29 July 2005

Mr. James M. Sylph
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Dear Mr. Sylph:

Exposure Draft ISA 600 “The Audit of Group Financial Statements”

The global organization of Ernst & Young is pleased to comment on the Exposure Draft ISA 600 The Audit of Group Financial Statements.

We welcome the opportunity to contribute to the development of this auditing standard, and we support an auditing standard on this subject that will drive the quality and consistency of group audits worldwide. We have, however, a number of concerns related to the proposed standard, which are set out in points 1 to 8 below.

In addition, we have provided specific recommendations in respect of the bold text paragraphs and detailed drafting comments, which can be found in Appendices 1 and 2 to this letter, respectively.

1. Specific questions on which the IAASB is seeking feedback

Is the approach to the work of other auditors practical, having regards to the elimination of the divided responsibility option?

We recognize that IAASB is not seeking comments on the issue of whether to retain the option of divided responsibility, but rather is seeking comments only on the practicality of the proposed approach. Although the proposed approach may be practical for entities whose components are all audited by the same group auditor or related auditors, it clearly is not practical for situations in which the group is made up of components audited by unrelated auditors. The significance of these practical problems precludes us from supporting the proposed approach.

The following paragraphs summarize the major practical problems we have identified with the proposed approach. In describing these problems, we draw upon the examples we cited in our comment letter on the initial proposed standard as well as new issues presented in the revised proposed standard.

In our comment letter on the original proposed standard “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements”, we supported retaining the recognition, in International Standards on Auditing, of both the “sole responsibility” and “divided responsibility” approaches to auditing and reporting for audits of group financial statements, because each approach
may result in an effective audit. We pointed out that there are a number of situations in which divided responsibility is particularly useful, such as:

- An entity enters into a transaction to acquire another entity late in the fiscal year, after a significant amount of audit work has already been completed by other auditors. Filing deadlines and resources do not allow the group auditor to perform sufficient audit procedures on the acquiree to assume sole responsibility.

- An entity has significant investees accounted for by the equity method, which are audited by other auditors. The entity does not have sufficient influence to either require a change to the investee company auditors or to require the investee’s auditors to make the working papers or other information available to the group auditor.

Under the current proposed approach, the situations described above would result in a modified opinion (either a qualified opinion or a disclaimer of opinion) in the group auditor’s report for failure to obtain sufficient appropriate audit evidence. We reiterate our view that we do not believe, in those specific circumstances, that the public interest is best served by an auditor issuing a report with a modified opinion (for failure to obtain sufficient appropriate evidence) as opposed to an auditor issuing an unqualified opinion in an auditor’s report which clearly communicates the divided responsibility, thus providing transparency to the readers of the report by disclosing that more than one auditor was involved in the audit and the extent of work performed by each auditor.

We recognize that paragraph 21 of the proposed standard provides that the group auditor may consider the significance of an equity accounted investee and, if the investee is deemed “insignificant”, audited financial statements of the investee on their own may provide sufficient appropriate audit evidence. However, the premise, in the proposed standard, that an auditor’s opinion on the financial statements of an equity accounted investment may provide sufficient appropriate evidence for some investments but not others, depending solely on the significance of the investee, appears to undermine the public’s confidence in the quality of evidence represented by the other auditor’s opinion. Further, when faced with the inability to obtain audit evidence beyond the audited financial statements, clients and group auditors may be more inclined to treat some investees as insignificant in view of the impossibility of otherwise complying with the standard and issuing an unqualified opinion.

