EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 600

Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) (ISA (NZ) 600)

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~~Issued July 2011~~

Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.

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INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 600

SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS

(Including the Work of Component Auditors)

Issued by the External Reporting Board

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International Standard on Auditing (New Zealand) (ISA (NZ)) 600, " Special Considerations—Audits Of Group Financial Statements (Including the Work Of Component Auditors)" should be read in conjunction with ISA (NZ) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)."

History of Amendments

Table of pronouncements – ISA (NZ) 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

This table lists the pronouncements establishing and amending ISA (NZ) 600.

Pronouncements	**Date approved**	**Effective date**
International Standard on Auditing (New Zealand) 600	July 2011	This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011
Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*	Jan 2013	Effective on 1 January 2014
Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners*	Jan 2013	Effective on 1 January 2014
International Standard on Auditing (New Zealand) 610 (Revised 2013) *Using the Work of Internal Auditors*	April 2013	Effective for audits of financial statements for periods ending on or after 15 December 2013
Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality	September 2013	Effective for audits of financial statements for periods ending on or after 31 December 2014

Table of Amended Paragraphs in ISA (NZ) 600		
Paragraph affected	**How affected**	**By…[date]**
A35	Amended	Professional and Ethical Standard 3 (Amended) [Jan 2013]
Appendix 4	Amended	Professional and Ethical Standard 1 (Revised) [Jan 2013]
A23, A27, A51, Appendix 2, Appendix 5	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
NZA65.1	Added	Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality [September 2013]

Introduction

Scope of this ISA (NZ)

1. The International Standards on Auditing (New Zealand) (ISAs (NZ)) apply to group audits. This ISA (NZ) deals with special considerations that apply to group audits, in particular those that involve component auditors.

2. An auditor may find this ISA (NZ), adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.

3. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. The group engagement team may decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit evidence for the group audit, but the requirements of this ISA (NZ) nevertheless apply. (Ref: Para. A1)

4. In accordance with ISA (NZ) 220,[1] the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.

5. The group engagement partner applies the requirements of ISA (NZ) 220 regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. This ISA (NZ) assists the group engagement partner to meet the requirements of ISA (NZ) 220 where component auditors perform work on the financial information of components.

6. Audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements.[2] In a group audit, this includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement. This ISA (NZ) explains the matters that the group engagement team considers when determining the nature, timing and extent of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components. The purpose of this involvement is to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements.

Effective Date

7. This ISA (NZ) is effective for audits of group financial statements for periods beginning on or after 1 September, 2011.

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1 ISA (NZ) 220, "Quality Control for an Audit of Financial Statements," paragraphs 14 and 15.

2 ISA (NZ) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)," paragraph A32.

Objectives

8. The objectives of the auditor are:

   (a) To determine whether to act as the auditor of the group financial statements; and

   (b) If acting as the auditor of the group financial statements:

      (i) To communicate clearly with component auditors about the scope and timing of their work on financial information related to components and their findings; and

      (ii) To obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Definitions

9. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

   (a) Component – An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements. (Ref: Para. A2-A4)

   (b) Component auditor – An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit. (Ref: Para. A7)

   (c) Component management – Management responsible for preparing the financial information of a component, overseen by those charged with governance of the component.

   (d) Component materiality – The materiality for a component determined by the group engagement team.

   (e) Group – All the components whose financial information is included in the group financial statements. A group always has more than one component. (Ref: Para. A4)

   (f) Group audit – The audit of group financial statements.

   (g) Group audit opinion – The audit opinion on the group financial statements.

   (h) Group engagement partner – The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial statements that is issued on behalf of the firm. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This ISA (NZ) does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

   (i) Group engagement team – Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate

the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.

(j) Group financial statements – Financial statements that include the financial information of more than one component. The term "group financial statements" also refers to combined financial statements aggregating the financial information prepared by components that have no parent but are under common control.

(k) Group management – Management responsible for preparing the group financial statements.

(l) Group-wide controls – Controls designed, implemented and maintained over group financial reporting.

(m) Significant component – A component identified by the group engagement team (i) that is of individual financial significance to the group, or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements. (Ref: Para. A5-A6)

10. Reference to "the applicable financial reporting framework" means the financial reporting framework that applies to the group financial statements. Reference to "the consolidation process" includes:

(a) The recognition, measurement, presentation, and disclosure of the financial information of the components in the group financial statements by way of consolidation, proportionate consolidation, or the equity or cost methods of accounting; and

(b) The aggregation in combined financial statements of the financial information of components that have no parent but are under common control.

Requirements

Responsibility

11. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances.[3] As a result, the auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A8-A9)

Acceptance and Continuance

12. In applying ISA (NZ) 220, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their

[3] ISA (NZ) 220, paragraph 15.

environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10-A12)

13. If the group engagement partner concludes that:

    (a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management or those charged with governance of the group; and

    (b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements,[4]

    the group engagement partner shall either:

    (a) in the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw the engagement, where withdrawal is possible under applicable law or regulation; or

    (b) where law or regulation prohibits an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A13-A19)

Terms of Engagement

14. The group engagement partner shall agree on the terms of the group audit engagement in accordance with ISA (NZ) 210.[5] (Ref: Para. A20-A21)

Overall Audit Strategy and Audit Plan

15. The group engagement team shall establish an overall group audit strategy and shall develop a group audit plan in accordance with ISA (NZ) 300.[6]

16. The group engagement partner shall review the overall group audit strategy and group audit plan. (Ref: Para. A22)

Understanding the Group, Its Components and Their Environments

17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment.[7]. The group engagement team shall:

    (a) Enhance its understanding of the group, its components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage; and

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4 ISA (NZ) 705, "Modifications to the Opinion in the Independent Auditor's Report."

