

*Proposed Pronouncements on the Audit of Group
Financial Statements*

ISA 600 (Revised), “The Work of
Related Auditors and Other
Auditors in the Audit of Group
Financial Statements”

IAPS, “The Audit of Group
Financial Statements”



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REQUEST FOR COMMENTS

This exposure draft of the International Auditing and Assurance Standards Board (IAASB) was approved for publication in December 2003. The proposed revised International Standard on Auditing (ISA) and the proposed International Auditing Practice Statement (IAPS) may be modified in light of comments received before being issued in final form.

Comments should be submitted so as to be received by **March 31, 2004**, preferably by e-mail or on computer disk, or in writing. 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

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

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EXPLANATORY MEMORANDUM

This memorandum provides background to and explains the proposed revision of International Standard on Auditing (ISA) 600, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements” and the proposed new International Auditing Practice Statement (IAPS), “The Audit of Group Financial Statements.”

Background

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 International Auditing and Assurance Standards Board (IAASB) commenced a project on the audit of group financial statements. The project aims to establish standards and guidance on matters relevant to the audit of group financial statements that were not covered in existing ISAs, and to provide guidance on the application on the body of ISAs to audits of group financial statements. The IAASB believes that this would best be achieved by revising the existing ISA 600, “Using the Work of Another Auditor” and developing a new IAPS, “The Audit of Group Financial Statements.”

The proposed revised ISA 600 deals with both “sole responsibility” and “division of responsibility.” The proposed IAPS applies when the group auditor takes sole responsibility for the auditor’s report on the group financial statements.

Significant Proposals

Changing the Focus of ISA 600

The existing ISA 600 requires that, when group financial statements include financial information of components that are audited by other auditors, the group auditor should determine how the work of the other auditors will affect the audit of the group financial statements. The proposed revised ISA 600 reflects the IAASB’s belief that the decision as to whether to request a related auditor or other auditor to perform work on a component’s financial information is made later in the audit process, i.e. after the group auditor has conducted the group risk assessment, categorized the components based on the results of the group risk assessment and determined the scope of work to be performed on the components’ financial information.

The title of the proposed revised ISA 600 reflects its wider scope and relevance to an audit of group financial statements.

Continuance and Acceptance

To assist a group auditor in deciding whether to accept or continue an engagement to audit group financial statements, the related standards and guidance have been expanded in the proposed revised ISA 600, and practical assistance has been included in the proposed IAPS. The proposed revised ISA and the proposed IAPS provide for the group auditor to obtain a preliminary understanding of the group at the acceptance and continuance stage, and to consider the group auditor’s ability to participate appropriately in the work of other auditors.

Access to Information

The proposed revised ISA 600 discusses the group auditor’s ability to access information and specifies that restrictions on access may lead to a scope limitation that may impact the auditor’s report on the group financial statements.

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The Other Auditor's Quality Control Process

In addition to the other auditor's professional qualifications, independence, professional competence and resources, the group auditor is also required to consider the quality control process of the other auditor's firm. The group auditor obtains a representation that the quality control process of the other auditor's firm complies with the proposed International Standard on Quality Control (ISQC) 1, "Quality Control for Audit, Assurance and Related Services Practices."

Sole Responsibility

The proposed revised ISA 600 makes it clear that, in the case of "sole responsibility," the group auditor is responsible for determining the scope of work to be performed directly, or by related auditors or other auditors, on the components' financial information and on the consolidation to respond to the assessed risks of material misstatement of the group financial statements. In scoping the work to be performed on the components' financial information, the group auditor considers whether to participate in the work of related auditors or other auditors. The group auditor also determines the adequacy of the work of related auditors and other auditors for the group auditor's purposes. Standards and guidance on communication between the group auditor and related auditors or other auditors facilitate this process and documentation provides evidence thereof.

Division of Responsibility

After extensive deliberation of the matter the IAASB agreed that, due to practical implementation issues and in the interest of convergence of national standards with international standards, "division of responsibility" should be retained as an alternative approach to "sole responsibility."

The group auditor is permitted to apply the approach if national standards enable and national law or regulation permits the group auditor to divide responsibility for the audit opinion on the group financial statements. If the group auditor decides to follow this approach, he or she should follow the relevant national standards and national law or regulation, as well as the relevant standards and guidance in the proposed revised ISA 600.

Proposed IAPS

The proposed IAPS applies when the group auditor takes sole responsibility for the auditor's report on the group financial statements. It provides practical assistance on the application of the proposed revised ISA 600 and other ISAs to the audit of group financial statements. The guidance follows the new audit risk model reflected in the recently issued Audit Risk Standards of the IAASB.

The group auditor obtains an understanding of the group and its environment, including group-wide controls, and of the consolidation, sufficient to identify the risks associated with the consolidation and the presentation of the financial statements, and to categorize the components as follows: (a) components that are of individual financial significance; (b) components that are likely to include significant risks of material misstatement of the group financial statements; (c) components that when aggregated with other such components give rise to significant risks or represent a level of financial significance that could cause the group financial statements to be materially misstated; and (d) components that are not of individual financial significance and, even when aggregated with other such components, do not give rise to significant risks of material misstatement of the group financial statements. The group auditor determines the scope of work to be performed on the components' financial information accordingly. The scope of

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work may be an audit based on materiality determined in the context of the component's financial information, an audit based on materiality determined by the group auditor for the component, or specified limited scope engagements.

The guidance on materiality is limited and will be reconsidered when the Materiality Task Force has completed its revision of ISA 320, "Audit Materiality."

Terminology

The proposed revised ISA 600 distinguishes between related auditors and other auditors, recognizing that in the case of a related auditor the group auditor ordinarily will be able to rely on common policies and procedures on recruitment, training, advancement, auditor independence, audit methodology and quality control.

Commentators Guide and Consideration of Specific Issues

The IAASB welcomes comments on the proposed revised ISA 600 and the proposed IAPS. In responding to the proposed pronouncements, commentators are requested to refer to the specific pronouncement and the relevant paragraphs within the pronouncements. The responses should include the reasons for the comments, including specific suggestions for any proposed changes to wording.

The IAASB is seeking comments on all matters addressed in the exposure drafts. In addition, the IAASB is interested in comments on its decision to retain "division of responsibility" as an alternative to "sole responsibility" in certain specified circumstances.

PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 600
THE WORK OF RELATED AUDITORS AND OTHER AUDITORS
IN THE AUDIT OF GROUP FINANCIAL STATEMENTS
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International Standard on Auditing (ISA) 600, "The work of Related Auditors and Other Auditors in the Audit of Group Financial Statements" should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," which sets out the application and authority of ISAs.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance when an auditor, acting as a group auditor, decides to use the work of a related auditor or other auditor in the audit of group financial statements (see definitions in paragraph 7 below). The group auditor also applies the standards and considers the guidance in the other ISAs. This ISA does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor.
2. The group auditor is responsible for expressing an audit opinion on whether the group financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework. The group auditor is responsible for determining the work to be performed on the components' financial information and on the consolidation in order to obtain sufficient appropriate audit evidence to be able to express an opinion on the group financial statements. The group auditor may consider it appropriate to request a related auditor or other auditor to perform the work on a component's financial information. In this case, the group auditor determines the scope of work to be performed on the component's financial information and communicates it to the related auditor or other auditor.
3. **When the group auditor decides to use the work of a related or other auditor in the audit of group financial statements, the group auditor should determine how the work of the related auditor or other auditor will affect the audit of the group financial statements and the auditor's report on the group financial statements.**
4. The standards and guidance in this ISA are applicable whether components are accounted for by the consolidation or equity methods of accounting. Although written in the context of an audit of group financial statements, for example where a parent and subsidiaries exist, the standards and guidance in this ISA also apply to the audit of financial statements (prepared in accordance with an applicable financial reporting framework or other suitable criteria) that combine the financial information of components, i.e. where a parent does not exist. In this case, reference to group financial statements is read as reference to the combined financial information, and reference to group management is read as reference to those responsible for, among other matters, the preparation and presentation of the combined financial information.
5. **Unless national standards enable and national law or regulation permits the group auditor to divide responsibility for the audit opinion on the group financial statements (referred to as "division of responsibility") and the group auditor decides to do so, the group auditor should take sole responsibility for the audit opinion on the group financial statements. When the group auditor takes sole responsibility for the audit opinion on the group financial statements, the group auditor should not refer to the other auditor in the auditor's report on the group financial statements, except as provided for in paragraph 31.** The standards and guidance in paragraphs 7 to 34 apply when the group auditor takes sole responsibility for the audit opinion on the group financial statements.

6. Division of responsibility is dealt with in paragraphs 35-41. Division of responsibility does not apply in the case of a related auditor. In the case of related auditors, and other auditors with whom the group auditor does not divide responsibility, the group auditor applies the standards and guidance set out in paragraphs 7-34.