In some jurisdictions, a scope limitation leading to a modified opinion will not be acceptable for listed entities. If an entity and its group auditor determine that the completion of a business acquisition in the current period would result in the auditor being forced to issue a modified opinion because of the inability to use the work of another auditor or otherwise obtain sufficient appropriate audit evidence on a timely basis, the entity may decide that the only course of action is not to complete the transaction. Similarly, an entity may decide that it needs to divest itself of an equity accounted investment in order to obtain an unqualified audit opinion. We do not believe that the reporting model should constrain an entity’s business decisions for acquisition or investment transactions. Nevertheless, if the IAASB issues a final standard that eliminates divided responsibility, we believe that the proposed standard should explicitly state that divided responsibility is no longer permitted and the implications with respect to the auditor’s report under various scenarios, including transition issues.
Are the revised standards and guidance on accepting or continuing an engagement to audit group financial statements appropriate?

We do not believe the requirements and related guidance to be appropriate, as they could dictate an entity’s new investment decisions, and could result in an entity being unable to engage an independent auditor unless it divests investments. Additionally, as discussed in the section Determination of Significant Components – Use of Benchmarks, below, we have some concerns about the determination of significant components. In the original proposed standard, it was suggested that it would be unusual for a group auditor to accept an engagement when the group auditor and related auditors work on less than 50% of the group. This is a useful guideline, and we would support its re-instatement.

Do the revised standards and guidance on access to information, given various laws of jurisdictions, give rise to any unnecessary foreseeable difficulty?

We support the objective, insofar as it extends to consolidated components, that the group auditor would have access to the other auditor and the work performed by the other auditor, to the extent necessary to respond to the risks of material misstatement of the group financial statements. We have some concerns about the extent to which access to information is always likely to be available to the parent auditor, for example, where the significant component is not a subsidiary and local legislation does not provide legal support for the other auditor to provide any information to the group auditor.

In many jurisdictions, other auditors are only permitted by legislation to communicate with the group auditors without breaching client confidentiality where the local client is a subsidiary of the parent. The auditor of a joint venture, associate or other investee does not have the same duties, responsibilities, rights or protections as the auditor of a subsidiary. The proposed standard is a welcome step towards helping the group auditor to obtain assistance from another auditor in the group. However, the proposed standard should also provide guidance to the other auditor of a component which is not a subsidiary as to what steps he or she might take when asked for assistance by the group auditor. For example, the other auditor may be advised to obtain the local client’s written consent for the other auditor to communicate with the group auditor and the local client’s agreement to provide information in connection with the group audit work.

The other auditor may also be concerned that the group auditor may give the parent entity or other third party access to the findings, opinions or working papers that the other auditor provides to the group auditor, and that these parties may use them for purposes other than the group audit. Guidance on managing this risk would be helpful.

Data privacy laws vary from country to country. The proposed standard should remind the other auditor to consider appropriate factors in determining whether he or she may provide access to his or her working papers to the group auditor. For example, the other auditor may be required to get permission from the client to provide access, and the client may, in turn, have to take appropriate actions. Or, the other auditor may have to restrict access to certain working papers, for example, because of the restricted client or personal data they contain. In this case, the group auditor will need to consider the effect of such restrictions. Data privacy laws may also restrict the movement of working papers containing certain types of data across jurisdictions.

We believe that consequences of the performance requirements in the proposed standard may not be fully understood until the standard becomes effective. We have a concern that compliance with the
standard will require an unprecedented number of requests for access to information by group auditors when an entity does not have control over a component, and these will result in many access and privacy issues in some jurisdictions. They will also have cost implications for issuers, especially as auditors encounter difficulties in obtaining information, requiring significant time and effort to be resolved.

**Is the proposal to move the guidance originally contained in the proposed IAPS to the ISA appropriate?**

The consolidation of the guidance contained in the proposed IAPS with the proposed ISA has resulted in a proposed standard that is overly long and duplicative of some of the requirements in other ISAs (e.g., subsequent events). On the other hand, the length of the proposed standard suggests that it includes all the required guidance related to group audits, which is not necessarily the case. For example, many groups have internal audit functions and shared service centres which process information for the group. These topics are not covered in the proposed standard but they are likely to affect many aspects of the group audit. (For example, the existence of a shared service centre may affect the nature of communications and relationship between the group auditor and other auditors.)