5 ISA (NZ) 210, "Agreeing the Terms of Audit Engagements.".

6 ISA (NZ) 300, "Planning an Audit of Financial Statements", paragraphs 7-12.

7 ISA (NZ) 315 (Revised) "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

(b) Obtain an understanding of the consolidation process, including the instructions issued by group management to components. (Ref: Para. A23-A29)

18. The group engagement team shall obtain an understanding that is sufficient to:

(a) Confirm or revise its initial identification of components that are likely to be significant; and

(b) Assess the risks of material misstatement of the group financial statements, whether due to fraud or error.[8] (Ref: Para. A30-A31)

Understanding the Component Auditors

19. If the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following: (Ref: Para. A32-A35)

(a) Whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent; (Ref: Para. A37)

(b) The component auditor's professional competence; (Ref: Para. A38)

(c) Whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence; and

(d) Whether the component auditor operates in a regulatory environment that actively oversees auditors. (Ref: Para. A36)

20. If a component auditor does not meet the independence requirements that are relevant to the group audit, or the group engagement team has serious concerns about the other matters listed in paragraph 19(a)-(c), the group engagement team shall obtain sufficient appropriate audit evidence relating to the financial information of the component without requesting that component auditor to perform work on the financial information of that component. (Ref: Para. A39-A41)

Materiality

21. The group engagement team shall determine the following: (Ref: Para. A42)

(a) Materiality for the group financial statements as a whole when establishing the overall group audit strategy.

(b) If, in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

(c) Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce to an

[8] ISA (NZ) 315 (Revised).

appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality shall be lower than materiality for the group financial statements as a whole. (Ref: Para. A43-A44)

(d) The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. (Ref: Para. A45)

22. Where component auditors will perform an audit for purposes of the group audit, the group engagement team shall evaluate the appropriateness of performance materiality determined at the component level. (Ref: Para. A46)

23. If a component is subject to audit by statute, regulation or other reason, and the group engagement team decides to use that audit to provide audit evidence for the group audit, the group engagement team shall determine whether:

(a) materiality for the component financial statements as a whole; and

(b) performance materiality at the component level

meet the requirements of this ISA (NZ).

Responding to Assessed Risks

24. The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements.[9] The group engagement team shall determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components (see paragraphs 26-29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30-31). (Ref: Para. A47)

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

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

Significant Components

26. For a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, shall perform an audit of the financial information of the component using component materiality.

27. For a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or

[9] ISA (NZ) 330, "The Auditor's Responses to Assessed Risks."

circumstances, the group engagement team, or a component auditor on its behalf, shall perform one or more of the following:

(a) An audit of the financial information of the component using component materiality.

(b) An audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks of material misstatement of the group financial statements. (Ref: Para. A48)

(c) Specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements. (Ref: Para. A49)

Components that Are Not Significant Components

28. For components that are not significant components, the group engagement team shall perform analytical procedures at group level. (Ref: Para. A50)

29. If the group engagement team does not consider that sufficient appropriate audit evidence on which to base the group audit opinion will be obtained from:

(a) The work performed on the financial information of significant components;

(b) The work performed on group-wide controls and the consolidation process; and

(c) The analytical procedures performed at group level,

the group engagement team shall select components that are not significant components and shall perform, or request a component auditor to perform, one or more of the following on the financial information of the individual components selected: (Ref: Para. A51-A53)

- An audit of the financial information of the component using component materiality.
- An audit of one or more account balances, classes of transactions or disclosures.
- A review of the financial information of the component using component materiality.
- Specified procedures.

The group engagement team shall vary the selection of components over a period of time.

Involvement in the Work Performed by Component Auditors (Ref: Para. A54-A55)

Significant Components—Risk Assessment

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

(a) Discussing with the component auditor or component management those of the component's business activities that are significant to the group;

(b) Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and

(c) Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor's conclusion with regard to the identified significant risks.

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

31. If significant risks of material misstatement of the group financial statements have been identified in a component on which a component auditor performs the work, the group engagement team shall evaluate the appropriateness of the further audit procedures to be performed to respond to the identified significant risks of material misstatement of the group financial statements. Based on its understanding of the component auditor, the group engagement team shall determine whether it is necessary to be involved in the further audit procedures.

Consolidation Process

32. In accordance with paragraph 17, the group engagement team obtains an understanding of group-wide controls and the consolidation process, including the instructions issued by group management to components. In accordance with paragraph 25, the group engagement team, or component auditor at the request of the group engagement team, tests the operating effectiveness of group-wide controls if the nature, timing and extent of the work to be performed on the consolidation process are based on an expectation that group-wide controls are operating effectively, or if substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

33. The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements.

34. The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and shall evaluate whether any fraud risk factors or indicators of possible bias exist. (Ref: Para. A56)

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

36. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 41(c)) is the financial information that is incorporated in the group financial statements.

37. If the group financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the group engagement team shall evaluate whether appropriate adjustments have been made to

those financial statements in accordance with the applicable financial reporting framework.

Subsequent Events

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

39. Where component auditors perform work other than audits of the financial information of components, the group engagement team shall request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements.

Communication with the Component Auditor

40. The group engagement team shall communicate its requirements to the component auditor on a timely basis. This communication shall set out the work to be performed, the use to be made of that work, and the form and content of the component auditor's communication with the group engagement team. (Ref: Para. A57, A58, A60) It shall also include the following:

    (a) A request that the component auditor, knowing the context in which the group engagement team will use the work of the component auditor, confirms that the component auditor will cooperate with the group engagement team. (Ref: Para. A59)

    (b) The ethical requirements that are relevant to the group audit and, in particular, the independence requirements.

    (c) In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.

    (d) Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor. The group engagement team shall request the component auditor to communicate on a timely basis any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and the component auditor's responses to such risks.

    (e) A list of related parties prepared by group management, and any other related parties of which the group engagement team is aware. The group engagement team shall request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team shall determine whether to identify such additional related parties to other component auditors.

41. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard the group audit. Such communication shall include: (Ref: Para. A60)

    (a) Whether the component auditor has complied with ethical requirements that are relevant to the group audit, including independence and professional competence;

    (b) Whether the component auditor has complied with the group engagement team's requirements;

    (c) Identification of the financial information of the component on which the component auditor is reporting;

    (d) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements;

    (e) A list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold for clearly trivial misstatements communicated by the group engagement team (see paragraph 40(c));

    (f) Indicators of possible bias;

    (g) Description of any identified significant deficiencies in internal control at the component level;

    (h) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component;

    (i) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from those charged with governance of the component; and

    (j) The component auditor's overall findings, conclusions or opinion.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Evaluating the Component Auditor's Communication and Adequacy of their Work

42. The group engagement team shall evaluate the component auditor's communication (see paragraph 41). The group engagement team shall:

    (a) Discuss significant matters arising from that evaluation with the component auditor, component management, those charged with governance of the component, group management, or those charged with governance of the group as appropriate; and

    (b) Determine whether it is necessary to review other relevant parts of the component auditor's audit documentation. (Ref: Para. A61)

43. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional procedures

are to be performed, and whether they are to be performed by the component auditor or by the group engagement team.

