component; (h) Set out any other matters that the other auditor wishes to draw to the attention of the group auditor; and (i) Set out the other 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. | 104. Where the group auditor is unable to obtain the other auditor’s memorandum or report of work performed, the group auditor considers the effect of Paragraph has been deleted | Not considered unique to group audits. Concept dealt with in proposed ISA 705, “Modifications to the Opinion in the Independent
<table>
<thead>
<tr>
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<th>“Shall” in Proposed ISA 600 (Revised and Redrafted)?</th>
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<tbody>
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<td>this scope limitation on the group audit opinion</td>
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<td>Auditor’s Report.”</td>
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<tr>
<td>Communication with Another Auditor Who is Required to Audit the Financial Statements of a Component</td>
<td>Yes</td>
<td>(Forms part of the section: Communication with Group Management and Those Charged with Governance of the Group – Communication with Group Management)</td>
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<tr>
<td>105. Where another auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the group auditor becomes aware of matters that may be significant to the financial statements of the component of which component management may be unaware, the group auditor should request group management to inform component management of such matters for the purpose of the component audit ...</td>
<td></td>
<td>48. Where another auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the group auditor becomes aware of matters that may be significant to the financial statements of the component 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 shall discuss the matter with those charged with governance of the group.</td>
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<tr>
<td>106. Group management may need to keep certain material sensitive information confidential. In these circumstances, the group auditor ordinarily discusses with group management the risk of component management issuing misleading financial statements, and requests group management to require component management not to issue the financial statements of the component … When group management remains of the opinion that the matter should not be communicated to component management, the group auditor considers resigning from the engagement.</td>
<td>No</td>
<td></td>
<td>See, however, paragraph 48, which requires the group auditor to discuss the matter with those charged with governance of the group. The revision was based on comments received on the March 2005 Exposure Draft and subsequent deliberations by the IAASB.</td>
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<tr>
<td>Documentation</td>
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<td>107 … In an audit of group financial statements, the group auditor should also document the following: (a) The basis for the group auditor’s conclusion to accept or continue the engagement as regards the group auditor’s ability to obtain sufficient appropriate audit evidence on which to base the group audit opinion where other auditors will perform the work on the financial information of some components. (b) The results of the consideration of the professional qualifications, independence, and professional competence of the other auditors, and the quality control systems of their firms, and the nature, timing and extent of the group auditor’s or related auditors’ involvement in the work performed by the other auditors. (c) The results of the risk assessment performed at the group level, and a description of the audit procedures to be performed on the consolidation and the work to be performed on the financial information of the components. (d) Identified and assessed significant risks of material misstatement of the group financial statements, the further audit procedures performed to respond to such risks, and the related results. (e) The group auditor’s communications with other auditors about the group auditor’s requirements. (f) The group auditor’s conclusion as to whether the group auditor has obtained sufficient appropriate audit evidence of the adequacy of the work of the group auditor.</td>
<td>Yes, but requirement has been significantly revised</td>
<td>50. In a group audit, the group auditor shall document the following matters in addition to those required by ISA 230 (Revised), “Audit Documentation” and the other ISAs: (a) The nature, timing and extent of the group auditor’s involvement in the work performed by the other auditors and the basis thereof. (b) The group auditor’s communications with the other auditors about the group auditor’s requirements.</td>
<td>The requirement was revised based on comments received on the March 2005 Exposure Draft. The IAASB also agreed to eliminate those parts of the requirement that are dealt with in other ISAs.</td>
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| group auditor and other auditors for the group auditor’s purposes.  
(g) The group auditor’s conclusion on uncorrected misstatements, and the effect of the other auditors’ reports or memorandums of work performed on the group audit opinion.  
(h) Discussions of significant accounting, auditing and financial reporting matters with those charged with governance, group management, component management, or other auditors. |  |  |  |
| Appendix 2 – Matters About Which the Group Auditor Obtains an Understanding |  |  |  |
| GROUP CONTROL ENVIRONMENT |  |  |  |
| The group auditor obtains an understanding of the group control environment … | No |  | Application material to paragraph 16. See paragraph A17 and Appendix 2. |
| GROUP-WIDE CONTROLS |  |  |  |
| The group auditor obtains an understanding of the group-wide controls … | No |  | Application material to paragraph 16. See paragraph A17 and Appendix 2. |
| Where internal audit is regarded as part of group-wide controls, for example, when the internal audit function is centralized, and the group auditor plans to use the work of internal audit, the group auditor evaluates the competence and objectivity of the internal auditors. | No |  | Application material to paragraph 16. See paragraph A17 and Appendix 2. |
### CONSOLIDATION PROCESS