Our preference would be to revert back to an ISA containing the requirements and essential guidance and an IAPS which would provide detailed guidance on how ISAs are to be applied in the context of a group audit.

2. **Determination of Components – Use of Benchmarks**

The determination of significant components is an area where the group auditor needs to exercise professional judgment. We are concerned that the proposed standard may be too narrowly interpreted for determining significant components, and that this may lead to too few significant components being identified.

For example, it appears that there is too much emphasis on those components that are financially significant and not enough emphasis on those that are significant for other reasons. While paragraph 15 recognizes that a component could be significant due to its nature or the particular circumstances specific to that component, it would be helpful to extend this discussion, possibly with more examples.

Paragraphs 15 and 16 appear to provide contradictory guidance. Paragraph 15 allows the auditor to select a benchmark appropriate to the engagement but paragraph 16 defines what is a financially significant component. We recognize that a numerical benchmark is helpful in assessing whether a component is significant, but we are concerned that 20% is set too high as a benchmark percentage and that it emphasizes financial significance to the detriment of other reasons for significance. We recommend deleting the phrase “although in practice there are ranges of possible percentages” because it implies that 20% should be used, regardless of other circumstances. In addition, although 20% is perhaps appropriate as the upper limit of the range, it may lead to difficulties for a group auditor attempting to justify the use of a lower percentage or another factor as the gauge, especially where the client is seeking to reduce the audit fees or perhaps unduly influence the selection of components in order to conceal problems at certain locations. Finally, as profit is the most commonly used benchmark, it would be better, in our view, to identify it as the first benchmark to be considered by the auditor.

We have a similar concern over the 5% benchmark (paragraph 54) to determine components that are not significant in the aggregate. Although we are satisfied that the language used in drafting this
paragraph is sufficiently conditional to allow the auditor to exercise his or her judgment – the use of the word “ordinarily” is helpful – the determination is based purely on financial significance. We therefore recommend including a reminder of the other factors that might influence the group auditor’s decision in determining the nature, timing and extent of work to be performed.

3. Significant Risk

The definition of “significant component” in paragraphs 5(m), 15 and 16 refers to “significant risk” a number of times. From the context of these references, it is not clear that these are significant risks as defined in ISA 315, i.e. risks that require special audit consideration. Instead, it would appear that the risks referred to in paragraph 5(m), 15 and 16 are higher inherent risks. The nature of these risks should be clarified and the drafting amended.

This confusion over the meaning of ‘significant risk’ within the context of the proposed standard also exists in paragraphs 39 and 42, paragraph 61 and paragraph 65, where it is not clear whether the proposed standard is referring to ISA 315-style significant risks or merely high risk.

In addition, given the importance attached to the word ‘significant’ throughout the body of ISAs, it is unhelpful to introduce ‘insignificance’ in paragraph 21.

4. Materiality

The proposed standard states, in paragraph 47, that component materiality levels are lower than group materiality levels. However, the proposed standard does not provide any guidance to assist the group auditor in determining those lower levels. We recommend guidance on the factors to consider when determining materiality levels for individual components. We also suggest guidance on (i) the relationship between the absolute levels of group materiality and component materiality and (ii) the relative materiality levels between components. The introduction of the concept of tolerable error in paragraph 49 hints that these relationships are not as simple as a proportional sharing of the group materiality level across all components.

The proposed standard requires the group auditor to determine the materiality level(s) to be used by other auditors in performing the work on the financial information of the components for the purpose of the audit of the group financial statements. In some cases however, the other auditor may need to set the component materiality, for example when there is a need for a statutory audit to be carried out. Paragraphs 57 and 58 should recognize this situation and consider whether the other auditor should communicate the materiality level he or she has used to the group auditor for confirmation that it is an appropriate level for group audit purposes.