Sufficiency and Appropriateness of Audit Evidence

44. The auditor is required to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.[10] The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion. (Ref: Para. A62)

45. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A63)

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

Communication with Group Management

46. The group engagement team shall determine which identified deficiencies in internal control to communicate to those charged with governance and group management in accordance with ISA (NZ) 265.[11] In making this determination, the group engagement team shall consider:

    (a) Deficiencies in group-wide internal control that the group engagement team has identified;

    (b) Deficiencies in internal control that the group engagement team has identified in internal controls at components; and

    (c) Deficiencies in internal control that component auditors have brought to the attention of the group engagement team.

47. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 41(h)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A64)

48. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. In that case, the group engagement team shall request group management to inform component management of any matter of which the group engagement team becomes aware that

[10] ISA (NZ) 200, paragraph 17.

[11] ISA (NZ) 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management."

may be significant to the financial statements of the component, but of which component management may be unaware. If group management refuses to communicate the matter to component management, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved. (Ref: Para. A65)

Communication with Those Charged with Governance of the Group

49. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA (NZ) 260[12] and other ISAs (NZ): (Ref: Para. A66)

    (a) An overview of the type of work to be performed on the financial information of the components.

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

    (c) Instances where the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

    (d) Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.

    (e) Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.

Documentation

50. The group engagement team shall include in the audit documentation the following matters:[13]

    (a) An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.

    (b) The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon.

    (c) Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

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[12] ISA (NZ) 260, "Communication with Those Charged with Governance."

[13] ISA (NZ) 230, "Audit Documentation," paragraphs 8-11, and paragraph A6.

Application and Other Explanatory Material

Components Subject to Audit by Statute, Regulation or Other Reason (Ref: Para. 3)

A1. Factors that may affect the group engagement team's decision whether to use an audit required by statute, regulation or for another reason to provide audit evidence for the group audit include the following:

- Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements.
- Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements.
- Whether the audit of the financial statements of the component will be completed in time to meet the group reporting timetable.

Definitions

Component (Ref: Para. 9(a))

A2. The structure of a group affects how components are identified. For example, the group financial reporting system may be based on an organisational structure that provides for financial information to be prepared by a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity or cost methods of accounting; by a head office and one or more divisions or branches; or by a combination of both. Some groups, however, may organise their financial reporting system by function, process, product or service (or by groups of products or services), or geographical locations. In these cases, the entity or business activity for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographical location.

A3. Various levels of components may exist within the group financial reporting system, in which case it may be more appropriate to identify components at certain levels of aggregation rather than individually.

A4. Components aggregated at a certain level may constitute a component for purposes of the group audit; however, such a component may also prepare group financial statements that incorporate the financial information of the components it encompasses (that is, a subgroup). This ISA (NZ) may therefore be applied by different group engagement partners and teams for different subgroups within a larger group.

Significant Component (Ref: Para. 9(m))

A5. As the individual financial significance of a component increases, the risks of material misstatement of the group financial statements ordinarily increase. The group engagement team may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. Identifying a benchmark and determining a percentage to be applied to it involve the exercise of professional judgement. Depending on the nature and circumstances of the group, appropriate benchmarks might include group assets, liabilities, cash flows, profit or turnover. For example, the group engagement team may consider that components exceeding 15%

of the chosen benchmark are significant components. A higher or lower percentage may, however, be deemed appropriate in the circumstances.

A6. The group engagement team may also identify a component as likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances (that is, risks that require special audit consideration[14]). For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement, even though the component is not otherwise of individual financial significance to the group.

Component Auditor (Ref: Para. 9(b))

A7. A member of the group engagement team may perform work on the financial information of a component for the group audit at the request of the group engagement team. Where this is the case, such a member of the engagement team is also a component auditor.

Responsibility (Ref: Para. 11)

A8. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A9. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Modification paragraph in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.[15]

Acceptance and Continuance

Obtaining an Understanding at the Acceptance or Continuance Stage (Ref: Para. 12)

A10. In the case of a new engagement, the group engagement team's understanding of the group, its components, and their environments may be obtained from:

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

A11. The group engagement team's understanding may include matters such as the following:

- The group structure, including both the legal and organisational structure (that is, how the group financial reporting system is organised).

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[14] ISA (NZ) 315 (Revised), paragraphs 27 – 29.

[15] ISA (NZ) 705, paragraph 20.

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

A12. In the case of a continuing engagement, the group engagement team's ability to obtain sufficient appropriate audit evidence may be affected by significant changes, for example:

- Changes in the group structure (for example, acquisitions, disposals, reorganisations, or changes in how the group financial reporting system is organised).
- Changes in components' business activities that are significant to the group.
- Changes in the composition of those charged with governance of the group, group management, or key management of significant components.
- Concerns the group engagement team has with regard to the integrity and competence of group or component management.
- Changes in group-wide controls.
- Changes in the applicable financial reporting framework.

Expectation to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 13)

A13. A group may consist only of components not considered significant components. In these circumstances, the group engagement partner can reasonably expect to obtain sufficient appropriate audit evidence on which to base the group audit opinion if the group engagement team will be able to:

(a) Perform the work on the financial information of some of these components; and

(b) Be involved in the work performed by component auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.

Access to Information (Ref: Para. 13)

A14. The group engagement team's access to information may be restricted by circumstances that cannot be overcome by group management, for example laws relating to confidentiality and data privacy, or denial by the component auditor of access to relevant audit documentation sought by the group engagement team. It may also be restricted by group management or those charged with governance of the group.

A15. Where access to information is restricted by circumstances, the group engagement team may still be able to obtain sufficient appropriate audit evidence; however, this is less likely as the significance of the component increases. For example, the group engagement team may not have access to those charged with governance, management, or the auditor (including relevant audit documentation sought by the group engagement team) of a component that is accounted for by the equity method of accounting. If the component is not a significant component, and the group engagement team has a complete set of financial statements of the component, including the auditor's report thereon, and has access to information kept by group management in relation to that component, the group engagement team may conclude that this information constitutes sufficient appropriate audit evidence in relation to that component. If the component is a significant component, however, the group engagement team will not be able to comply with the requirements of this ISA (NZ) relevant in the circumstances of the group audit. For example, the group engagement team will not be able to comply with the requirement in paragraphs 30-31 to be involved in the work of the component auditor. The group engagement team will not, therefore, be able to obtain sufficient appropriate audit evidence in relation to that component. The effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of ISA (NZ) 705.