The group auditor obtains an understanding of the consolidation process…

<table>
<thead>
<tr>
<th>“Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft</th>
<th>“Shall” in Proposed ISA 600 (Revised and Redrafted)?</th>
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<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16. The group auditor shall enhance the understanding of the group, its components, and their environments obtained during the acceptance or continuance stage, and obtain an understanding of the consolidation process, including the instructions issued by group management to components</td>
<td>Also see paragraph A16 and Appendix 2.</td>
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</table>

The group auditor ordinarily considers the proposed reporting package for components at an early stage of the audit of the group financial statements, to determine whether it will provide sufficient appropriate information to prepare and present the group financial statements ...

| Yes, but only partly | 16. The group auditor shall enhance the understanding of the group, its components, and their environments obtained during the acceptance or continuance stage, and obtain an understanding of the consolidation process, including the instructions issued by group management to components | Also see paragraphs A19-A21. Respondents were of the view that greater prominence should be given to the group auditor’s consideration of the instructions issued by group management. |

### FRAUD

… In an audit of group financial statements, the group auditor obtains an understanding of the following:
- Group management’s assessment …
- Group management’s process …
- 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 …

| No | Application material to paragraph 16. See paragraph A22. |

The group auditor inquires of those charged with governance of the group, group management, internal audit (and if considered appropriate, component

<p>| No | Application material to paragraph 16. See paragraph A22. |</p>
<table>
<thead>
<tr>
<th>“Should” Requirements and Present Tense Statements in the March 2005 Exposure Draft</th>
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<tr>
<td>management, other auditors, and others), whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.</td>
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<tr>
<td>DISCUSSION AMONG ENGAGEMENT TEAM MEMBERS REGARDING THE RISKS OF MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS, INCLUDING RISKS OF FRAUD</td>
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<td>… The group auditor determines, based on prior experience with the group and knowledge of current developments, who to include in the discussions, how and when they occur, and their extent. In an audit of group financial statements, the group auditor and other auditors may also discuss these matters. … The group auditor, or a related auditor on behalf of the group auditor, holds discussions with other auditors who perform work on the financial information of significant components.</td>
<td>No</td>
<td></td>
<td>Application material to paragraph 16. See paragraph A23.</td>
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PROPOSED INTERNATIONAL STANDARD ON AUDITING ISA 600
(REVISED AND REDRAFTED)

THE AUDIT OF GROUP FINANCIAL STATEMENTS
(Including the Work of Other Auditors)
(Effective for audits of group financial statements for periods beginning on or after [date])

CONTENTS

<table>
<thead>
<tr>
<th>Paragraph</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
</tr>
<tr>
<td>Scope of this ISA .......................................................... 1</td>
</tr>
<tr>
<td>The Effect on Audit Risk of Using the Work of Other Auditors .................................. 2-4</td>
</tr>
<tr>
<td>Effective Date ............................................................... 5</td>
</tr>
<tr>
<td>Objective to be Achieved .................................................. 6</td>
</tr>
<tr>
<td>Definitions ................................................................. 7-8</td>
</tr>
<tr>
<td>Requirements</td>
</tr>
<tr>
<td>Acceptance and Continuance as Group Auditor ................................................................. 9-13</td>
</tr>
<tr>
<td>Obtaining an Understanding of the Other Auditors .......................................................... 14-15</td>
</tr>
<tr>
<td>Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements ........................................ 16-17</td>
</tr>
<tr>
<td>Materiality ........................................................................ 18-19</td>
</tr>
<tr>
<td>Responding to Assessed Risks .................................................. 20-29</td>
</tr>
<tr>
<td>Consolidation Process......................................................... 30-34</td>
</tr>
<tr>
<td>Subsequent Events ............................................................ 35-36</td>
</tr>
<tr>
<td>Communication with the Other Auditors .................................................. 37-40</td>
</tr>
<tr>
<td>Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained ................... 41-43</td>
</tr>
<tr>
<td>Considering the Effect of the Other Auditors’ Memoranda or Reports of Work Performed on the Auditor’s Report on the Group Financial Statements ........................................ 44-45</td>
</tr>
<tr>
<td>Communication with Group Management and Those Charged with Governance of the Group .................................................. 46-49</td>
</tr>
<tr>
<td>Documentation .................................................................. 50</td>
</tr>
<tr>
<td>Application Material</td>
</tr>
<tr>
<td>Acceptance and Continuance as Group Auditor .................................................. A1-A11</td>
</tr>
<tr>
<td>Obtaining an Understanding of the Other Auditors .................................................. A12-A16</td>
</tr>
</tbody>
</table>
THE AUDIT OF GROUP FINANCIAL STATEMENTS