Definitions

7. In this ISA the following terms have the meaning attributed below:
- (a) “Component” means a head office, parent, division, branch, subsidiary, joint venture, associated company or other entity whose financial information is or should be included in the group financial statements by means of consolidation procedures or equity accounting methods. Components could be in the same or in multiple locations.
 - (b) “Component management” means management responsible for the preparation and presentation of a component’s financial information.
 - (c) “Group auditor” means the independent auditor who signs the auditor’s report on the group financial statements.
 - (d) “Group financial statements” means financial statements that include or should include financial information of more than one component by means of consolidation procedures or equity accounting methods. It may also mean a combination of components’ financial information or an equivalent presentation.
 - (e) “Group management” means management responsible for the preparation and presentation of the group financial statements.
 - (f) “Other auditor” means an independent auditor other than the group auditor or a related auditor.
 - (g) “Parent” means the entity in respect of which group financial statements are or should be prepared.
 - (h) “Related auditor” means an independent auditor from the group auditor’s office, other office of the group auditor’s firm, a network firm or another firm operating under common quality control policies and procedures as described in International Standard on Quality Control (ISQC) 1, “Quality Control for Audit, Assurance and Related Services Practices.”

Acceptance and Continuance as Group Auditor

8. Proposed ISQC 1 and proposed ISA 220, “Quality Control for Audit Engagements” contain standards and guidance on the acceptance and continuance of audit engagements. **In the case of an audit of group financial statements, the group auditor should also consider whether the group auditor’s involvement, including the involvement of related auditors, in the audit of the group financial statements is sufficient to be able to act as group auditor.** The group auditor applies professional judgment in considering the sufficiency of the group auditor’s involvement in the audit of the group financial statements. The group auditor’s consideration will be impacted by the group auditor’s preliminary understanding of the following factors:

- (a) The magnitude of the portion of the group financial statements that the group auditor and related auditors audit.
 - (b) The existence of components that may include significant risks of material misstatement of the group financial statements, and whether the work on these components' financial information will be performed by other auditors.
 - (c) The complexity of the group financial statements.
 - (d) The group auditor's preliminary understanding of the professional qualifications, independence, professional competence and resources of the other auditors, and of the quality control process of the other auditors' firms.
 - (e) Whether group management and component management will permit the group auditor to have unrestricted access to those charged with governance of the group, group management, component management, component information and the other auditor, including the other auditor's working papers, and to perform such additional work on the components' financial information as the group auditor may consider necessary.
 - (f) Group management's rationale for engaging other auditors to audit components' financial statements.
9. When the group auditor concludes that the involvement, including the involvement of related auditors, appears to be insufficient to accept or continue the engagement, the group auditor considers whether the group auditor is able to resolve the insufficiency by participating appropriately in the work to be performed by the other auditors on the components' financial information. The group auditor's participation in the other auditors' work ordinarily includes some or all of the following:
- Meeting with component management.
 - Performing planning and risk assessment procedures. These may be performed jointly with the other auditor, or directly by the group auditor.
 - Performing further audit procedures. These may be performed jointly with the other auditor, or directly by the group auditor.
 - Participating in the other auditors' evaluation of audit evidence.
 - Participating in the closing and other key meetings between the other auditor and component management.
 - Reviewing the other auditors' working papers.

Scope of Work to be Performed on the Components' Financial Information and the Consolidation

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

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11. The group auditor performs audit procedures on the consolidation and performs, or requires related auditors or other auditors to perform, work on the components' financial information to respond to the assessed risks of material misstatement of the group financial statements.
12. In determining the scope of work to be performed on the components' financial information, the group auditor ordinarily identifies components that are of individual financial significance and components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. For each of these components, the group auditor ordinarily performs, or requires related auditors or other auditors to perform, one of the following on the components' financial information:
 - (a) An audit performed in the context of materiality determined by the group auditor for the components.
 - (b) A special purpose audit of specified account balances relating to the identified significant risks.
 - (c) Specified audit procedures relating to the identified significant risks.
13. Components that are not of individual financial significance or that have not been identified at group level as likely to include significant risks of material misstatement may, when aggregated with other such components, cause the group financial statements to be materially misstated. The scope of work to be performed on the financial information of such a component is a matter of professional judgment and could include an audit of the component's financial information based on materiality determined by the group auditor, specified audit procedures, a review of the component's financial information, or analytical procedures performed at group level.
14. The group auditor's decision on the work to be performed on a component's financial information may be impacted when, in addition to the audit of the group financial statements, the group auditor, related auditor or other auditor is required by statute, group management or component management to express an audit opinion on a component's financial statements. The group auditor may decide to use the audit evidence obtained in the audit of the component's financial information for purposes of the audit of the group financial statements.

Professional Qualifications, Independence, Professional Competence, Resources and Quality Control Process of the Other Auditor

15. **When the group auditor decides to use the work of an other auditor, the group auditor should consider the professional qualifications, independence, professional competence and resources of the other auditor, and the quality control process of the other auditor's firm in the context of the work to be performed by the other auditor.**
16. There are a number of sources from where the group auditor may obtain information about an other auditor, for example from the other auditor by way of questionnaire or representation, professional colleagues, the professional body to which the other auditor belongs or the authority by which the other auditor is licensed or references from third parties.

17. With regard to the quality control process of the other auditor's firm, the group auditor obtains a representation that the quality control process complies with the proposed ISQC 1.
18. In the case of a related auditor, the group auditor ordinarily will be able to rely on common policies and procedures on recruitment, training, advancement, auditor independence, audit methodology and quality control. When the related auditor is not known to the group auditor, the group auditor may consider it necessary to make enquiries within the group auditor's firm about the professional competence of the related auditor and the matters referred to in the previous sentence.

Access to Information

19. **Where the group auditor does not otherwise have a right to sufficient access to component information, component management or the related auditor or other auditor, including the related auditor's or other auditor's working papers, the group auditor should request group management to arrange with component management for the group auditor to have such access.** The group auditor does not expect to have greater access than group management to component information and component management.
20. In some circumstances there may be restrictions on the group auditor's access to component information, component management or the related auditors or other auditors, including their working papers, for example in the case of components that are accounted for by the equity method and to which the auditor does not have access. **When this difficulty cannot be resolved through group management or other means, the group auditor should consider the impact of this scope limitation on the auditor's report on the group financial statements.**

Communications

21. **The group auditor should communicate to the related auditors and other auditors to provide them with the group auditor's requirements.** The group auditor's communication ordinarily is in the form of a letter of instruction, which sets out the scope of work to be performed by and the acknowledgements and confirmations to be obtained from the related auditors and other auditors. Such acknowledgements and confirmations include the following:
 - An acknowledgement of receipt of the group auditor's letter of instruction, which includes advising the group auditor if the related auditor or other auditor cannot comply with specific instructions for any reason, or seeking clarification from the group auditor if the instructions are unclear.
 - The related auditor or other auditor is aware that the component's financial information will be included in the group financial statements.
 - The related auditor or other auditor has a sufficient understanding of and has complied with the IFAC *Code of Ethics for Professional Accountants*, including the independence requirements.
 - The related auditor or other auditor has a sufficient understanding of the financial reporting framework and other statutory requirements applicable to the group financial statements.

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- The related auditor or other auditor has a sufficient understanding of ISAs and national requirements applicable to the audit of the group financial statements, and will perform the work on the component's financial information in accordance therewith.
- In the case of an other auditor, an acknowledgement of the other auditor's understanding that the group auditor intends to consider and use the other auditor's work for purposes of the audit of the group financial statements.

22. **The group auditor should obtain written communications regarding the group auditor's requirements from the related auditor and other auditor.** The communications from the related auditor or other auditor include the acknowledgements and confirmations referred to in paragraph 21, which are obtained before the related auditor or other auditor commences the work on the component's financial information, and a report or a memorandum at the date of completion of the work on the component's financial information that:

- (a) Identifies the component's financial information on which the related auditor or other auditor is reporting;
- (b) Sets out the scope of work performed by the related auditor or other auditor;
- (c) Confirms compliance with the group auditor's instructions;
- (d) Sets out the related auditor's or other auditor's findings, conclusions or opinion; and
- (e) Lists identified uncorrected misstatements of the component's financial information. The list does not include misstatements that were not corrected because they are below the threshold set by the group auditor for clearly inconsequential misstatements.

23. The nature, timing and extent of the communications between the group auditor and the related auditor and other auditor are matters of professional judgment and may be impacted by factors such as whether the communication is with a related auditor and the scope of work to be performed on the component's financial information.

24. The communications of the related auditor or other auditor ordinarily are addressed to the group auditor and not intended for distribution to third parties.

Determining the Adequacy of the Related Auditor's or Other Auditor's Work

25. **The group auditor should determine whether the work of the related auditor or other auditor is adequate for the group auditor's purposes, in the context of the audit of the group financial statements.**

26. The nature, timing and extent of the group auditor's procedures to determine the adequacy of the related auditor's or other auditor's work are matters of professional judgment and may be impacted by factors such as the following:

- The individual financial significance of the component.
- Whether the component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements, and the nature of the significant risks, for example risks of fraud.

- Matters that came to the group auditor's attention during the audit of the group financial statements.
 - Previous experience with the related auditor or other auditor, and the group auditor's evaluation of the professional qualifications, independence, professional competence and resources of the other auditor, and of the quality control process of the other auditor's firm.
 - The extent of the group auditor's participation in the work of the other auditor.
27. Where the group auditor does not participate to a significant extent in the work performed by other auditors on the financial information of components that are of individual financial significance or of components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements (see paragraphs 9 and 12), the group auditor reviews, or requires a related auditor to review, the other auditor's working papers. In the case of components that are likely to include significant risks of material misstatement, the group auditor focuses the review on the working papers relevant to the significant risks. For other components, or components on which related auditors performed work, the group auditor may consider it appropriate to limit the procedures to a consideration of the communications of the related auditors or other auditors (see paragraph 22).
28. If the group auditor concludes that the work of a related auditor or other auditor is inadequate for the group auditor's purposes, the group auditor ordinarily requests the related auditor or other auditor to perform additional procedures. Depending on the circumstances, the group auditor may consider it necessary to perform such additional procedures jointly with the related auditor or other auditor, or directly.