A16. The group engagement team will not be able to obtain sufficient appropriate audit evidence if group management or those charged with governance of the group restricts the access of the group engagement team or a component auditor to the information of a significant component.

A17. Although the group engagement team may be able to obtain sufficient appropriate audit evidence if such restriction relates to a component considered not a significant component, the reason for the restriction may affect the group audit opinion. For example, it may affect the reliability of group management's responses to the group engagement team's enquiries and representations made by those charged with governance of the group to the group engagement team.

A18. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, this ISA (NZ) still applies to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of ISA (NZ) 705.

A19. Appendix 1 contains an example of an auditor's report containing a qualified opinion based on the group engagement team's inability to obtain sufficient appropriate audit

evidence in relation to a significant component accounted for by the equity method of accounting, but where, in the group engagement team's judgement, the effect is material but not pervasive.

Terms of Engagement (Ref: Para. 14)

A20. The terms of engagement identify the applicable financial reporting framework.[16] Additional matters may be included in the terms of a group audit engagement, such as the fact that:

- The communication between the group engagement team and the component auditors should be unrestricted to the extent possible under law or regulation;
- Important communications between the component auditors, those charged with governance of the component, and component management, including communications on significant deficiencies in internal control, should be communicated as well to the group engagement team;
- Important communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team; and
- To the extent the group engagement team considers necessary, it should be permitted:
  - Access to component information, those charged with governance of components, component management, and the component auditors (including relevant audit documentation sought by the group engagement team); and
  - To perform work or request a component auditor to perform work on the financial information of the components.

A21. Restrictions imposed on:

- the group engagement team's access to component information, those charged with governance of components, component management, or the component auditors (including relevant audit documentation sought by the group engagement team); or
- the work to be performed on the financial information of the components,

after the group engagement partner's acceptance of the group audit engagement, constitute an inability to obtain sufficient appropriate audit evidence that may affect the group audit opinion. In exceptional circumstances it may even lead to withdrawal from the engagement where withdrawal is possible under applicable law or regulation.

Overall Audit Strategy and Audit Plan (Ref: Para. 16)

A22. The group engagement partner's review of the overall group audit strategy and group audit plan is an important part of fulfilling the group engagement partner's responsibility for the direction of the group audit engagement.

[16] ISA (NZ) 210, paragraph 8.

Understanding the Group, Its Components and Their Environments

Matters about Which the Group Engagement Team Obtains an Understanding (Ref: Para. 17)

A23. ISA (NZ) 315 (Revised)[17] contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance. Appendix 2 of this ISA (NZ) contains guidance on matters specific to a group, including the consolidation process.

Instructions Issued by Group Management to Components (Ref: Para. 17)

A24. To achieve uniformity and comparability of financial information, group management ordinarily issues instructions to components. Such instructions specify the requirements for financial information of the components to be included in the group financial statements and often include financial reporting procedures manuals and a reporting package. A reporting package ordinarily consists of standard formats for providing financial information for incorporation in the group financial statements. Reporting packages generally do not, however, take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework.

A25. 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 unrealised profits;
  - Intra-group account balances; and
- A reporting timetable.

A26. The group engagement team's understanding of the instructions may include the following:

- The clarity and practicality of the instructions for completing the reporting package.
- Whether the instructions:
  - Adequately describe the characteristics of the applicable financial reporting framework;
  - Provide for disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example disclosure of related party relationships and transactions, and segment information;

[17] ISA (NZ) 315 (Revised), paragraphs A17 – A41.

- Provide for the identification of consolidation adjustments, for example intra-group transactions and unrealised profits, and intra-group account balances; and
- Provide for the approval of the financial information by those charged with governance of the component.

Fraud (Ref: Para. 17)

A27. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.[18] Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risks that the group financial statements may be materially misstated as a result of fraud.
- Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or account balances, classes of transactions, or disclosures for which a risk of fraud is likely.
- Whether there are particular components for which a risk of fraud is likely.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's enquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Discussion among Group Engagement Team Members and Component Auditors Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud (Ref: Para. 17)

A28. The key members of the engagement team are required to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, specifically emphasising the risks due to fraud. In a group audit, these discussions may also include the component auditors.[19] The group engagement partner's determination of who to include in the discussions, how and when they occur, and their extent, is affected by factors such as prior experience with the group.

A29. The discussions provide an opportunity to:

- Share knowledge of the components and their environments, including group-wide controls.
- Exchange information about the business risks of the components or the group.

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[18] ISA (NZ) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements."

[19] ISA (NZ) 240, paragraph 15; ISA (NZ) 315 (Revised), paragraph 10.

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

Risk Factors (Ref: Para. 18)

A30. Appendix 3 sets out examples of conditions or events that, individually or together, may indicate risks of material misstatement of the group financial statements, including risks due to fraud.

Risk Assessment (Ref: Para. 18)

A31. The group engagement team's assessment at group level of the risks of material misstatement of the group financial statements is based on information such as the following:

- Information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls that are relevant to the consolidation.
- Information obtained from the component auditors.

Understanding the Component Auditors (Ref: Para. 19-20)

A32. The group engagement team obtains an understanding of a component auditor only when it plans to request the component auditor to perform work on the financial information of a component for the group audit. For example, it will not be necessary

to obtain an understanding of the auditors of those components for which the group engagement team plans to perform analytical procedures at group level only.

Group Engagement Team's Procedures to Obtain an Understanding of the Component Auditor and Sources of Audit Evidence (Ref: Para. 19)

A33. The nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures, for example:

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

A34. These factors interact and are not mutually exclusive. For example, the extent of the group engagement team's procedures to obtain an understanding of Component Auditor A, who consistently applies common quality control and monitoring policies and procedures and a common audit methodology or operates in the same jurisdiction as the group engagement partner, may be less than the extent of the group engagement team's procedures to obtain an understanding of Component Auditor B, who is not consistently applying common quality control and monitoring policies and procedures and a common audit methodology or operates in a foreign jurisdiction. The nature of the procedures performed in relation to Component Auditors A and B may also be different.