Obtaining an Understanding of the Group, Its Components, and Their Environments, and Assessing the Risks of Material Misstatement of the Group Financial Statements ........................................................................................................... A17-A26

Responding to Assessed Risks ........................................................................................................ A27-A31

Consolidation Process ................................................................................................................... A32

Communication with the Other Auditors .................................................................................... A33

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained .................. A34-A35

Communication with Group Management and Those Charged with Governance of the Group .................................................................................................................... A36-A37

Appendix 1: Example of a Qualified Opinion where the Group Auditor is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion (Paragraph A10)

Appendix 2: Matters about which the Group Auditor Obtains an Understanding (Paragraph A17)

Appendix 3: Examples of Conditions or Events that May Indicate Risks of Material Misstatement of the Group Financial Statements (Paragraph A25)

Appendix 4: Example of Another Auditor’s Confirmations (Paragraph A12)

Appendix 5: Additional Matters to Be Included in the Group Auditor’s Letter of Instruction (Paragraph A33)

International Standard on Auditing (ISA) 600 (Revised and Redrafted), “The Audit of Group Financial Statements” 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.
Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with special considerations in the audit of group financial statements (“group audit”) and, in particular, the involvement of other 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.

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

2. ISA 200, “Objective and General Principles Governing 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 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 this misstatement is not detected by the group auditor.

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].

Objective to be Achieved

6. In relation to this ISA, the objective of the auditor is 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 the group financial statements to an acceptably low level by:

(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:

(a) Component - A head office, parent, division, branch, subsidiary, joint venture, associated company, or other entity whose financial information is or should be included in the group financial statements.

(b) Component management - Management responsible for preparing the financial information of a component.

(c) Component materiality - Materiality levels for the components determined by the group auditor. Component materiality is lower than the materiality level for the group financial statements as a whole.

(d) Group auditor1 - The engagement partner who is responsible for the performance of the group audit and for the auditor’s report on the group financial statements 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.

(e) Group financial statements - Financial statements that include or should include financial information of more than one component. The term “group financial statements” also refers to combined financial information aggregating the financial information of components in circumstances where there is no parent.

(f) Group management - Management responsible for preparing and presenting the group financial statements.

(g) Group-wide controls - Internal controls established 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.”

(i) Other auditor or another auditor - An auditor, other than the group engagement partner or a member of the engagement team under the direct supervision of the group engagement

1 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.
partner, who performs work on the financial information of one or more components for the group audit.

(j) Significant component - A component identified by the group auditor that, due to the nature of, or circumstances specific to, that component or the individual financial significance of that component to the group, has been identified as 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”).

8. Reference to “the applicable financial reporting framework” means the financial reporting framework applicable to the group financial statements. Reference to “the consolidation process” includes the recognition and measurement of components in accordance with the equity method of accounting, and the aggregation of the financial information of components in circumstances where there is no parent.

Requirements
Acceptance and Continuance as Group Auditor

9. The group engagement partner shall be satisfied that appropriate procedures regarding the acceptance or continuance of an engagement to audit group financial statements have been followed (see ISA 220, “Quality Control for Audits of Historical Financial Information), and that there is a reasonable expectation of obtaining sufficient appropriate audit evidence 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.