Paragraph 5(n) and Appendix 4 suggest that the type of work to be performed on the financial information of components include an audit of the component’s financial information performed in accordance with ISAs using either a materiality level determined by the group auditor or a lower materiality level determined by the other auditor. Paragraph 103 requires that the memorandum or report of the work performed from the other auditor should state whether the other auditor has complied with auditing or other standards applicable to the audit of the group financial statements. The above suggests that the other auditor could be able to state compliance with ISAs when the materiality level as determined by the group auditor is higher than the materiality level that would have been determined under ISA 320. We believe that this is not the case and that the wording in paragraph 5(n) and Appendix 4 should be amended to clarify that under such circumstances the other auditor cannot state that he or she has conducted an under in accordance with ISAs.
5. Risk Assessment and Further Audit Procedures

In our view, the proposed standard does not allow the group auditor to exercise sufficient judgment in identifying and responding to significant risks in the audit of a significant component. In particular, paragraphs 59 to 68, which discuss the involvement of the group auditor in the work of other auditors, do not appear to respond to the risk assessment made by the group auditor in paragraphs 41 to 44 or to the responses described in paragraphs 50 to 58. We would agree that the group auditor needs to “be involved” in the work performed by the other auditor, but the proposed standard does not appear to permit the group auditor to tailor the extent of involvement according to the previously assessed risks and proposed responses.

Paragraph 60 recognizes that the group auditor might perform different work based on the risk assessment, but the subsequent paragraphs prescribe the work to be performed. Further, the choice of other auditor may be driven by language considerations or local restrictions. The group auditor may decide to rely on the work performed by the other auditor corroborated by work performed at a group level, rather than, for example, communicating with local component management. The requirement in paragraph 65, for the group auditor and the other auditor to together determine further audit procedures, would be overly prescriptive in this situation. Similarly, where the component is not a subsidiary, an appropriate response might be to carry out additional procedures at group level rather than necessarily involving the other auditors.

6. Assessing Unrelated Auditors

Paragraph 36(a) requires the group auditor to confirm that the unrelated auditor’s quality control system complies with ISQC1. However, there is no guidance as to how much detail needs to be provided by the unrelated auditor to help the group auditor assess compliance. Is a simple statement of compliance by the unrelated auditor sufficient, or should the group auditor seek more detail? If the latter, we suggest that the standard should provide guidance as to the extent of detail of compliance the group auditor might obtain and what factors they should consider.

Paragraph 36(b) requires the group auditor to consider whether any issues have been noted in recent monitoring reports. We believe that monitoring reports that are publicly available are unlikely to be sufficiently detailed to provide the group auditor with sufficient information required to assess compliance with ISQC 1. We therefore question the effectiveness of the bold text requirement in paragraph 36(b). We are further concerned that monitoring reports may not be generally publicly available. Although this is recognized in paragraph 37, we suggest that the bold text requirement in paragraph 36(b) be deleted, or if not deleted, be modified to acknowledge that such reports are not always publicly available.

7. Guidance for the other auditor

The focus of the proposed standard is that of the group auditor. As the key issues surrounding group audit fall within the responsibility of the group auditor, this is an appropriate focus. However, there are issues which concern the other auditor, whether they are related or unrelated, which should be addressed. We recommend that these be considered within the standard. For example, the proposed standard could usefully provide guidance on:

- The contractual issues facing the other auditor

When the other auditor is a related auditor, their role in the group audit will often be covered within a group engagement letter. If there is a local statutory requirement for an audit, the
related auditor would need to obtain a local engagement letter for the statutory engagement. They may also need to deal with some aspects of the group work they will be performing, depending on legal or other requirements of the local country.

Equally, where the other auditor is an unrelated auditor, it is necessary for the other auditor to clarify the relationship between the local client, the group auditor and the other auditor in the engagement letter, particularly where the local client is not a wholly owned subsidiary of the parent entity.