A35. The group engagement team may obtain an understanding of the component auditor in a number of ways. In the first year of involving a component auditor, the group engagement team may, for example:

- Evaluate the results of the quality control monitoring system where the group engagement team and component auditor are from a firm or network that operates under and complies with common monitoring policies and procedures;[20]
- Visit the component auditor to discuss the matters in paragraph 19(a)-(c);

[20] As required by PES-3 (Amended), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance Engagements", paragraph 5460.

- Request the component auditor to confirm the matters referred to in paragraph 19(a)-(c) in writing. Appendix 4 contains an example of written confirmations by a component auditor;
- Request the component auditor to complete questionnaires about the matters in paragraph 19(a)-(c);
- Discuss the component auditor with colleagues in the group engagement partner's firm, or with a reputable third party that has knowledge of the component auditor; or
- Obtain confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.

In subsequent years, the understanding of the component auditor may be based on the group engagement team's previous experience with the component auditor. The group engagement team may request the component auditor to confirm whether anything in relation to the matters listed in paragraph 19(a)-(c) has changed since the previous year.

A36. Where independent oversight bodies have been established to oversee the auditing profession and monitor the quality of audits, awareness of the regulatory environment may assist the group engagement team in evaluating the independence and competence of the component auditor. Information about the regulatory environment may be obtained from the component auditor or information provided by the independent oversight bodies.

Ethical Requirements that Are Relevant to the Group Audit (Ref: Para. 19(a))

A37. When performing work on the financial information of a component for a group audit, the component auditor is subject to ethical requirements that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing a statutory audit in the component auditor's jurisdiction. The group engagement team therefore obtains an understanding whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit, sufficient to fulfill the component auditor's responsibilities in the group audit.

The Component Auditor's Professional Competence (Ref: Para. 19(b))

A38. The group engagement team's understanding of the component auditor's professional competence may include whether the component auditor:

- Possesses an understanding of auditing and other standards applicable to the group audit that is sufficient to fulfill the component auditor's responsibilities in the group audit;
- Possesses the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the particular component; and
- Where relevant, possesses an understanding of the applicable financial reporting framework that is sufficient to fulfill the component auditor's responsibilities in

the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework).

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 19-20)

A39. The group engagement team cannot overcome the fact that a component auditor is not independent by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component.

A40. However, the group engagement team may be able to overcome less than serious concerns about the component auditor's professional competency (for example, lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component.

A41. Where law or regulation prohibits access to relevant parts of the audit documentation of the component auditor, the group engagement team may request the component auditor to overcome this by preparing a memorandum that covers the relevant information.

Materiality (Ref: Para. 21-23)

A42. The auditor is required:[21]

(a) When establishing the overall audit strategy, to determine:

(i) Materiality for the financial statements as a whole; and

(ii) If, in the specific circumstances of the entity, there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures; and

(b) To determine performance materiality.

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

A43. To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality is set lower than materiality for the group financial statements as a whole. Different component materiality may be established for different components. Component materiality need not be an arithmetical portion of materiality for the group financial

[21] ISA (NZ) 320, "Materiality in Planning and Performing an Audit," paragraphs 10-11.

statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed materiality for the group financial statements as a whole. Component materiality is used when establishing the overall audit strategy for a component.

A44. Component materiality is determined for those components whose financial information will be audited or reviewed as part of the group audit in accordance with paragraphs 26, 27(a) and 29. Component materiality is used by the component auditor to evaluate whether uncorrected detected misstatements are material, individually or in the aggregate.

A45. A threshold for misstatements is determined in addition to component materiality. Misstatements identified in the financial information of the component that are above the threshold for misstatements are communicated to the group engagement team.

A46. In the case of an audit of the financial information of a component, the component auditor (or group engagement team), determines performance materiality at the component level. This is necessary to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial information of the component exceeds component materiality. In practice, the group engagement team may set component materiality at this lower level. Where this is the case, the component auditor uses component materiality for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks as well as for evaluating whether detected misstatements are material individually or in the aggregate.

Responding to Assessed Risks (Ref: Para. 24-25)

Determining the Type of Work to Be Performed on the Financial Information of Components (Ref: Para. 26-27)

A47. The group engagement team's determination of the type of work to be performed on the financial information of a component and its involvement in the work of the component auditor is affected by:

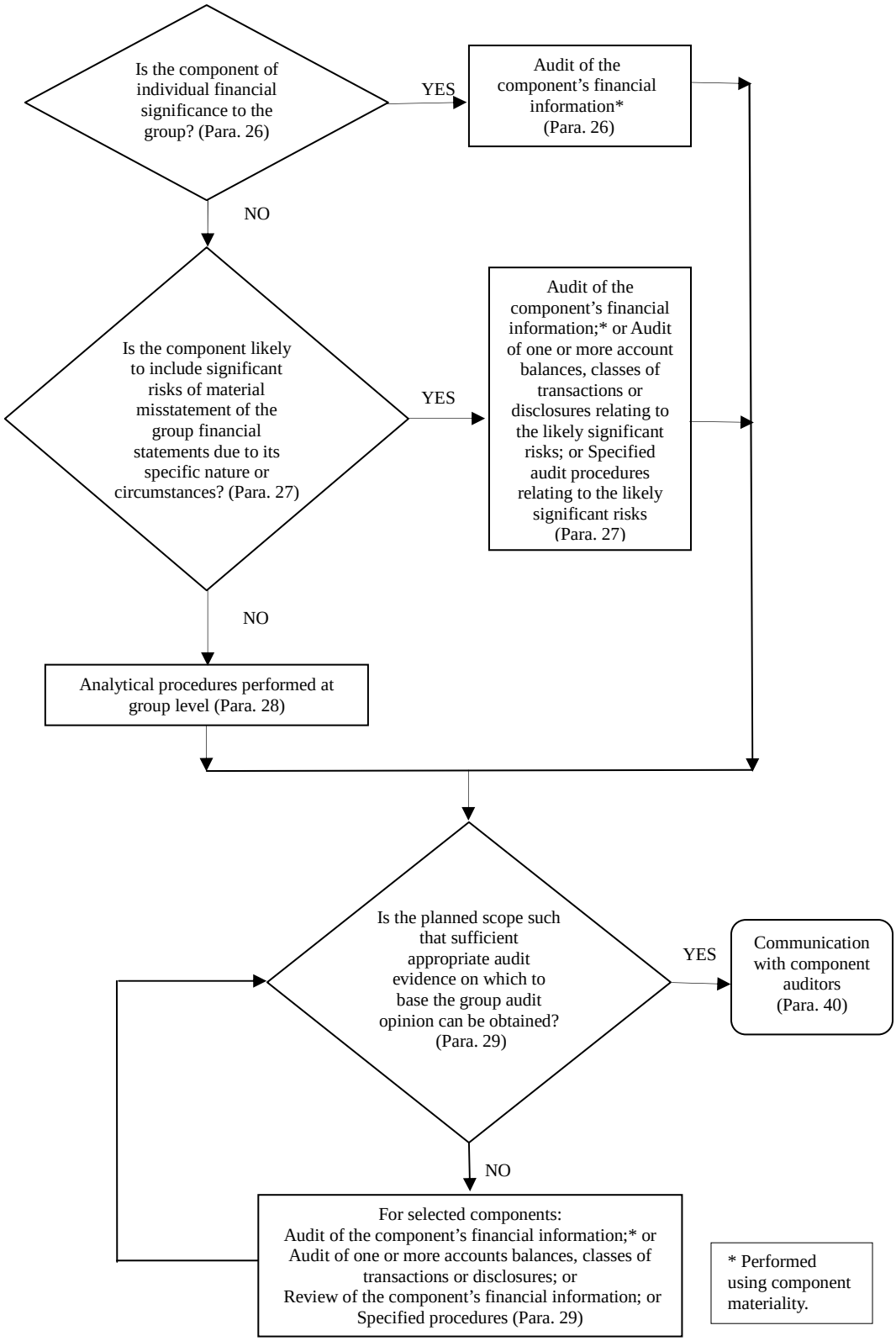
(a) The significance of the component;

(b) The identified significant risks of material misstatement of the group financial statements;

(c) The group engagement team's evaluation of the design of group-wide controls and determination whether they have been implemented; and

(d) The group engagement team's understanding of the component auditor.

The diagram shows how the significance of the component affects the group engagement team's determination of the type of work to be performed on the financial information of the component.


Is the component of individual financial significance to the group? (Para. 26)
YES
Audit of the component's financial information* (Para. 26)
NO
Is the component likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances? (Para. 27)
YES
Audit of the component's financial information;* or Audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks; or Specified audit procedures relating to the likely significant risks (Para. 27)
NO
Analytical procedures performed at group level (Para. 28)
Is the planned scope such that sufficient appropriate audit evidence on which to base the group audit opinion can be obtained? (Para. 29)
YES
Communication with component auditors (Para. 40)
NO
For selected components:
Audit of the component's financial information;* or
Audit of one or more accounts balances, classes of transactions or disclosures; or
Review of the component's financial information; or
Specified procedures (Para. 29)
* Performed using component materiality.

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

A48. The group engagement team may identify a component as a significant component because that component is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances. In that case, the group engagement team may be able to identify the account balances, classes of transactions or disclosures affected by the likely significant risks. Where this is the case, the group engagement team may decide to perform, or request a component auditor to perform, an audit of only those account balances, classes of transactions or disclosures. For example, in the situation described in paragraph A6, the work on the financial information of the component may be limited to an audit of the account balances, classes of transactions and disclosures affected by the foreign exchange trading of that component. Where the group engagement team requests a component auditor to perform an audit of one or more specific account balances, classes of transactions or disclosures, the communication of the group engagement team (see paragraph 40) takes account of the fact that many financial statement items are interrelated.

A49. The group engagement team may design audit procedures that respond to a likely significant risk of material misstatement of the group financial statements. For example, in the case of a likely significant risk of inventory obsolescence, the group engagement team may perform, or request a component auditor to perform, specified audit procedures on the valuation of inventory at a component that holds a large volume of potentially obsolete inventory, but that is not otherwise significant.

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

A50. Depending on the circumstances of the engagement, the financial information of the components may be aggregated at various levels for purposes of the analytical procedures. The results of the analytical procedures corroborate the group engagement team's conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

A51. The group engagement team's decision as to how many components to select in accordance with paragraph 29, which components to select, and the type of work to be performed on the financial information of the individual components selected may be affected by factors such as the following:

- The extent of audit evidence expected to be obtained on the financial information of the significant components.
- Whether the component has been newly formed or acquired.
- Whether significant changes have taken place in the component.
- Whether the internal audit function has performed work at the component and any effect of that work on the group audit.
- Whether the components apply common systems and processes.
- The operating effectiveness of group-wide controls.
- Abnormal fluctuations identified by analytical procedures performed at group level.

- The individual financial significance of, or the risk posed by, the component in comparison with other components within this category.
- Whether the component is subject to audit required by statute, regulation or for another reason.

Including an element of unpredictability in selecting components in this category may increase the likelihood of identifying material misstatement of the components' financial information. The selection of components is often varied on a cyclical basis.

A52. A review of the financial information of a component may be performed in accordance with RS-1[22] adapted as necessary in the circumstances. The group engagement team may also specify additional procedures to supplement this work.

A53. As explained in paragraph A13, a group may consist only of components that are not significant components. In these circumstances, the group engagement team can obtain sufficient appropriate audit evidence on which to base the group audit opinion by determining the type of work to be performed on the financial information of the components in accordance with paragraph 29. It is unlikely that the group engagement team will obtain sufficient appropriate audit evidence on which to base the group audit opinion if the group engagement team, or a component auditor, only tests group-wide controls and performs analytical procedures on the financial information of the components.

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

A54. Factors that may affect the group engagement team's involvement in the work of the component auditor include:

(a) The significance of the component;

(b) The identified significant risks of material misstatement of the group financial statements; and

(c) The group engagement team's understanding of the component auditor.

In the case of a significant component or identified significant risks, the group engagement team performs the procedures described in paragraphs 30-31. In the case of a component that is not a significant component, the nature, timing and extent of the group engagement team's involvement in the work of the component auditor will vary based on the group engagement team's understanding of that component auditor. The fact that the component is not a significant component becomes secondary. For example, even though a component is not considered a significant component, the group engagement team nevertheless may decide to be involved in the component auditor's risk assessment, because it has less than serious concerns about the component auditor's professional competency (for example, lack of industry specific knowledge), or the component auditor does not operate in an environment that actively oversees auditors.