10. For this purpose, the group auditor shall obtain an understanding of the group, its components, and their environments, sufficient to determine which of the components are likely to be significant and, where other auditors will perform the work on the financial information of such components, whether the group auditor will be able to be involved in the work of those other auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A1-A6)

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 it will not be possible to obtain sufficient appropriate audit evidence and the possible effect of this inability will result in a disclaimer of opinion on the group financial statements (see [proposed] ISA 705, “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 from the engagement. This is subject to paragraph 13.

13. Where law or regulation prohibits an auditor from refusing or resigning from an engagement, the group engagement partner shall express a disclaimer of opinion on the group financial statements. (Ref: Para. A10)
Obtaining an Understanding of the Other Auditors

14. As part of determining the group auditor’s involvement in the work performed by the other auditors, the group auditor shall obtain an understanding of the 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:

(a) The professional qualifications of the other auditors;

(b) The other auditors’ compliance with those ethical requirements relevant to the group auditor and, in particular, their independence and professional competence;

(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

(d) Whether the other auditor will provide the group auditor with the necessary access to audit documentation. (Ref: Para. A12-A16)

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.”

15. When another auditor is not independent of the client, or the group auditor has serious concerns about any of the other matters listed in paragraph 14, the group auditor shall obtain audit evidence relating to the financial information of the component without using the work of that other auditor.

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

16. The group auditor shall enhance the understanding of the group, its components, and their environments obtained during the acceptance or continuance stage, and obtain an understanding of the consolidation process, including the instructions issued by group management to components. (Ref: Para. A17-A24)

17. The group auditor’s understanding shall be sufficient to confirm the group auditor’s initial identification of significant components and assess risks of material misstatement of the group financial statements at the group level. (Ref: Para. A18, A25-A26)

Materiality

18. The group auditor shall determine the 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) requires the auditor to determine an amount 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. 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 shall determine materiality levels for the components that are lower than the materiality level for the group financial statements as a whole. Moreover, the group auditor or the other auditor shall also determine an amount lower than the 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 amount is determined by the other auditor, the group auditor shall determine whether it is appropriate before significant work is performed on the financial information of the component.

Responding to Assessed Risks

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

20. 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. (Ref: Para. A27)

21. If the nature, timing and extent of the work to be performed on the financial information of the components are based on an expectation that group-wide controls are operating effectively, the group auditor shall test, or request another auditor to test, the operating effectiveness of those controls.

Significant Components

22. For a component that is significant due to its nature and circumstances, the group auditor, or another auditor at the request of the group auditor, shall perform one of the following:

(a) An audit performed using either component materiality; or a lower materiality level determined by the other auditor where the circumstances in paragraph 29 apply.

(b) An audit of specified account balances relating to the identified significant risks.

(c) Specified audit procedures relating to the identified significant risks.

23. For a component that is significant due to its individual financial significance to the group, the group auditor, or another auditor at the request of the group auditor, shall perform an audit using either component materiality; or a lower materiality level determined by the other auditor where the circumstances in paragraph 29 apply.

Components that Are Not Individually Significant

24. 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, the group auditor shall select components that are not individually significant for which the group auditor, or another auditor at the request of the group auditor, 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 auditor where the circumstances in paragraph 29 apply.
(b) An audit of specified account balances.
(c) Specified audit procedures.
(d) A review of the financial information of the component. (Ref. Para. A28-A30)

25. For components not selected for the period under audit, the group auditor shall perform analytical procedures at the group level.

**Involvement in the Work Performed by the Other Auditors**

26. 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 shall evaluate the other auditor’s memorandum or report of work performed and where considered necessary undertake one or more of the following actions:

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

**Significant Components—Risk Assessment**

27. When another auditor performs the work on the financial information of a significant component, the group auditor shall be involved in the other 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 involvement are affected by the group auditor’s understanding of the other auditor. The group auditor shall:

(a) Discuss with the other auditor or component management the component’s business activities that are significant to the group, including the regulatory, economic and political environments in which those activities take place;
(b) Discuss with the other auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and
(c) Review the other auditor’s documentation of identified significant risks. Such documentation may be in the form of a memorandum, reflecting the other auditor’s conclusion with regard to the identified significant risks.
Identified Significant Risks of Material Misstatement—Further Audit Procedures

28. When significant risks of material misstatement of the group financial statements have been identified in a component on which another auditor performs the work, the group auditor shall be satisfied with the further audit procedures to be performed to respond to the identified significant risks. The group auditor shall determine whether, based on the group auditor’s understanding of the other auditor, it is necessary to be involved in performing further audit procedures.