- Duty of care to the group auditor and/or parent entity

The proposed standard states (paragraph 7) that “Other auditors may perform work on the financial information of one or more components for purposes of the group financial statements. The group auditor, however, takes responsibility for the audit opinion on the group financial statements.” It is clear that the intention of the proposed standard is for the group auditor to take responsibility for the group audit opinion. However, the extent of responsibility, in law, assumed by the other auditor should be considered and clarified before the other auditor accepts the engagement. For example, in some jurisdictions, the law places no duties or responsibilities on the auditor of an associate or other non-subsidiary in respect of the group auditor. However, if that other auditor provides information to the group auditor, the other auditor will have established a relationship with the group auditor – and possibly with the parent entity and its shareholders. It is important for the other auditor to ensure that the terms of the relationship are clear, especially where the rules for establishing a duty of care between parties vary between the jurisdictions involved.

- Management representations

It may be appropriate for the other auditor to consider obtaining representations from group management for the component audited by the other auditor. Guidance as to the circumstances in which the other auditor might consider this would be helpful.

- Closing and archiving the files relating to the work on the group audit

Draft ISA 230 (Revised) Audit documentation requires the auditor to assemble the complete file not more than 60 days after the date of the auditor’s report. The proposed standard should provide guidance on how to achieve this within a group audit. For example, should the other auditor assemble a file relating to the work performed on the group audit not more than 60 days after the date of the group audit report, or could the other auditor wait until he or she has reported on the local statutory financial statements, if later?

8. Type of work

The phrase “Type of work” has been introduced into the proposed standard – the concept has not been used, to date, in any other ISAs. It is important that new terms and concepts are introduced into ISAs where these are necessary to aid clarity or understandability. In this instance, however, we do not believe that introducing the concept “type of work” is either helpful or necessary. In each instance in which it is used, it could be replaced more simply with “work” or “scope of work”.

However, if “type of work” is retained, the current definition requires amendment – defining “type of work” using the term itself to do so does not aid understanding (Paragraph 5(n) – “‘Type of work’ means the type of work ...”). The definition should be phrased in terms of the nature, timing and
extent of work required, and/or the scope of the work that the group auditor requires the other auditor to perform.

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We would be pleased to discuss our comments with members of the International Auditing and Assurance Standards Board or its staff. If you wish to do so, please contact Denise Esdon (+44 207 980 0125) or Matty Yates (+44 207 980 0203).

Yours sincerely,

Ernst & Young
Appendix 1 – Bold text requirements

We have the following recommendations in respect of the bold text paragraphs:

- Paragraph 10 – “at a minimum” does not add anything to the requirement and should be deleted.
- Paragraph 10(b) – “be involved in” is an undefined term, and should either be defined or cross-referred to the discussion later in the proposed standard.
- Paragraph 11 – “For purpose of” implies that obtaining the understanding of the group, etc., is only done for the purpose of the acceptance/continuance decision and is the only determinant of client acceptance/continuance. We suggest instead “In determining…” or “To assist in determining…”
- Paragraph 18 – “including relevant parts of their audit documentation” is unclear. Only audit documentation that is relevant to the audit opinion should be retained. Therefore, the group auditor needs access to all audit documentation (in which case, “including relevant parts of” is redundant) or, if that is not the intent, the phrase should be clarified.
- Paragraph 26 – We question why this paragraph is bold text, and suggest that it be changed to grey letter text. In addition, this paragraph contains the same concern relating to “relevant parts of their audit documentation” (see Paragraph 18 above). Finally, if the scope limitation referred to is imposed by group management, it may affect the auditor’s assessment of management itself, in which case it may affect the audit scope and strategy, as well as the audit opinion.
- Paragraph 39 – “enhance” is a vague word that does not help the auditor understand what work is to be carried out. It should be changed or deleted. In addition, if in 39 (a), risks are identified “at group level”, this does not help to determine the work to be carried out at component level.
- Paragraph 42 – As with paragraph 39, the link to ISA 315 in respect of risks is unclear. To follow the structure of ISA 315, it would appear more appropriate to understand and identify the risks of material misstatement at paragraph 39, and, in paragraph 42, to assess whether these identified risks are significant.
- Paragraph 50 – We are unsure how this requirement relates to the requirement in paragraph 39. There is uncertainty around determining the work required at a component level when risk assessment appears only be required at a group level.
- Paragraph 61 – In our view, the nature of the steps set out in paragraph 62 is at the right level (i.e., discussion and review). However, the requirement in paragraph 61 for the group auditor “to be involved in the other auditor’s risk assessment” implies a greater level of work. We suggest conforming paragraph 61 with the level of work in paragraph 62.
- Sufficiency and Appropriateness of Audit Evidence section – We would have expected that there should be a bold text requirement related to the guidance in paragraphs 84 and 85.
- Paragraphs 72 and 73 – We believe that an additional black letter requirement is necessary to help auditors respond where components of the group have non-coterminous year ends.
• Paragraphs 75 and 76 – We question whether these paragraphs are necessary, and recommend that they be deleted. However, if these paragraphs are to be retained, they need to be expanded to cover components that are not of individual significance to the group.