Considering the Findings of the Related Auditors and Other Auditors

29. **The group auditor should consider those findings of the related auditor and other auditor that may have an impact on the auditor's report on the group financial statements.**
30. The group auditor may consider it appropriate to discuss with a related auditor or other auditor and component management significant matters affecting the component's financial information and may also conclude that additional audit procedures are necessary. Such additional audit procedures may, depending on the circumstances, be performed jointly with the related auditor or other auditor, or directly by the group auditor.

Reporting Considerations

31. **When the group auditor concludes that the work of the related auditor or other auditor does not provide sufficient appropriate audit evidence and the group auditor has not been able to obtain such audit evidence, the group auditor should consider the impact of this scope limitation on the auditor's report on the group financial statements.** In the case of a qualified opinion, the group auditor may refer to the circumstances surrounding the group auditor's inability to obtain sufficient appropriate audit evidence, if the group auditor believes that this disclosure will help to explain the reason for the qualified opinion.

32. The group auditor considers whether the subject of a finding communicated by a related auditor or other auditor is of such a nature and significance in relation to the group financial statements that a modification of the auditor's report on the group financial statements is required.
33. Uncorrected misstatements that are material to the component's financial information may be immaterial when aggregated at the group level and, as a result, may not impact the group auditor's report on the group financial statements. However, uncorrected misstatements that are immaterial to the component's financial information may be material when aggregated with uncorrected immaterial misstatements of other components' financial information, and the group auditor considers the impact of the aggregated uncorrected immaterial misstatements of components' financial information on the auditor's report on the group financial statements. (See paragraph 22(e).)

Documentation

34. ISA 230, "Documentation" and other ISAs contain standards and guidance on documentation. **In the case of an audit of group financial statements, the group auditor should also document the following:**
 - (a) **The group auditor's conclusion with regard to the professional qualifications, independence, professional competence and resources of the other auditor, and of the quality control process of the other auditor's firm.**
 - (b) **The assessment of significant risks of material misstatement of the group financial statements that may arise from components, individually or together, and the group auditor's response to such risks.**
 - (c) **The scope of work performed on the components' financial information and the consolidation.**
 - (d) **The group auditor's conclusion as to whether the group auditor has obtained sufficient appropriate audit evidence that the work of the related auditor and other auditor is adequate for the group auditor's purposes, as well as any additional procedures performed by the group auditor on the component's financial information.**
 - (e) **The group auditor's conclusion with regard to the significant findings arising from the work of the related auditor or other auditor.**
 - (f) **Discussions of significant accounting, auditing and financial reporting matters with group management, component management, related auditors or other auditors.**

Division of Responsibility

35. When national standards enable and national law or regulation permits, the group auditor may divide responsibility for the audit opinion on the group financial statements. **If the group auditor decides to divide responsibility for the audit opinion on the group financial statements, the group auditor should follow the relevant national standards and national law or regulation.** In such circumstances, the group auditor informs those charged with governance of the group of the decision to divide responsibility.

36. The group auditor may decide to divide responsibility if the component's financial information is material in relation to the group financial statements, and the other auditor is performing an audit of, and issues an auditor's report on, the component's financial statements.
37. When the group auditor divides responsibility for the audit opinion on the group financial statements, the group auditor's procedures are ordinarily limited to the following:
- (a) The acceptance and continuance procedures described in paragraphs 8 and 9.
 - (b) A consideration of the professional qualifications, independence, professional competence and resources of the other auditor, and of the quality control process of the other auditor's firm as described in paragraph 15-17.
 - (c) Requesting and obtaining the following acknowledgements and confirmations from the other auditor:
 - (i) The other auditor is aware that the component's financial information will be included in the group financial statements.
 - (ii) The other auditor has a sufficient understanding of and has complied with the IFAC *Code of Ethics for Professional Accountants*, including the independence requirements.
 - (iii) The other auditor has a sufficient understanding of the financial reporting framework and other statutory requirements applicable to the group financial statements.
 - (iv) The other auditor has a sufficient understanding of ISAs and national requirements applicable to the audit of the group financial statements, and will perform the work on the component's financial information in accordance therewith.
 - (v) An acknowledgement that the group auditor intends to consider and use the other auditor's work for purposes of the audit of the group financial statements.
 - (d) A review of matters affecting the elimination of inter-component transactions and accounts and the uniformity of accounting policies among the components included in the group financial statements and, where considered necessary, communicating with the other auditor in this regard.
 - (e) Reading the components' financial information and the other auditor's report thereon to identify significant matters and, where considered necessary, communicating with the other auditor in this regard.
38. **In the case of division of responsibility, the group auditor's report on the group financial statements should clearly indicate the magnitude of the portion of the group financial statements audited by the other auditor.** The auditor's report on the group financial statements indicates the magnitude of the portion of the group financial statements audited by the other auditor in both the description of the auditor's responsibility and the audit opinion paragraphs. This may be done by stating monetary amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria.

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When there is more than one other auditor, the percentages covered by the other auditors may be stated in the aggregate.

39. If the group auditor concludes that the group auditor cannot base the audit opinion on the group financial statements on the report of an other auditor regarding the audit of one or more components, the group auditor qualifies the audit opinion or disclaims an audit opinion on the group financial statements. The group auditor's reasons therefor are stated, and the magnitude of the portion of the financial statements to which the qualification extends is disclosed.
40. **In the case of division of responsibility, the group auditor should consider whether the subject of a modified auditor's report on a component's financial statements is of such a nature and significance in relation to the group financial statements that a modification of the auditor's report on the group financial statements is required.**
41. **In the case of division of responsibility, the group auditor should document the following:**
 - (a) **The group auditor's conclusion with regard to the professional qualifications, independence, professional competence and resources of the other auditor, and of the quality control process of the other auditor's firm.**
 - (b) **The group auditor's consideration of the other auditor's report.**
 - (c) **Where applicable, any communication made by the group auditor to those charged with governance of the group based on information obtained from the other auditor in relation to the component's financial information.**

Effective Date

42. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 2004.

Public Sector Perspective

[To be prepared by IFAC Public Sector Committee.]

PROPOSED INTERNATIONAL AUDITING PRACTICE STATEMENT
THE AUDIT OF GROUP FINANCIAL STATEMENTS
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International Auditing Practice Statements (IAPS) XXXX, “The Audit of Group Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of IAPSS.

Introduction

Purpose of IAPS

1. This International Auditing Practice Statement (IAPS) provides practical assistance to auditors in applying International Standards on Auditing (ISAs) to the audit of group financial statements. This IAPS does not establish new requirements for, or exemptions from, the requirements of ISAs.
2. Where the group auditor decides to use the work of a related auditor or other auditor in the audit of the group financial statements, this IAPS is to be read in conjunction with proposed ISA 600, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements.”

Application of IAPS

3. The guidance in this IAPS applies when the group auditor takes sole responsibility for the audit opinion on the group financial statements.
4. The guidance in this IAPS is applicable whether components are accounted for by the consolidation or equity methods of accounting. Although written in the context of an audit of group financial statements, for example where a parent and subsidiaries exist, the guidance also applies to the audit of financial statements (prepared in accordance with an applicable financial reporting framework or other suitable criteria) that combine the financial information of components, i.e. where a parent does not exist. In this case, reference to group financial statements is read as reference to the combined financial information, and reference to group management is read as reference to those responsible for, among other matters, the preparation and presentation of the combined financial information.
5. For purposes of this IAPS, financial statements that include the financial information of one or more components are referred to as “group financial statements,” and the process by which the financial information is included in the group financial statements is referred to as the “consolidation process.”

Responsibility

6. Group management is responsible for the preparation and presentation of group financial statements that give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework. Group management is also responsible for designing and implementing internal controls over the preparation and presentation of the group financial statements.
7. The group auditor is responsible for expressing an opinion on whether the group financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework. The group auditor is responsible for determining the work to be performed on the components’ financial information and on the consolidation in order to obtain sufficient appropriate audit evidence to be able to express an opinion on the group financial statements.

Definitions

8. Appendix 1 contains definitions of important terms used in this IAPS.

Acceptance and Continuance as Group Auditor

9. Proposed ISA 600 requires the group auditor to consider whether the group auditor's involvement, including the involvement of related auditors, in the audit of the group financial statements is sufficient to be able to act as group auditor.

Acceptance

10. In order to decide whether to accept an engagement to audit group financial statements, the group auditor ordinarily considers information provided by group management, and holds discussions with group management and, where applicable, the previous group auditor to obtain a preliminary understanding of the following:

- Group structure.
- Business activities of the components.
- Regulatory, economic and political environments in which the components' business activities take place.
- Individual financial significance of the components.
- Existence of group-wide controls (see paragraph 35).
- Whether other auditors will perform work on components' financial information and, if so, the individual financial significance of those components.
- Professional qualifications, independence, professional competence and resources of the other auditors, and quality control processes of the other auditors' firms (see paragraphs 19-21).
- Extent to which the group auditor will have access to component information, component management and the related auditors and other auditors, including their working papers.
- Whether group management has experienced difficulties in the past with regard to the integrity and competence of component management.