Components Subject to Audit by Statute, Regulation or Other Reason

29. The other 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 may decide to use this audit to provide audit evidence for the group audit, but the requirements of this ISA shall nevertheless be met. (Ref: Para. A31)

Consolidation Process

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

31. The group auditor shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and consider whether any fraud risk factors or indicators of possible management bias exist. (Ref: Para. A32)

32. If a component’s financial information has not been prepared in accordance with the accounting policies applied to the group financial statements, the group auditor shall evaluate whether the component’s financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

33. The group auditor shall determine whether the financial information identified in the other auditor’s memorandum or report of work performed is the financial information that is incorporated in the group financial statements.

34. If the group financial statements include the financial statements of any components with financial reporting period-ends that differ from that of the group, and consolidation adjustments have not been made in this respect, the group auditor shall determine whether this 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 shall determine 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

35. For significant components, the group auditor shall perform, or request the other auditors to perform, procedures designed to identify events at those components between the dates of the financial information of the components and the date of the auditor’s report on the group financial statements that may require adjustment to or disclosure in the group financial statements.
36. For components that are not individually significant, the group auditor shall request the other auditors to communicate to the group auditor 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 Auditors**

37. 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 shall communicate, as early as possible, the group auditor’s requirements to the other auditor. This communication, ordinarily in the form of a letter of instruction, sets out the work to be performed and the form and content of the other auditor’s memorandum or report of work performed.

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, 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) 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 the group auditor is aware of. The group auditor shall request the other auditor to communicate the names of any additional related parties, and the types of transactions with such related parties. The group auditor shall communicate such additional related parties to the other auditors. (Ref: Para. A33 and Appendix 5)

39. The other auditor’s memorandum or report of work performed in accordance with paragraphs 22-24 shall contain matters relevant to the group auditor’s conclusion with regard 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) State whether the other auditor has complied with those ethical requirements relevant to the group auditor, including independence and professional competence;

   (c) State whether the other auditor has complied with the group auditor’s requirements;
(d) Identify the financial information of the component on which the other auditor is reporting;

(e) List uncorrected misstatements of the financial information of the component (the list does not include misstatements that were below the threshold communicated by the group auditor for clearly trivial misstatements), and note identified indicators of possible management bias;

(f) Describe any identified material weaknesses in internal control over financial reporting at the component level;

(g) Set out other significant matters that the other auditor communicated or expects to communicate to those charged with governance of the component;

(h) Set out any other matters that the other auditor wishes to draw to the attention of the group auditor; and

(i) Set out the other 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

41. Based on the group auditor’s evaluation of the other auditors’ memoranda or reports of work performed, the group auditor shall determine whether it is necessary to discuss significant matters arising from another auditor’s memorandum or report of work performed with the other auditor, component management or group management; and whether it is necessary to review other relevant parts of another auditor’s audit documentation. (Ref: Para. A34)

42. If the group auditor concludes that the work of another auditor is insufficient for the group auditor’s purposes, the group auditor shall determine additional procedures to be performed, and whether such additional procedures are to be performed by the other auditor or by the group auditor.

Sufficiency and Appropriateness of Audit Evidence

43. The group auditor 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 and the other auditors on the financial information of the components, on which to base the group audit opinion.

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

44. The group auditor shall consider the effect of any disagreement with component management or inability to obtain sufficient appropriate audit evidence on the group audit opinion.

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

Communication with Group Management

46. The group auditor 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 of group-wide controls, including controls over the preparation and presentation of the group financial statements;

(b) Material weaknesses in internal controls at components that have been identified by the group auditor, or that have been brought to the attention of the group auditor by the other auditors, that the group auditor judges are of significance to the group.