A55. Forms of involvement in the work of a component auditor other than those described in paragraphs 30-31 and 42 may, based on the group engagement team's understanding of the component auditor, include one or more of the following:

[22] RS-1: *Statement of Review Engagement Standards.*

(a) Meeting with component management or the component auditors to obtain an understanding of the component and its environment.

(b) Reviewing the component auditors' overall audit strategy and audit plan.

(c) Performing risk assessment procedures to identify and assess the risks of material misstatement at the component level. These may be performed with the component auditors, or by the group engagement team.

(d) Designing and performing further audit procedures. These may be designed and performed with the component auditors, or by the group engagement team.

(e) Participating in the closing and other key meetings between the component auditors and component management.

(f) Reviewing other relevant parts of the component auditors' audit documentation.

Consolidation Process

Consolidation Adjustments and Reclassifications (Ref: Para. 34)

A56. The consolidation process may require adjustments to amounts reported in the group financial statements that do not pass through the usual transaction processing systems, and may not be subject to the same internal controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments may include:

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

Communication with the Component Auditor (Ref: Para. 40-41)

A57. If effective two-way communication between the group engagement team and the component auditors does not exist, there is a risk that the group engagement team may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. Clear and timely communication of the group engagement team's requirements forms the basis of effective two-way communication between the group engagement team and the component auditor.

A58. The group engagement team's requirements are often communicated in a letter of instruction. Appendix 5 contains guidance on required and additional matters that may be included in such a letter of instruction. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit

documentation. Nevertheless, the documentation requirements of this and other ISAs (NZ) apply.

A59. In cooperating with the group engagement team, the component auditor, for example, would provide the group engagement team with access to relevant audit documentation if not prohibited by law or regulation.

A60. Where a member of the group engagement team is also a component auditor, the objective for the group engagement team to communicate clearly with the component auditor can often be achieved by means other than specific written communication. For example:

- Access by the component auditor to the overall audit strategy and audit plan may be sufficient to communicate the group engagement team's requirements set out in paragraph 40; and
- A review of the component auditor's audit documentation by the group engagement team may be sufficient to communicate matters relevant to the group engagement team's conclusion set out in paragraph 41.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Reviewing the Component Auditor's Audit Documentation (Ref: Para. 42(b))

A61. What parts of the audit documentation of the component auditor will be relevant to the group audit may vary depending on the circumstances. Often the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review may be affected by the fact that the component auditor's audit documentation has been subjected to the component auditor's firm's review procedures.

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

A62. If the group engagement team concludes that sufficient appropriate audit evidence on which to base the group audit opinion has not been obtained, the group engagement team may request the component auditor to perform additional procedures. If this is not feasible, the group engagement team may perform its own procedures on the financial information of the component.

A63. The group engagement partner's evaluation of the aggregate effect of any misstatements (either identified by the group engagement team or communicated by component auditors) allows the group engagement partner to determine whether the group financial statements as a whole are materially misstated.

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

Communication with Group Management (Ref: Para. 46-48)

A64. ISA (NZ) 240[23] contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.

[23] ISA (NZ) 240, paragraphs 40 – 42.

A65. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

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

NZA65.1 In the public sector, group management may not always be readily identifiable at the whole of government level. Furthermore, responsibility for internal control may remain at individual entity level only. In such cases, the auditor determines the appropriate level of management with whom to communicate.

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

A66. The matters the group engagement team communicates to those charged with governance of the group may include those brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group takes place at various times during the group audit. For example, the matters referred to in paragraph 49(a)-(b) may be communicated after the group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 49(c) may be communicated at the end of the audit, and the matters referred to in paragraph 49(d)-(e) may be communicated when they occur.

Appendix 1

(Ref: Para. A19)

Example of a Qualified Opinion Where the Group Engagement Team is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion

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

The group engagement team has read the audited financial statements of the component as of December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.

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

INDEPENDENT AUDIT REPORT

To the Shareholders of ABC Limited

Report on the Financial Statements

We have audited the financial statements of ABC Limited and group, on pages ….. to ….. which comprise the consolidated and separate balance sheets of ABC Limited as at December 31, 20X1, the consolidated and separate income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the separate financial statements and consolidated cash flows and our qualified audit opinion on the consolidated financial position and the consolidated financial performance.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Limited or any of its subsidiaries.

Basis for Qualified Opinion on the Group Financial Position and Financial Performance

ABC Limited's investment in XYZ Limited, a foreign associate acquired during the year and accounted for by the equity method, is carried at $15 million on the consolidated balance sheet as at December 31, 20X1, and ABC's share of XYZ's net income of $1 million is included in the consolidated income statement for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion on the Group Financial Position and Financial Performance

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements on pages …. to ….:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of ABC Limited group as at December 31, 20X1 and the financial performance of the group for the year ended on that date.

Opinion on the Separate Financial Statements and the Group Cash Flows

In our opinion, the financial statements on pages …. to …. give a true and fair view of the financial position of ABC Limited as at December 31, 20X1 and its financial performance and the cash flows of ABC Limited and group for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- In the above respect alone we have not obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by the company as far as appears from our examination of those records.

[Add any matters required to be included under any other legislation or regulation.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

If, in the group engagement partner's judgement, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA (NZ) 705.

Appendix 2
(Ref: Para. A23)

Examples of Matters about which the Group Engagement Team Obtains an Understanding

The examples provided cover a broad range of matters; however, not all matters are relevant to every group audit engagement and the list of examples is not necessarily complete.