11. The group auditor applies professional judgment in considering the sufficiency of the group auditor's involvement in the audit of the group financial statements. In most cases the group auditor will wish to directly perform, or for related auditors to directly perform, the work on the financial information of components that are of individual financial significance and components that may include significant risks of material misstatement of the group financial statements.

12. It will be unusual for a group auditor to accept an engagement to audit group financial statements where the group auditor and related auditors directly perform work on less than approximately 50% of the group assets, liabilities, cash flows, profit or turnover, unless the group auditor will be able to resolve this insufficiency by participating appropriately in the work to be performed by the other auditors on the components' financial information (see paragraph 9 of proposed ISA 600).

13. It will also be unusual for a group auditor to accept an engagement where components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements are audited by other auditors, unless the group auditor will be able to participate appropriately in the work to be performed by the other auditors on the components' financial information (see paragraph 9 of proposed ISA 600).
14. The extent of the group auditor's participation in the other auditor's work is a matter of professional judgment and depends on the circumstances of the engagement. For example, the smaller the portion of the group assets, liabilities, cash flows, profit or turnover on which the group auditor and related auditors directly perform work, the greater the extent of the group auditors' participation in the other auditor's work.
15. The group auditor considers the practicality of participating in the other auditors' work. For example, in the case of a component operating in a foreign jurisdiction, or in the case of a tight timetable for completing the audit, the group auditor may not be able to perform the procedures described in paragraph 9 of proposed ISA 600 that the group auditor considers necessary. Where the group auditor is unable to participate in the work of the other auditor to the extent considered necessary, the group auditor does not accept the engagement.

Continuance

16. The group auditor's decision as to whether to continue an engagement to audit group financial statements will be based on the group auditor's previous experience with the group, and will be impacted by factors such as the following:
 - Changes in the group structure since the previous audit, for example acquisitions, disposals or reorganizations, and the impact of these changes on the group auditor's involvement, including the involvement of related auditors, in the audit of the group financial statements.
 - Changes in the business activities of the components; and in the regulatory, economic and political environments in which they take place.
 - Changes in group management or component management.
 - The group auditor's past experience with regard to the integrity and competence of group management and component management.
 - Risks of material misstatement, fraud risks and misstatements identified during prior audits of the group financial statements.
 - Any changes that affect the group auditor's ability to participate in the other auditor's work (see paragraphs 13-15).

Terms of Engagement

17. ISA 210, "Terms of Audit Engagements" contains standards and guidance on agreeing the terms of engagement with a client. In the case of an audit of group financial statements, the financial reporting framework applicable to the group financial statements and arrangements to obtain access to component information, component management and related auditors and other auditors, including their working papers, are established in the

group auditor's terms of engagement. In addition, the terms of engagement ordinarily specifies that:

- (a) Communication between the group auditor, related auditors and other auditors will be unrestricted;
 - (b) Any limitations imposed by group management, component management or circumstances on the scope of the work to be performed by related auditors or other auditors will be communicated promptly to the group auditor;
 - (c) Important communications between related auditors or other auditors and component management, including communications on material weaknesses in internal control, will be made available to the group auditor;
 - (d) Important communications between regulatory authorities and components related to financial reporting matters will be made available to the group auditor; and
 - (e) To the extent that the group auditor considers it necessary, the group auditor will be permitted to have access to component information, component management and the related auditors and other auditors, including their working papers, and to perform audit procedures on the components' financial information.
18. The group auditor considers including in the terms of engagement the fact that restrictions on the group auditor's access to component information, component management or the other auditors (see paragraphs 19 and 20 of proposed ISA 600), or on the work to be performed on a component's financial information (see paragraph 13), will constitute a scope limitation that may impact the auditor's report on the group financial statements.

Other Auditors

Professional Qualifications, Independence, Professional Competence, Resources, and Quality Control Process

19. Proposed ISA 600 requires the group auditor to consider the professional qualifications, independence, professional competence and resources of the other auditors, and the quality control process of the other auditors' firms. A visit or previous contacts with the other auditor and reviews of the other auditor's work may provide the group auditor with information about the professional competence of the other auditor. In the context of an audit of group financial statements, the sufficiency of the other auditor's understanding of the financial reporting framework applied in the preparation of the group financial statements is especially important.
20. The group auditor's level of satisfaction with the professional qualifications, professional competence and resources of the other auditor, and the quality control process of the other auditor's firm, will impact the nature, timing and extent of the group auditor's participation in the other auditor's work (see paragraphs 13 and 62) or the procedures performed in relation to the other auditor's work (see paragraphs 25-28 of proposed ISA 600). For example, the greater the group auditor's concerns over these matters, the greater the extent of the group auditor's participation in the other auditor's work.
21. When the other auditor is not independent or the group auditor overall is not satisfied with the professional qualifications, professional competence and resources of the other auditor

and with the quality control process of the other auditor's firm, the group auditor plans to obtain audit evidence relating to the component's financial information without using the work of the other auditor.

Internal Audit

22. ISA 610, "Considering the Work of Internal Audit" contains standards and guidance on the external auditor's consideration of the work of internal audit. Where internal audit is regarded as part of group-wide controls (see paragraph 35), and the group auditor plans to use the work of internal audit, the group auditor evaluates the competence and objectivity of the internal auditors.
23. The group auditor considers how the activities of internal audit affect the scope of the work to be performed on the components' financial information. This involves considering whether findings from the work of internal audit affect the risk assessment performed at group level (see paragraph 49), and whether the group auditor intends to use the work of internal audit as audit evidence in relation to a component's financial information. For example, material weaknesses in internal control at a component identified by internal audit may affect the group auditor's risk assessment performed at group level.
24. Although the group auditor may determine it appropriate to use some of the work of internal audit as audit evidence for components that are of individual financial significance or components identified at group level as likely to include significant risks of material misstatement of the group financial statements, the group auditor ordinarily obtains most of the audit evidence from the group auditor's own procedures and procedures performed by, or performed jointly with, related auditors and other auditors.
25. The group auditor may determine it appropriate to use the work of internal audit related to components that are not of individual financial significance or that were not identified at group level as likely to include significant risks of material misstatement of the group financial statements.
26. The group auditor discusses with internal audit the scope of the work to be performed on the components. The group auditor agrees in advance the timing of the work, the extent of audit coverage, test levels and proposed methods of sample selection, documentation of the work performed and review and reporting procedures. The group auditor evaluates the work of internal audit to confirm its adequacy for the group auditor's purposes.
27. Where the group auditor plans to use the work of internal audit (see paragraph 22) and the work on a component's financial information will be performed by a related auditor or other auditor, the group auditor ordinarily communicates the following to the related auditor or other auditor:
 - The extent to which the group auditor has evaluated the competence and objectivity of the internal auditors, and has evaluated the work of internal audit.
 - Any additional evaluation the related auditor or other auditor is to perform.
 - The nature, timing and extent of the work performed or to be performed by internal audit at the component and procedures for coordinating the work of internal audit and that of the related auditor or other auditor.

Materiality

28. ISA 320, “Audit Materiality” contains standards and guidance on materiality and its relationship with audit risk. The group auditor establishes group materiality to evaluate the effect of misstatements of the components’ financial information and the consolidation on the group financial statements. Group materiality is based on the group financial statements.
29. The group auditor also establishes group planning materiality to determine the nature, timing and extent of audit procedures to be performed on the group financial statements. Group planning materiality is also based on the group financial statements.
30. The group auditor uses group planning materiality to determine planning materiality to be used when performing work on the components’ financial information. The group auditor’s determination of planning materiality for components is a matter of professional judgment and may be impacted by factors such as the individual financial significance of a component and whether a component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements. Planning materiality for a component does not exceed, and in practice sometimes is lower than, group planning materiality.
31. Where the work on a component will be performed by a related auditor or other auditor, the group auditor communicates the planning materiality determined by the group auditor for the component. The group auditor also communicates a threshold below which misstatements are regarded as clearly inconsequential and, as a result, need not be communicated to the group auditor.

Obtaining an Understanding of the Components and the Consolidation

32. ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” contains standards and guidance on the understanding to be obtained of an entity and its environment and the assessment of risks of material misstatement. The application of ISA 315 in an audit of group financial statements is impacted by the fact that the group auditor’s understanding and risk assessment includes a number of components, some of which may be audited by related auditors or other auditors.

Risk Assessment Procedures to Obtain an Understanding of the Components and the Consolidation

33. The nature, timing and extent of the risk assessment procedures to obtain an understanding of the components and the consolidation (see paragraphs 38 and 39) depend on factors such as the individual financial significance of the components, significant risks identified at group level, and the auditor’s experience with the group. The group auditor performs the following risk assessment procedures:
 - (a) Inquiries of group management, internal audit, and those responsible for the consolidation and preparation of the group financial statements.
 - (b) Application of analytical procedures to financial information prepared at the group level and at the component level.

(c) Observation and inspection of group-wide controls (see paragraph 35) and controls relevant to the consolidation.

34. In the case of components that are of individual financial significance or components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements, the group auditor may consider directing inquiries to component management and, where applicable, the related auditors or other auditors. In addition, the group auditor may consider it necessary to visit the components. Visits enable the group auditor to meet with component management, observe the components' business activities underlying the financial information to be included in the group financial statements, and to consider regulatory, economic and political environments as they relate to the components.