47. If fraud has been identified in components, or information indicates that a fraud may exist, the group auditor shall communicate this as soon as practicable to group management. If the group auditor believes or suspects that group or component management may be involved in the fraud, the group auditor shall communicate this to those charged with governance of the group.

48. Where another auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the group auditor becomes aware of matters that may be significant to the financial statements of the component 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 shall discuss the matter with those charged with governance of the group. (Ref: Para. A36)

Communication with Those Charged with Governance of the Group

49. In a group audit, the group auditor shall communicate with those charged with governance of the group the following matters in addition to those required by [proposed] ISA 260, “Communications with Those Charged with Governance:”

(a) The planned work to be performed on the financial information of the components.

(b) The group auditor’s planned involvement in the work to be performed by the other auditors on the financial information of significant components.

(c) Instances where the group auditor’s evaluation of the work of another auditor gave rise to a concern about the quality of the work performed by that other auditor.

(d) Any limitations on the group audit. For example, where 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) may have been restricted. (Ref: Para. A37)

Documentation

50. In a group audit, the group auditor shall document the following matters in addition to those required by ISA 230 (Revised), “Audit Documentation” and the other ISAs:

(a) The nature, timing and extent of the group auditor’s involvement in the work performed by the other auditors and the basis thereof.
(b) The group auditor’s communications with the other auditors about the group auditor’s requirements.

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Application Material

Acceptance and Continuance as Group Auditor

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

A1. In the case of a new engagement, the group auditor’s understanding of the group, its components, and their environments may be obtained from:

- Information provided by group management;
- Discussions with group management; and
- Where applicable, discussions with the previous group auditor, component management and other auditors.

A2. The group auditor’s understanding may include matters such as the following:

- The group structure.
- Components’ business activities that are significant to the group, including the 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.
- Whether other auditors 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:
  - 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 auditors (including relevant audit documentation sought by the group auditor); and
  - Will be able to perform necessary work on the financial information of the components.

A3. In the case of a continuing engagement, the group auditor’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).
- 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.
THE AUDIT OF GROUP FINANCIAL STATEMENTS

- Difficulties experienced by the group auditor with regard to the integrity and competence of group or component management.
- Changes in group-wide controls.

Identifying Significant Components (Ref: Para. 10)

A4. The group auditor may identify a component as likely to include one or more significant risks of material misstatement of the group financial statements due to the nature of and circumstances specific to that component. For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement even though the component is not otherwise of individual financial significance to the group.

A5. 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 may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. The group auditor exercises professional judgment in identifying a benchmark and determining a percentage to be applied to such benchmark. 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 may consider that other components, which exceed 15% of the chosen benchmark, are also significant. A higher or lower percentage, however, may be deemed appropriate in the circumstances.

Expectation to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 10)

A6. A group may consist only of components that are not judged to be significant. In these circumstances, the 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 if the group auditor 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 auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.

Access to Information (Ref: Para. 11-13)

A7. 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.
A8. The group auditor’s access may be restricted by circumstance or group management. Where access is restricted by circumstances, the group auditor nevertheless may be able to obtain sufficient appropriate audit evidence. For example, the group auditor may not have access to those charged with governance, the management, or auditor (including relevant audit documentation sought by the group auditor) of a component that is accounted for by the equity method. The group auditor, however, may have a complete set of financial statements of the component, including the auditor’s report thereon, and information retained by group management in relation to that component. The group auditor may conclude that, based on the relative insignificance of the component, this information constitutes sufficient appropriate audit evidence. As the significance of the component increases, however, this is less likely to constitute sufficient appropriate audit evidence.

A9. Where access is restricted by group management, it is unlikely that the group auditor will be able to obtain sufficient appropriate audit evidence.

A10. There may be circumstances where law or regulation prohibits an auditor from refusing 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 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 to the group audit, and the effect of the group auditor’s inability to obtain sufficient appropriate audit evidence on which to base the group audit opinion is considered in terms of [proposed] ISA 705. Appendix 1 contains an example of an auditor’s report containing a qualified opinion based on the group auditor’s inability to obtain sufficient appropriate audit evidence in relation to a component accounted for by the equity method where, in the group auditor’s judgment, the effect is material but not pervasive.