Group-Wide Controls

1. Group-wide controls may include a combination of the following:
   - Regular meetings between group and component management to discuss business developments and to review performance.
   - Monitoring of components' operations and their financial results, including regular reporting routines, which enables group management to monitor components' performance against budgets, and to take appropriate action.
   - Group management's risk assessment process, that is, the process for identifying, analysing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.
   - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealised profits, and intra-group account balances at group level.
   - A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components.
   - A central IT system controlled by the same general IT controls for all or part of the group.
   - Control activities within an IT system that is common for all or some components.
   - Monitoring of controls, including activities of the internal audit function and self-assessment programmes.
   - Consistent policies and procedures, including a group financial reporting procedures manual.
   - Group-wide programmes, such as codes of conduct and fraud prevention programmes.
   - Arrangements for assigning authority and responsibility to component management.
2. The ~~I~~internal audit function may be regarded as part of group-wide controls, for example, when the ~~internal audit~~ function is centralised. ISA (NZ) 610 (Revised 2013)[24] deals with the group engagement team's evaluation of ~~the~~ whether the internal audit function's organisational status and relevant policies and procedures adequately supports the ~~competence and~~ objectivity of ~~the~~ internal auditors, the level of competence of the internal audit function, and whether the function applies a

[24] ISA (NZ) 610 (Revised 2013), "Using the Work of Internal Auditors," paragraphs 16-17~~9~~.

systematic and disciplined approach where the group engagement team expects ~~it plans~~ to use ~~their~~ the function's work.

Consolidation Process

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

   Matters relating to the applicable financial reporting framework:

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

   Matters relating to the consolidation process:

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

Matters relating to consolidation adjustments:

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

Appendix 3

(Ref: Para. A30)

Examples of Conditions or Events that May Indicate Risks of Material Misstatement of the Group Financial Statements

The examples provided cover a broad range of conditions or events; however, not all conditions or events are relevant to every group audit engagement and the list of examples is not necessarily complete.

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

Appendix 4

(Ref: Para. A35)

Examples of a Component Auditor's Confirmations

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

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

[Component Auditor Letterhead]

[Date]

[To Group Engagement Partner]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements give a true and fair view of the financial position of the group as of [date] and of its financial performance and cash flows for the year then ended.

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 we understand them. / We would appreciate it if you could clarify the following instructions [specify instructions].
3. We will cooperate with you and provide you with access to relevant audit documentation.

We acknowledge that:

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

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

1. We have an understanding of Professional and Ethical Standard 1 (Revised)[25] issued by the ~~External Reporting~~New Zealand Auditing and Assurance Standards Board ~~and~~

[25] PES-1 (Revised), "Code of ~~Ethical~~ EthicsStandards for Assurance ~~Providers~~Practitioners~~.~~"

~~Professional and Ethical Standard 2~~[26](~~together~~ referred to as "Ethical Standards") that is sufficient to fulfill our responsibilities in the audit of the group financial statements, and will comply therewith. In particular, and with respect to [name of parent] and the other components in the group, we are independent within the meaning of Ethical Standards .

2. We have an understanding of the International Standards on Auditing (New Zealand) that is sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of [name of component] for the year ended [date] in accordance with those standards.

3. We possess the special skills (for example, industry specific knowledge) necessary to perform the work on the financial information of the particular component.

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

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

[Auditor's signature]

[Date]

[Auditor's address]

~~[26] PES 2, "Independence in Assurance Engagements."~~

Appendix 5

(Ref: Para. A58)

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this ISA (NZ) to be communicated to the component auditor are shown in italicised text.

Matters that are relevant to the planning of the work of the component auditor:

- A request for the component auditor, knowing the context in which the group engagement team will use the work of the component auditor, to confirm that the component auditor will cooperate with the group engagement team.
- The timetable for completing the audit.
- Dates of planned visits by group management and the group engagement team, and dates of planned meetings with component management and the component auditor.
- A list of key contacts.
- The work to be performed by the component auditor, the use to be made of that work, and arrangements for coordinating efforts at the initial stage of and during the audit, including the group engagement team's planned involvement in the work of the component auditor.
- The ethical requirements that are relevant to the group audit and, in particular, the independence requirements, for example, where the auditor is prohibited by law or regulation from obtaining direct assistance from using internal auditors to provide direct assistance, it is relevant for the group auditors to consider whether the prohibition also extends to component auditors and if so, to address this in the communication to the component auditors[27].
- In the case of an audit or review of the financial information of the component, component materiality (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures), and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.
- A list of related parties prepared by group management, and any other related parties that the group engagement team is aware of, and a request that the component auditor communicates on a timely basis to the group engagement team related parties not previously identified by group management or the group engagement team.
- Work to be performed on intra-group transactions and unrealised profits and intra-group account balances.
- Guidance on other statutory reporting responsibilities, for example reporting on group management's assertion on the effectiveness of internal control.
- Where time lag between completion of the work on the financial information of the components and the group engagement team's conclusion on the group financial statements is likely, specific instructions for a subsequent events review.

[27] ISA (NZ) 610 (Revised 2013), Using the Work of Internal Auditors, paragraph A31.

Matters that are relevant to the conduct of the work of the component auditor

- The findings of the group engagement team's tests of control activities of a processing system that is common for all or some components, and tests of controls to be performed by the component auditor.
- Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor, and a request that the component auditor communicates on a timely basis any other significant risks of material misstatement of the group financial statements, due to fraud or error, identified in the component and the component auditor's response to such risks.
- The findings of the internal audit function, based on work performed on controls at or relevant to components.
- A request for timely communication of audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which the group engagement team originally based the risk assessment performed at group level.
- A request for a written representation on component management's compliance with the applicable financial reporting framework, or a statement that differences between the accounting policies applied to the financial information of the component and those applied to the group financial statements have been disclosed.
- Matters to be documented by the component auditor.

Other information

- A request that the following be reported to the group engagement team on a timely basis:
    - Significant accounting, financial reporting and auditing matters, including accounting estimates and related judgements.
    - Matters relating to the going concern status of the component.
    - Matters relating to litigation and claims.
    - Significant deficiencies in internal control that the component auditor has identified during the performance of the work on the financial information of the component, and information that indicates the existence of fraud.
- A request that the group engagement team be notified of any significant or unusual events as early as possible.
- A request that the matters listed in paragraph 41 be communicated to the group engagement team when the work on the financial information of the component is completed.

ACCOMPANYING ATTACHMENT: SIMILARITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement accompanies but is not part of ISA (NZ) 600.

Conformity with International Standards on Auditing

This International Standard on Auditing (New Zealand) (ISA (NZ)) conforms to International Standard on Auditing ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors),* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to "management" and "those charged with governance" have been amended in the ISAs (NZ) because the statutory responsibility for the preparation of the financial statements rests with those charged with governance.

Compliance with this ISA (NZ) enables compliance with ISA 600.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors).*

ASA 600 conforms to ISA 600.