Matters About Which the Group Auditor Obtains an Understanding

Group-wide Controls

35. The group auditor obtains an understanding of internal controls relevant to an audit of group financial statements (for purposes of this IAPS referred to as "group-wide controls") in order to perform a risk assessment at group level (see paragraph 49) and to determine the scope of work to be performed on components' financial information and on the consolidation. Group-wide controls may include a combination of the following:

- Consistent policies and procedures, including a group financial reporting procedures manual.
- Group-wide programs, such as codes of conduct and fraud prevention programs.
- Arrangements for the assignment of authority and responsibility to component management.
- Regular meetings between group management and component management to discuss business developments and to review performance.
- Group management's process for identifying, analyzing and managing business risks that may impact the components, including the risk of fraud.
- 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 components' operations and the results thereof, including regular reporting routines, enabling group management to monitor components' performance against budgets, and to take appropriate action.
- Monitoring of controls, including activities of internal audit and self-assessment programs.
- A process for assessing the accuracy and completeness of financial information received from components, especially those received from components accounted for by the equity method.
- Monitoring, controlling, reconciling and eliminating intra-group transactions and intra-group account balances at group level.

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

Components and Their Environments

37. The group auditor extends the preliminary understanding of the components and their environments that was obtained as part of the acceptance or continuance procedures (see paragraphs 10 and 16).
38. The group auditor uses professional judgment to determine the extent of the understanding required of the components and their environments. The group auditor's primary consideration is whether the group auditor's own understanding is sufficient to identify components that are of individual financial significance, components that are likely to include significant risks of material misstatement of the group financial statements, and the risks associated with the consolidation and the presentation of the group financial statements (see paragraph 39). The group auditor then obtains, or requires the related auditor or other auditor to obtain, an understanding of components that are of individual financial significance and of components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. For example, where a component is manufacturing and selling toxic chemicals, which could give rise to environmental liabilities, the group auditor may consider it appropriate to focus on the business activities of the component that give rise to such business risks, and the aspects of such risks that may give rise to risks of material misstatement of the group financial statements.

Consolidation

39. The group auditor obtains an understanding of the consolidation, including controls relevant to the consolidation. The group auditor's understanding includes the following:

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

- Extent to which component management has an understanding of the financial reporting framework and statutory requirements applicable to the group financial statements.
- Process for identifying and accounting for components in accordance with the applicable financial reporting framework.
- Process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- Process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- Accounting policies applied in the group financial statements, changes from those of the previous financial year, and changes as a result of new or revised standards under the applicable financial reporting framework.

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- Procedures for dealing with components that have financial year-ends different from that of the group.

Matters relating to the consolidation process, including the following:

- Group management's process for obtaining an understanding of the accounting policies used by components, and for ensuring that either uniform accounting policies are used to prepare the components' financial information for purposes of the group financial statements, or that differences in accounting policies are identified, disclosed and adjusted.
- Group management's process for ensuring complete, accurate and timely financial reporting by the components for purposes of the consolidation.
- Process for translating the financial information of foreign components into the currency of the group financial statements.
- 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 organization of IT for purposes of the consolidation, including the automated and manual stages of the process and the manual and programmed controls in place at the various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments, including the following:

- Business rationale for consolidation adjustments.
 - Frequency, nature and size of transactions between components.
 - Procedures for monitoring, controlling, reconciling and eliminating intra-group transactions 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 minority interests regarding losses incurred by a component (for example, an obligation of the minority interest to make good such losses).
40. In order to achieve uniformity and comparability of financial information, group management may issue financial reporting procedures manuals, reporting packages and related instructions to components, specifying the requirements relating to the components' financial information to be included in the group financial statements. 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 account balances, and a reporting timetable.
41. The group auditor ordinarily considers the proposed reporting package at an early stage of the audit of the group financial statements to determine whether it will provide group

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management with sufficient appropriate information to prepare and present the group financial statements. The group auditor's consideration may include the following:

- The clarity and practicality of the instructions for completion of the reporting package.
- The likelihood of component management having an understanding of the financial reporting framework and statutory requirements applicable to the group financial statements.
- Whether the reporting package provides for:
 - Disclosures sufficient to comply with the requirements of the financial reporting framework and statutory requirements applicable to the group financial statements, for example disclosure of related party relationships and transactions, and segment information;
 - The identification of consolidation adjustments, for example intra-group transactions and balances; and
 - Approval of the completed package by component management.

Fraud

42. Proposed ISA 240, “The Auditor’s Responsibility to Consider Fraud in the Audit of Financial Statements” contains standards and guidance on the auditor’s responsibility with regard to fraud. In the case of an audit of group financial statements, the group auditor obtains an understanding of the following:
- (a) Group management’s assessment of the risks that the group financial statements may be materially misstated as a result of fraud.
 - (b) Group management’s process for identifying and responding to the risks of fraud in the group, including any specific fraud risks that group management has identified or account balances, classes of transactions or disclosures for which a risk of fraud may be likely to exist.
 - (c) Whether there are particular components for which a risk of fraud may be more likely to exist.
 - (d) How those charged with governance of the group exercise oversight of group management’s processes for identifying and responding to the risks of fraud in the group, and of the controls that group management has established to mitigate these risks.
43. The group auditor inquires of those charged with governance of the group, group management, internal audit and, if considered appropriate, component management, related auditors, other auditors and others whether they have knowledge of any actual, suspected or alleged fraud affecting a component or the group.

Laws and Regulations

44. ISA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements” contains standards and guidance on the auditor’s responsibility to consider laws and regulations in an audit of financial statements. In the case of an audit of group financial

statements, the group auditor obtains a general understanding of the laws and regulations applicable to the parent that may have an impact on the group financial statements.

Discussion Among Engagement Team Members Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud

45. ISA 315 and proposed ISA 240 require the members of the engagement team to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, with a specific emphasis on the risks of material misstatement due to fraud. The group auditor uses professional judgment, prior experience with the group and knowledge of current developments to determine who is included in the discussions, how and when they occur, and the extent of the discussions. In the case of an audit of group financial statements there may also be discussions that involve the group auditor and:
 - Related auditors or key members of the related auditors' teams; and
 - Other auditors or key members of the other auditors' teams.
46. The group auditor holds discussions with related auditors and other auditors, or key members of their teams, who perform work on the financial information of components that are of individual financial significance and components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. The group auditor may also consider it appropriate to participate in their risk assessments.
47. These discussions provide an opportunity to:
 - Share knowledge of the components and their environments, including group-wide controls;
 - Exchange information about the business risks to which the components or the group are subject;
 - Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud and error, how group management and component management could perpetrate and conceal fraudulent financial reporting, and how assets of the components could be misappropriated;
 - Consider practices followed by group management or component management to manage earnings that could lead to fraudulent financial reporting, for example revenue recognition practices that are not in accordance with the applicable financial reporting framework;
 - Consider the known external and internal factors affecting the group that may create an incentive or pressure for group management, component management or others to commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables group management, component management or others to rationalize committing fraud;
 - Consider the risk of group management or component management overriding controls;

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- Address the application of the applicable financial reporting framework to the components' facts and circumstances;
 - Discuss fraud that has been identified in components or information that has been obtained that indicates that a fraud may exist in a component; and
 - Share information that may indicate non-compliance with national laws or regulations, for example payments of bribes and transfer pricing practices.
48. In accordance with paragraph 21 of proposed ISA 600, the group auditor obtains an acknowledgement from the related auditors and other auditors that they have a sufficient understanding of the financial reporting framework applicable to the group financial statements and of the ISAs and national requirements applicable to the audit of the group financial statements. Where a related auditor or other auditor does not have such an understanding, the group auditor considers which steps are necessary to make the related auditor or other auditor aware of significant differences between the financial reporting framework and auditing standards applicable to the group financial statements and the financial reporting framework and auditing standards applicable in the component's jurisdiction.

Assessing the Risks of Material Misstatement of the Group Financial Statements

49. The group auditor uses the information obtained from the understanding of the components and the consolidation, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls relevant to the consolidation, and information obtained through discussions with related auditors and other auditors (see paragraphs 46-48), to assess the risks of material misstatement of the group financial statements.
50. Examples of conditions or events that may indicate risks of material misstatement of the group financial statements include the following:
- A complex group structure, especially where there are frequent acquisitions, disposals or reorganizations.
 - A group that is operationally or geographically dispersed and has inadequate flow of management information.
 - Group-wide controls do not exist or are not operating effectively.
 - Components operating in foreign jurisdictions that may be exposed to factors such as government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; fluctuations in exchange rates; and a lack of understanding in the group of local conditions generated by cultural, political or sociological influences, and the impact of local legislation, for example on matters such as product liability.
 - Business activities of components that involve high risk, such as long-term contracts or trading in futures.
 - Uncertainties regarding which components require incorporation in the group financial statements in accordance with the applicable financial reporting framework, for example, the existence of special purpose entities.