Terms of Engagement

A11. In a group audit, matters such as the following may be included in the terms of engagement in addition to those required by ISA 210, “Terms of Audit Engagements:”

- The applicable financial reporting framework.
- The fact that the communication between the group auditor and the other auditors should be unrestricted.
- The fact that important communications between the other auditors, those charged with governance of the component, and component management, including communications on material weaknesses in internal control, should be made available to the group auditor.
- The fact that important communications between regulatory authorities and components related to financial reporting matters should be made available to the group auditor.
- The fact that, to the extent the group auditor considers necessary, the group auditor should be permitted:
  - Access to component information, those charged with governance of components, component management, and the other auditors (including relevant audit documentation sought by the group auditor); and
• To perform work on the financial information of the components.

The fact that restrictions on:

• 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); or

• the work to be performed on the financial information of the components, imposed after the group auditor’s acceptance of the engagement, constitute a scope limitation that may affect the group audit opinion. In exceptional circumstances, it may even give rise to resignation from the engagement, i.e., where not prohibited by law or regulation.

Obtaining an Understanding of the Other Auditors (Ref: Para. 14)

A12. When performing work on the financial information of a component for a group audit, the other auditor may be subject to ethical requirements in addition to those relevant to the other auditor. Such additional requirements are those relevant to the group auditor. The group auditor’s understanding of the other auditors’ compliance with those ethical requirements relevant to the group auditor includes, for example, whether they:

• Possess an understanding of those ethical requirements relevant to the group auditor, sufficient to fulfill their responsibilities in the group audit;

• Possess an understanding of the applicable financial reporting framework sufficient to fulfill their responsibilities in the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework);

• Possess an understanding of auditing and other standards applicable to the group audit, sufficient to fulfill their responsibilities in the audit of the group financial statements; and

• Possess the special skills necessary to perform the work on the financial information of the particular components.

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.

A14. The nature, timing and extent of the group auditor’s understanding of and involvement in the work performed by the other auditors may also be affected by factors such as the following:

• Previous experience with or knowledge of the other auditors.
• The degree to which the group auditor and the other auditors perform, or are subject to, common policies and procedures. For example, whether the group auditor and another auditor share:
  o Common policies and procedures for performing the work (e.g., audit methodologies);
  o Common quality control policies and procedures; or
  o Common monitoring policies.
• The consistency or similarity of:
  o Laws and regulations or legal system;
  o Professional oversight and discipline;
  o Education and training;
  o Professional organizations and standards;
  o Language and culture.
These factors interact and are not mutually exclusive. For example, the extent of procedures performed by the group auditor to obtain an understanding of another auditor who is subject to common policies and procedures or operates in the same jurisdiction as the group engagement partner may be less than those performed to obtain an understanding of another auditor who is not subject to common policies and procedures or operates in a foreign jurisdiction.

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. A number of sources may provide information about the other auditors. For example, the group auditor may:
• Visit the other auditors;
• Request the other auditors to complete questionnaires or written representations;
• Discuss the other auditors with colleagues in the group auditor’s firm, or with a network firm who has dealt with them;
• Obtain confirmations from the professional bodies to which the other auditors belong, the authorities by which they are licensed, or other third parties; or
• Consider the results of previous contacts with the other auditors.

Obtaining 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 Obtains an Understanding (Ref: Para. 16)

A17. ISA 315 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. 16)

A19. 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 take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework.

A20. 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.

A21. The group auditor’s evaluation 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 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. 16)

A22. Information used to identify the risks of material misstatement 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 auditors, and others) to the group auditor’s inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Discussion among Engagement Team Members Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud (Ref: Para. 16)

A23. ISA 315 and ISA 240, “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 specific emphasis on the risks due to fraud. In a group audit, these discussions may also include the other 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.

A24. 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 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. 17)

A25. Examples of conditions or events that 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. 17)

A26. The group auditor’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 relevant to the consolidation.

• Information obtained through discussions with the other auditors.