• Paragraph 95 – This requirement, and the section on Communications in which it is set out, appears very late within the structure of the proposed standard. We suggest that this requirement and the related guidance be moved to the front of the document.

• Paragraph 98 – In each of (a), (b) and (c), replace “Confirmation whether…” with “Confirmation that…”

• Paragraph 99(c) – The grey lettered text appears to contradict the bold letter requirement set out in paragraph 10(b).
Appendix 2 – Detailed comments

We have some detailed comments on the proposed standard which are outlined below:

• Title of the proposed standard – We believe that the title *Using the work of another auditor in the audit of group financial statements* would be a more descriptive title. It would also provide a closer link from the existing ISA on this subject.

• Paragraph 2 – Is it anticipated that the whole of the standard would always apply in the example set out in this paragraph? It would seem to lead to over-auditing if the other auditor is merely attending an inventory count and carrying out certain specific procedures. We suggest deleting the example.

• Paragraph 8 – We suggest amending the wording to read “Ordinarily…the group auditor does not perform all of the work on the financial information of the component themselves.”

• Paragraph 9 – We believe that it is important to explain, in this paragraph, why the extent of involvement in the other auditor’s work depends on whether the other auditor is related or unrelated to the group auditor. Factors such as common methodologies, similar quality control and ease of communication could be mentioned at this point.

• Paragraph 17 – Where a group consists only of components that are not of individual financial significance, it would be helpful to have guidance on:

  (i) the need to use professional judgment in determining which components to select, and factors to consider;

  (ii) rotation of the audit of components, for example, ensuring that all components are visited over a designated period of time.

• Paragraph 30 – The examples could be deleted as they do not aid understanding.

• Paragraph 32 – The references to “audit risk” should be amended to “risk” because they do not refer to audit risk, but to the auditor’s engagement risk.

• Paragraph 36 – The grey lettered text is a very detailed logistical point, and could be omitted.

• Paragraph 52 – We question whether, in respect of a significant component, it would be possible to carry out only specified audit procedures or an audit of specified balances. We suggest that the wording “to perform one of the following…” should be amended.

• Paragraphs 52 and 53– Significant component is a defined term (paragraph 5(m), further qualified in paragraphs 15 and 16). Therefore, the term “significant component”, qualified by the reason for it being designated a significant component, could replace the long descriptions at the start of paragraphs 52 and 53.

• Paragraph 54 – Following our comment relating to “although in practice…” in the section *Determination of Components – Use of Benchmarks* of our letter, the phrase “While in practice…” should also be removed from paragraph 54.
• Paragraph 56 – The example is useful. However, to complete the example, it seems likely that
the group auditor would also wish to conduct analytical procedures in addition to the work
performed on accounts receivable.