- Related party relationships and transactions (see paragraph 51).
 - Intra-group account balances that do not balance or reconcile on consolidation.
 - Components' application of accounting policies that are not uniform with those applied in the group financial statements.
 - Components with different financial year-ends, which may be utilized to manipulate the timing of transactions.
 - Unauthorized or incomplete consolidation adjustments.
51. ISA 550, "Related Parties" contains standards and guidance on the auditor's responsibilities regarding related parties and transactions with such parties. In the case of an audit of group financial statements, it is especially important that, in assessing the risks of material misstatement of the group financial statements, the group auditor is alert for transactions that appear unusual in the circumstances and may indicate the existence of previously unidentified related parties. Examples of such transactions include:
- Transactions which have abnormal terms of trade, such as unusual prices, interest rates, guarantees, and repayment terms.
 - Transactions which lack an apparent logical business reason for their occurrence.
 - Transactions in which substance differs from form.
 - Transactions processed in an unusual manner.
 - Unrecorded transactions such as the receipt or provision of management services at no charge.
52. Where the work on a component's financial information will be performed by a related auditor or other auditor, the group auditor ordinarily communicates to the related auditor or other auditor the results of the risk assessment performed at group level (see paragraph 49) that are relevant to the work of the related auditor or other auditor, including identified fraud risks. The group auditor ordinarily requests the related auditor or other auditor to inform the group auditor if information comes to the attention of the related auditor or other auditor that differs significantly from the information on which the group auditor's risk assessment was based.

Responding to Assessed Risks

53. ISA 330, "The Auditor's Procedures in Response to Assessed Risks" contains standards and guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement. In the case of an audit of group financial statements, the group auditor determines the scope of work to be performed directly, or by related auditors or other auditors, on the components' financial information and on the consolidation to respond to the assessed risks of material misstatement of the group financial statements.

Scoping the Work to be Performed on the Components' Financial Information

54. The group auditor may decide to perform, or require the related auditor or other auditor to perform, an audit of a component's financial information based on materiality determined

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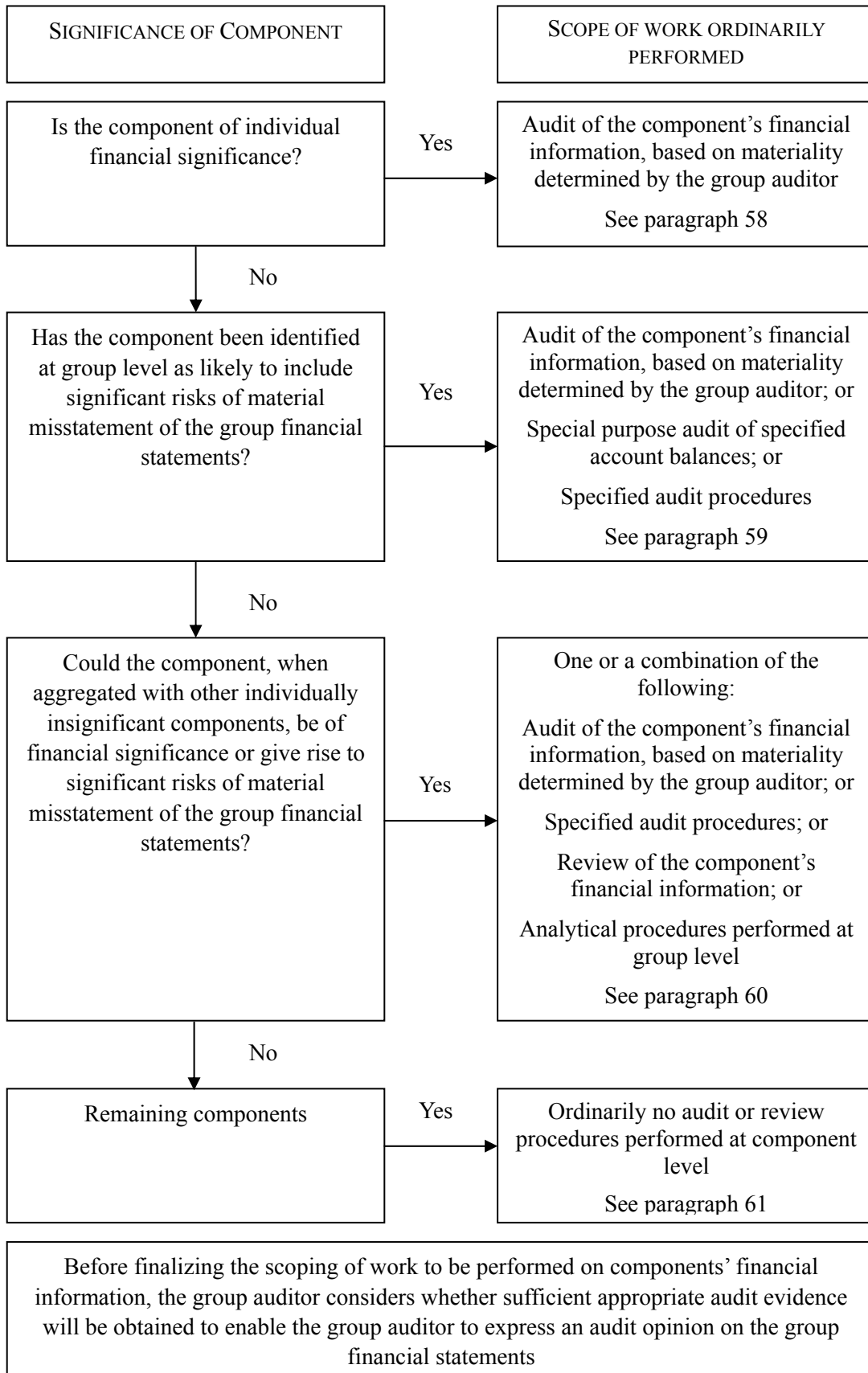
by the group auditor for the component (see paragraph 30). Such materiality ordinarily is higher than materiality determined in the context of the component's financial information (see paragraph 56) and, as a result, the nature, timing and extent of the audit procedures will be different.

55. The group auditor may also decide to perform, or to require the related or other auditor to perform, a limited scope engagement. The group auditor establishes the objectives of a limited scope engagement and, where applicable, communicates this to the related auditor or other auditor. Limited scope engagements may include one or a combination of the following:
- A special purpose audit of particular account balances or classes of transactions performed in accordance with the group auditor's instructions.
 - Specified audit procedures performed in accordance with the group auditor's instructions. (Although similar to agreed-upon procedures dealt with in ISA 920, "Engagements to Perform Agreed-upon Procedures Regarding Financial Information," the specified audit procedures are not agreed with group management, component management or any third parties.)
 - A review of the component's financial information performed in accordance with ISA 910, "Engagement to Review Financial Statements" and the group auditor's instructions.
 - Analytical procedures performed by the group auditor on the component's financial information.
56. The group auditor's decision on the work to be performed on a component's financial information may be impacted when, in addition to the audit of the group financial statements, the group auditor, related auditor or other auditor is required by statute, group management or component management to express an audit opinion on a component's financial statements. (In this case, materiality is determined by the auditor who expresses the audit opinion on the component's financial information, based on the component's financial statements.) The group auditor may decide that it is efficient and cost-effective to use the audit evidence obtained in the audit of the component's financial statements for purposes of the audit of the group financial statements. However, the component's financial statements may have been prepared in accordance with national accounting standards or the audit may have been conducted in accordance with national auditing standards. In this case, the group auditor considers whether group management or component management has made appropriate adjustments to the component's financial information for purposes of preparing and presenting the group financial statements. The group auditor also performs, or requires the related auditor or other auditor to perform, the audit procedures necessary to enable full compliance with the ISAs relevant to the audit of the group financial statements. In addition, the group auditor determines whether the planning materiality used in the audit of the component's financial statements was less than group planning materiality.
57. The diagram below illustrates how the group auditor may decide on the scope of work to be performed on the financial information of components other than those components where the group auditor decides to use the audit evidence obtained in the audit of the component's

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financial statements in those situations described in paragraph 56. The scope of work to be performed on a component's financial information is a matter of professional judgment and will be impacted by factors such as the individual financial significance of the component, whether the component has been identified at group level as likely to include significant risks of material misstatement of the group financial statements, and the group auditor's evaluation of the design and determination of the implementation of group-wide controls (see paragraph 35).

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58. Some components may encompass a large portion of a group's operations and financial position. Because of the individual financial significance of these components, an audit of the components' financial information, based on materiality determined by the group auditor, is ordinarily performed.
59. Although a component may not be of individual financial significance, it may have been identified at group level as likely to include significant risks of material misstatement of the group financial statements. (For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement even though the component is not of individual financial significance.) For such a component, one of the following is ordinarily performed:
- An audit of the component's financial information, based on materiality determined by the group auditor;
 - A special purpose audit of specified account balances relating to the identified significant risks; or
 - Specified audit procedures relating to the identified significant risks.
60. Components that are not of individual financial significance (see paragraph 58), or that have not been identified at group level as giving rise to significant risks (see paragraph 59), may when aggregated with other such components represent a level of financial significance, or give rise to significant risks, that could cause the group financial statements to be materially misstated. The scope of work performed on the financial information of these components is a matter of professional judgment and may include one of the following:
- An audit of the component's financial information, based on materiality determined by the group auditor;
 - Specified audit procedures;
 - A review of the component's financial information;
 - Analytical procedures performed at group level.
- The group auditor's professional judgment as to the scope of work to be performed is impacted by factors such as the following:
- Whether it is a newly formed or acquired component.
 - Whether significant changes have taken place in the component.
 - Whether internal audit has performed work at the component.
 - The effective operation of group-wide controls.
 - The individual financial significance of and risks posed by the component in comparison with other components within this category.
61. The group auditor may consider it appropriate not to perform audit or review procedures at components that are not of individual financial significance and, even when aggregated with other such components, do not give rise to risks of material misstatement of the group financial statements. For these components, the group auditor ordinarily performs analytical procedures at group level.