Responding to Assessed Risks

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

A27. The diagram below illustrates how the group auditor may decide on the work to be performed on the financial information of the components.
Components that Are Not Individually Significant (Ref: Para. 24)

A28. The group auditor’s selection of components that are not individually significant and 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 effect, if any, it has 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 individual financial significance of, 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.

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.

A30. 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 as appropriate. The group auditor may specify additional procedures to supplement this work.

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

A31. Factors that affect the group auditor’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 auditor where they are different from those applied in preparing the group financial statements and in the 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. 31)

A32. 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’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 Auditors

Letter of Instruction (Ref: Para. 38)

A33. Appendix 5 contains guidance on matters, in addition to those listed in paragraph 39, that may be included in the group auditor’s letter of instruction.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Reviewing Another Auditor’s Audit Documentation (Ref: Para. 41)

A34. The parts of another auditor’s audit documentation 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 affected by the fact that the other auditor’s documentation has been subjected to the other auditor’s firm’s review procedures.

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

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 forming an overall conclusion as to whether the group financial statements as a whole are consistent with the group auditor’s understanding of the group. The 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 may consider whether information obtained from the components about complex transactions between them reflects the group auditor’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)

A36. 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)

A37. The matters that the group auditor communicates to those charged with governance of the group may include those matters brought to the attention of the group auditor by other auditors that the group auditor 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(a)-(b) may be communicated after the group auditor 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(c) may be communicated at the end of the audit, and the matter referred to in paragraph 49(d) may be communicated when it occurs.
Example of a Qualified Opinion where the Group Auditor 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 is unable to obtain sufficient appropriate audit evidence in relation 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 did not have access to the accounting records, management, or auditor of the component.

The group auditor has read the audited financial statements of the component as of December 31, 20X5, including the auditor’s report thereon, and considered related financial information retained 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 Statements

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 20X5, 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.

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, 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. 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 audit opinion.

Basis for Qualified Opinion

ABC Company’s investment in XYZ Company, a foreign associate accounted for by the equity method, is recognized at $15 million in the balance sheet as at December 31, 20X5, and ABC Company’s share of profit of XYZ Company is recognized at $1 million in the income statement for the year 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.

Qualified Opinion

In our opinion, except for the possible effect 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, 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]
Matters About Which the Group Auditor 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 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. ISA 610, “Using the Work of Internal Audit” deals with the group auditor’s evaluation of the competence and objectivity of the internal auditors where the group auditor plans to use their work.

Consolidation Process

3. The group auditor’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.

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).
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 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.
- 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 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.
Example of Another 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.

[Other Auditor Letterhead]

[To Group Auditor]  [Date]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements give a true and fair view of (present fairly, in all material respects) the financial position of the group as of [date] and of 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] of [name of parent], we confirm the following:

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

2. We have an understanding of and will comply with [indicate relevant ethical requirements], 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 with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].

3. We have an understanding of International Standards on Auditing and [indicate other national standards applicable to the audit of the group financial statements], sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of [name of component] for the year ended [date] in accordance therewith.

4. We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual], sufficient to fulfill our responsibilities in the 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

Additional Matters to be Included in the Group Auditor’s Letter of Instruction (Paragraph A33)

Matters relevant to the planning of the other auditor’s work

- The timetable for completing the audit.
- Dates of planned visits by group management and the group auditor, and dates of planned meetings with component management and the other auditor.
- A list of key contacts.
- The use to be made of the other auditor’s work, the work to be performed, and arrangements for the coordination of efforts at the initial stage of and during the audit, including the group auditor’s planned involvement in the work of the other auditor.
- 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’s conclusion on the group financial statements, specific instructions for a subsequent events review.

Matters relevant to the conduct of the other auditor’s work

- The findings of the group auditor’s tests of control activities of a processing system that is common for all or some components, and tests of controls to be performed by the other auditor.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- A request for timely communication of audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which the group auditor originally based the risk assessment performed at the group level.
- A request for 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 auditor.

Other information

- A request that the following are reported to the group auditor 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 auditor during the performance of the work on the financial information of the component, and information that indicates that a fraud may exist.

• A request that the group auditor be notified of any significant or unusual events as early as possible.