• Paragraph 59 – We suggest re-ordering the bullet points so that they are ordered to respond to
changing levels of risk.

• Paragraph 67 – We believe that further guidance is necessary as to the depth of review expected,
or the factors to consider in determining the extent of review. As drafted, we question whether
this paragraph is practical enough to be applied by auditors.

• Paragraph 70 – When assessing the consolidation adjustments, the group auditor may also
consider whether there is any evidence of management bias.

• Paragraph 74 – Guidance should be provided in the situation where management declines to
have the adjustments processed and the group auditor is unable to inform the other auditor due
to confidentiality constraints. For example, if the group auditor is aware that the other auditor
will be issuing an audit opinion on statutory financial statements for the component, would the
group auditor be expected to assess the likely materiality of the adjustments to the component’s
financial statements? Should the group auditor consider resigning from the group audit unless
group management informs the other auditor of the adjustments?

• Paragraph 78 – At this stage of the audit, we would expect that the group auditor would evaluate
the work of the other auditor based on the plan for the group audit. Decisions such as the
significance of the component and our evaluation of the competence of other auditors would
have been made during the early stages of the group audit. Consequently, the discussion in this
paragraph should occur earlier in the standard.

• Paragraph 79 – It is unclear as to how this paragraph (and paragraph 107 (g)) would apply to
equity accounted investments.

• Paragraph 81 – Some specific examples of documentation to be reviewed would be helpful. For
example, the auditor might focus on the schedule of errors, the audit strategy, a summary of how
the strategy was carried out and any issues that required consultation and professional judgment.

• Paragraph 83 – If the group auditor concludes that the other auditor’s work is inadequate, it is
important that the group auditor considers why the work is inadequate. The group auditor’s
response will depend on whether the inadequacy is due to poor quality work by the other auditor
or to insufficiency of evidence. This paragraph could be expanded to provide additional
guidance.

• Heading before paragraph 86 – This subsection is part of the section Evaluating the Sufficiency
and Appropriateness of the Audit Evidence Obtained. Therefore, its heading should be demoted
to subsection heading level.

• Heading before paragraph 88 – Reporting considerations should form a section in its own right.
We therefore recommend promoting this heading to that of a section rather than a subsection.

• Paragraphs 97– replace ‘whether’ with ‘that’ in ‘Confirmation whether’.

• Paragraph 103 – an additional appendix, containing example reports, would be helpful.
• Paragraph 103(g) – It would be useful to clarify whether the list of uncorrected misstatements of the financial information of the component is accumulated having regards to the applicable financial reporting framework of the component, of the group, or both.

• Appendix 2 – Section 2: the group auditor also obtains an understanding of centralized processing within the group, i.e., a shared service centre, and the effect this will have on the group audit.

• Appendix 3 – additional conditions that may indicate a risk of material misstatement or risk of fraud include group transfer pricing issues; a history of not reconciling group results to the results reported for statutory or tax reporting purposes; and extensive use of offshore entities, special purpose vehicles or non-consolidated subsidiaries.

• Appendix 4 – the wording of the third question should be amended to read “Is the component significant in the aggregate?”, even though this would require the “Yes” and “No” captions to be reversed. This would make the question easier to understand and translate.

• Appendix 5 – it is likely that the group auditor would require specific representations from component management. The group auditor might consider asking the other auditor to obtain these specific representations at the same time that the other auditor obtains any other representations he or she deems appropriate.

• Appendix 6 – The example should address the group auditor’s responsibility for the group audit opinion, and the extent of reliance the group auditor intends to place on the other auditor’s work and report, even if it does not suggest specific wording. As a minor drafting point, we also suggest that each of the two confirmations listed following “We confirm that:” be set out as two independent confirmations, each commencing “We confirm that…” Otherwise, if the auditor can only confirm one of the two statements, the drafting becomes confusing.