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62. Where other auditors perform work on the financial information of components that are of individual financial significance (see paragraph 58) or components that have been identified at group level as likely to include significant risks of material misstatement of the group financial statements (see paragraph 59), the group auditor considers whether it is also necessary for the group auditor to participate in the work of the other auditors or to review the other auditor's working papers (see paragraph 27 of proposed ISA 600).
63. Where the group auditor has accepted the engagement to audit the group financial statements on the basis that the group auditor will be able to participate to a significant extent in the work to be performed by the other auditors on the components' financial information (see paragraph 13), the group auditor determines the procedures to be performed directly, or jointly with the other auditor, on the components' financial information.
64. The group auditor's participation in the other auditor's work referred to in paragraphs 62 and 63 may include some or all of the procedures described in paragraph 9 of proposed ISA 600. The extent of the group auditor's participation is a matter of professional judgment and is impacted by factors such as the group auditor's evaluation of the professional qualifications, professional competence and resources of the other auditor, or of the quality control process of the other auditor's firm. For example, the greater the individual financial significance of the component or the significance of the risks of material misstatement, or the lower the level of the group auditor's satisfaction with the professional qualifications, professional competence and resources of the other auditor, or of the quality control process of the other auditor's firm, the greater is the group auditor's participation in the other auditor's work.
65. Proposed ISA 240 requires the auditor to design and perform audit procedures to address the risks of material misstatement due to fraud caused by improper revenue recognition, and to respond to the risk of management override of controls. Where the group auditor considers it appropriate to limit the scope of work to be performed on a component's financial information as described in paragraph 60, the group auditor considers whether, in addition to the limited scope engagement, it is necessary to perform audit procedures to address risks of material misstatement of the group financial statements due to fraud caused by improper revenue recognition or by management override of controls.
66. If all the components fall within the categories described in paragraphs 60 and 61, the group auditor considers the scope of work to be performed on the financial information of the components to determine that it will provide the group auditor with sufficient appropriate audit evidence to be able to express an audit opinion on the group financial statements. Accordingly, the scope of work to be performed on the components' financial information ordinarily includes some audits based on materiality determined by the group auditor, special purpose audits of specified account balances and specified audit procedures.
67. If group management insists that the group auditor performs less work on a component's financial information than the group auditor considers appropriate, it will constitute a scope limitation and the group auditor considers the impact thereof on the auditor's report on the group financial statements.

68. Where a component is audited by a related or other auditor, the group auditor communicates to the related auditor or other auditor the scope of work to be performed on the component's financial information.

Performing Further Audit Procedures

Testing Internal Controls

69. When the group auditor's risk assessment at group level and scoping of work to be performed on the components' financial information include an expectation that group-wide controls are operating effectively, the group auditor performs, or requires the related auditor or other auditor to perform, tests of controls to obtain sufficient appropriate audit evidence that the group-wide controls are operating effectively. When the group-wide controls include a central IT system that is controlled by the same general IT controls, for example at a shared service center, the group auditor tests the operating effectiveness of those controls centrally. When the control activities of an IT system are common for all or some components, the group auditor may obtain audit evidence relevant to those components from testing, or requiring the related auditor or other auditor to test, the control activities for one or more components.

Components' Financial Information

70. The group auditor, related auditors and other auditors perform the work on the components' financial information in accordance with the scoping decisions made by the group auditor based on the risk assessment performed at group level (see paragraph 49).

Consolidation

71. Material misstatements due to fraud may involve the manipulation of the consolidation process by making adjustments to amounts reported in the group financial statements that may not be reflected in formal journal entries, such as through consolidation adjustments and reclassifications. The group auditor assesses the risks of material misstatement of the group financial statements arising from the consolidation and determines the work to be performed on the consolidation accordingly. The group auditor:
- (a) Considers the appropriateness and completeness of the consolidation adjustments, as well as the arithmetical accuracy of calculations;
 - (b) Determines that significant adjustments have been correctly processed, have been authorized by group management, and where applicable, by component management and are supported by sufficient appropriate documentation; and
 - (c) Checks the reconciliation and elimination of intra-group transactions and intra-group account balances.
72. Inconsistent accounting policies may exist where components operate in diverse industry segments or are located in jurisdictions that require different financial reporting frameworks. Such inconsistencies ordinarily will be eliminated either by group management requiring components to prepare financial information consistent with the accounting policies applied in the group financial statements, or by group management requiring component management to disclose the differences between the accounting policies applied

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in the component's financial information and those applied in the group financial statements.

73. Where uniform accounting policies have not been adopted by a component, the group auditor considers whether group management or component management has made appropriate adjustments to the component's financial information for purposes of preparing and presenting the group financial statements. Where the work on a component's financial information is performed by a related auditor or other auditor, the group auditor requests the related auditor or other auditor to confirm to the group auditor that such adjustments have been made.
74. The group auditor determines whether the financial information, for example, the reporting package, identified in the communication of the related auditor or other auditor (see paragraph 22(a) of proposed ISA 600) is the financial information that was incorporated in the group financial statements.
75. If the group financial statements include the financial statements of components with year-ends that differ from that of the group, the group auditor considers the component's results between its financial year-end and the date of the group financial statements, and identifies significant transactions, including intra-group transactions, or other events and disclosures that need to be reflected in or eliminated from the group financial statements. Where the work on a component's financial information is performed by a related auditor or other auditor, the group auditor requires the related auditor or other auditor to perform the procedures considered necessary by the group auditor under the circumstances.
76. The group auditor requests group management to correct the accounting records for adjustments processed on consolidation that relate to misstatements.

Subsequent Events

77. ISA 560, "Subsequent Events" contains standards and guidance on the auditor's responsibility regarding subsequent events. The nature, timing and extent of the group auditor's procedures in relation to subsequent events are matters of professional judgment and will be impacted by factors such as the group auditor's evaluation of group management's process for obtaining information on subsequent events at components. The subsequent events review covers the period between the dates of the financial information of the components, and the date of the auditor's report on the group financial statements.
78. For components that are of individual financial significance and components that have been identified at group level as likely to include significant risks of material misstatements of the group financial statements, the group auditor performs, or requests the related auditors or other auditors to perform, procedures designed to identify subsequent events at those components.
79. For components that are not of individual financial significance but when aggregated with other such components may represent a level of financial significance or significant risks that could cause the group financial statements to be materially misstated, the group auditor ordinarily inquires from related auditors or other auditors whether they are aware of subsequent events that may necessitate either an adjustment to or a note in the group financial statements.

Management Representations

80. ISA 580, “Management Representations” and other ISAs, for example proposed ISA 240, contain standards and guidance on management representations. In the case of an audit of group financial statements, the group auditor obtains audit evidence that group management acknowledges its responsibility for the establishment and maintenance of internal controls, including controls over the preparation and presentation of the group financial statements, and the fair presentation of the group financial statements in accordance with the applicable financial reporting framework. In addition, the group auditor obtains written representations from group management on matters material to the group financial statements. Examples of such representations include the following:
- All components have been included in the group financial statements in accordance with the applicable financial reporting framework.
 - Disclosures in the group financial statements are appropriate and complete, including that the disclosures of related party relationships and transactions and reportable segments are in accordance with the financial reporting framework and statutory requirements applicable to the group financial statements.
 - Accurate and complete financial information has been obtained from components.
 - Consolidation adjustments are appropriate and complete, including the elimination of intra-group transactions and balances, and adjustments for inconsistent accounting policies.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Updating the Risk Assessment at Group Level

81. The group auditor’s assessment of the risks of material misstatement of the group financial statements is based on available audit evidence and may change during the course of the audit of the group financial statements as additional audit evidence is obtained. In circumstances where the group auditor, related auditors or other auditors obtain audit evidence from performing work on the components’ financial information and on the consolidation that tends to contradict the audit evidence on which the group auditor originally based the risk assessment performed at group level (see paragraph 49), the group auditor revises the assessment and modifies the further planned audit procedures accordingly.

Sufficiency and Appropriateness of Audit Evidence

82. The group auditor evaluates whether sufficient appropriate audit evidence has been obtained from the work performed on the components’ financial information and on the consolidation on which to base the audit opinion on the group financial statements. This evaluation includes the work performed by related auditors and other auditors.
83. 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 related auditors or other auditors performed the work, the group auditor may request the related auditors or other auditors to perform additional procedures or, if this is not feasible, perform the group auditor’s own procedures on the components’

financial information. When the group auditor has not been able to perform sufficient additional audit procedures, the group auditor considers the impact of this scope limitation on the auditor's report on the group financial statements.

Communication With Group Management and Those Charged With Governance

Communication With Group Management

84. The group auditor makes group management aware, as soon as practical and at an appropriate level of responsibility, of material weaknesses in the design or operation of group-wide controls and in controls over the preparation and presentation of the group financial statements. The group auditor also makes group management aware of material weaknesses in internal controls at components that have been identified by the group auditor, or that have been brought to the attention of the group auditor by related auditors or other auditors, and that the group auditor judges are of significance in the context of the group.
85. If fraud has been identified in components or information has been obtained that indicates that a fraud may exist in a component, the group auditor communicates these matters as soon as practicable to group management.
86. Where the work on a component's financial information is performed by a related or other auditor, the group auditor requests the related auditor or other auditor to communicate in a timely manner to the group auditor material weaknesses in controls that have come to the attention of the related auditor or other auditor during the performance of the work on the component's financial information, and information that indicates that a fraud may exist.

Communication With Those Charged With Governance

87. ISA 260, "Communication With Those Charged With Governance" and other ISAs, for example proposed ISA 240, contain standards and guidance on communication with those charged with governance. The matters that the group auditor communicates to those charged with governance of the group include those matters brought to the attention of the group auditor by related auditors and other auditors that the group auditor judges to be of significance in the context of the group.
88. In the context of an audit of group financial statements, the matters communicated in a timely manner by the group auditor to those charged with governance of the group include the following:
 - The approach taken to determine the scope of work to be performed at individual components and the extent of work to be performed by related auditors and other auditors.
 - Any restrictions to obtaining financial information from a component or a related auditor or other auditor, or on communicating information to component management or a related or other auditor.
 - Significant accounting, financial reporting and auditing matters, including accounting estimates, adjustments, and unadjusted errors in the group financial statements.

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- Identified fraud or information obtained that indicates that a fraud may exist that involve group management, or that may involve component management and that may result in a material misstatement of the group financial statements.
- Material weaknesses in internal controls, including controls over the preparation and presentation of the group financial statements, and material weaknesses in internal controls at components that are of significance in the context of the group.
- Any other significant or unusual events identified in the components.

Communication With Related Auditor or Other Auditor Who is Required to Audit Component's Financial Statements

89. Where a related auditor or other auditor is required by statute, group management or component management to express an audit opinion on a component's financial statements and the group auditor becomes aware of matters that may be significant to the component's financial statements that component management may be unaware of, the group auditor considers requesting group management to inform component management of such matters. Examples of such matters include the following:

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

90. There may be occasions when group management may need to keep confidential certain material sensitive information. In these circumstances the group auditor ordinarily discusses with group management the risk of component management issuing misleading financial statements, and requests group management to communicate to component management that they should not issue the components' financial statements. In addition, the group auditor may consider it necessary to communicate to the related auditor or other auditor that they should not issue the auditor's report on the component's financial statements until such time as an outstanding matter has been resolved by group management. When group management remains of the opinion that the matter should not be communicated to component management, the group auditor considers whether to resign from the engagement.

Effective Date

91. This IAPS is effective on first application of proposed ISA 600.

Definitions

In this IAPS the following terms have the meaning attributed below:

1. “Applicable financial reporting framework” means the financial reporting framework applicable to the group financial statements.
2. “Component” means a head office, parent, division, branch, subsidiary, joint venture, associated company or other entity whose financial information is or should be included in the group financial statements by means of consolidation procedures or equity accounting methods. Components could be in the same or in multiple locations.
3. “Component management” means management responsible for the preparation and presentation of a component’s financial information.
4. “Group” means any combination of components for which group financial statements are or should be prepared.
5. “Group auditor” means the independent auditor who signs the auditor’s report on the group financial statements.
6. “Group financial statements” means financial statements that include or should include financial information of more than one component by means of consolidation procedures or equity accounting methods. It may also mean a combination of components’ financial information or an equivalent presentation.
7. “Group management” means management responsible for the preparation and presentation of the group financial statements.
8. “Other auditor” means an independent auditor other than the group auditor or a related auditor.
9. “Parent” means the entity in respect of which group financial statements are or should be prepared.
10. “Related auditor” means an independent auditor from the group auditor’s office, other office of the group auditor’s firm, a network firm or another firm operating under common quality control policies and procedures as described in ISQC 1, “Quality Control for Audit, Assurance and Related Services Practices.”
11. “Reporting package” ordinarily comprises standard formats to provide financial information for incorporation in the group financial statements. Reporting packages generally may not be intended to be complete financial statements that provide a true and fair view of (or present fairly, in all material respects) the financial position and performance of the component in conformity with the applicable financial reporting framework.
12. “Uniform accounting policies” means the specific principles, bases, conventions, rules and practices adopted by the group, based on the applicable financial reporting framework, and used by the components to record like transactions consistently.

Examples of Matters to be Included in the Group Auditor's Letter of Instruction*Required Acknowledgements and Confirmations*

- A request that the following acknowledgements and confirmations are submitted to the group auditor before the work on the component's financial information is commenced:
 - An acknowledgement of receipt of the group auditor's instructions, which includes advising the group auditor if the related auditor or other auditor cannot comply with specific instructions for any reason, or seeking clarification from the group auditor if the instructions are unclear.
 - The related auditor or other auditor is aware that the component's financial information will be included in the group financial statements.
 - The related auditor or other auditor has a sufficient understanding of and has complied with the IFAC *Code of Ethics for Professional Accountants*, including the independence requirements.
 - The related or other auditor has a sufficient understanding of the financial reporting framework and other statutory requirements applicable to the group financial statements, and
 - The related auditor or other auditor has a sufficient understanding of ISAs and national requirements applicable to the audit of the group financial statements, and will perform the work on the component's financial information in accordance therewith.
 - An acknowledgement that the group auditor intends to consider and use the related auditor's or other auditor's work for purposes of the audit of the group financial statements.

Matters Relevant to the Planning of the Related Auditor's or Other Auditor's Work

- The timetable for completion of the audit.
- Dates of planned visits by group management and the group auditor, and dates of planned meetings with component management and the related auditor or other auditor.
- A list of key contacts.
- The use that is to be made of the related auditor's or other auditor's work, the scope of work to be performed, and arrangements for the coordination of efforts at the initial stage of and during the audit, including the group auditor's planned participation in the work of the related auditor or other auditor.
- Where considered necessary, audit procedures to be performed to address risks of material misstatement of the group financial statements due to fraud caused by improper revenue recognition or by management override of controls.
- Work to be performed on intra-group transactions and account balances.
- With regard to internal audit:

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- Extent to which the group auditor has evaluated the competence and objectivity of the internal auditors, and has evaluated the work of internal audit.
- Any additional assessment or evaluation the related auditor or other auditor should perform.
- Nature, timing and extent of work performed or to be performed by internal audit at the component and procedures for coordinating the work of internal audit and that of the related auditor or other auditor.
- Results of the group auditor's risks assessment performed at group level that are relevant to the related auditor's or other auditor's work.
- The planning materiality that the group auditor expects the related auditor or other auditor to use in fulfilling the group auditor's instructions.
- The threshold for clearly inconsequential misstatements.
- Guidance on other statutory reporting responsibilities, for example reporting on group management's assertion on the effectiveness of internal control.
- Where there is likely to be a time lag between completion of the work on the components' financial information 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 Related Auditor's or 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 related auditor or other auditor.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- A request that audit evidence obtained from performing work on the components' financial information that contradicts the audit evidence on which the group auditor originally based the risk assessment performed at group level, is communicated to the auditor in a timely manner.
- A request for written representation on component management's compliance with the applicable financial reporting framework, including statutory or other disclosure and financial reporting requirements, or the fact that differences between the accounting policies applied in the component's financial information and those applied in the group financial statements have been disclosed.
- Matters to be documented by the related auditor or other auditor.

Matters Relevant to the Related Auditor's or Other Auditor's Communication

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

Other Information

- A request that a list of uncorrected misstatements of the component's financial information is provided to the group auditor. The list does not include misstatements that were not

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corrected because they are below the threshold set by the group auditor for clearly inconsequential misstatements.

- A request that the following are reported to the group auditor in a timely manner:
 - Significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.
 - Material weaknesses in internal control
 - Actual fraud identified or information obtained that indicates that a fraud may exist any, including any suspected or alleged fraud affecting the component.
 - Matters relating to the going concern status of the component.
 - Matters relating to litigation and claims.
 - Matters relating to compliance with laws and regulations.
- A request that the group auditor is notified of any significant or unusual events as early as possible.
- A request for the names of related parties identified in addition to those listed by the group auditor, and the types of related party transactions.

Example of Related Auditor's or Other Auditor's Acknowledgements and Confirmations

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

The group auditor ordinarily requests the related auditor or other auditor to submit the acknowledgements and confirmations before the work on the component's financial information is commenced.

(Related/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 (present fairly, in all material respects) the financial position of the group as of [date] and of the results of its operations and cash flows for the year then ended in accordance with [indicate financial reporting framework applicable to the group financial statements].

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

We confirm that:

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

We also acknowledge that:

1. The financial information of [name of component] for the year ended [date] will be included in the group financial statements of [name of parent] for the year ended [date], and
2. You intend to review and, if considered appropriate, use our work performed on the financial information of [name of component] for the year ended [date] for purposes of the audit of the group financial statements of [name of parent] for the year ended [date].

In connection with the work that we will perform on the financial information for the year ended [date] of [name of component], a [describe component, e.g. wholly-owned subsidiary, subsidiary, joint venture, associate company] of [name of parent], we confirm the following:

1. We have a sufficient understanding of and comply with the Code of Ethics for Professional Accountants of the International Federation of Accountants (the Code). In particular, and with respect to [name of parent] and the other components¹ in the group, we are independent within the meaning of Section 8 of Part B of the Code. We are also

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

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independent within the meaning of [indicate national requirements applicable in the jurisdictions of the parent] and are in compliance with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].

2. We have a sufficient understanding of International Standards on Auditing and [indicate other national requirements applicable to 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.
3. We have a sufficient understanding of [indicate financial reporting framework applicable to the group financial statements] and [indicate other statutory requirements applicable to the group financial statements].

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

AUDITOR

[Date]

[Address]



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org