



## corporate | best practice in group audits

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The following eight point plan highlights areas where, based on the research, current procedures could be further developed to enhance the quality of group audits.

### 1. get organised

- start early and establish clear milestones
- provide very clear instructions and requirements for deliverables to other auditors
- get audit committee and management buy-in to the audit process and ensure they understand their responsibilities
- consider asking for information on planning and risk assessment, including fraud risk, prior to the year end
- keep in regular contact with the key group parties
- use more telephone and conference calls, rather than relying solely on letters and email
- where appropriate visit other auditors and subsidiary management.

### 2. analyse the group structure

- focus attention on the more unusual corporate structures
- if there are doubts about the group structure, verify it against publicly available information
- consider whether to accept an engagement where the group auditor is only directly responsible for a minority of the total group
- understand the accounting framework applicable to each component and any local statutory reporting requirements.

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### 3. focus on the quality of other auditors

- consider the qualifications, independence and competence of other auditors up front, along with their quality control procedures
- for related auditors (those who have common quality control policies and procedures) group auditors may be able to rely on those common policies and procedures, consider:
  - visiting the other auditor
  - requesting that the other auditor completes a questionnaire for representation
  - obtaining confirmation from a relevant regulatory body
  - discussing the other auditor with colleagues from their own firm
- for other auditors based overseas, consider whether they have enough knowledge and experience of ISAs (UK and Ireland)

### 4. focus the group audit on high risk areas

- group auditors need to ask for enough information from other auditors to form their own conclusion on significant risks arising in components that affect the group financial statements. Focus attention on the five warning signs identified by respondents to the research:
  - recently acquired components
  - jurisdictions with under developed financial reporting regimes
  - components which are just 'below the radar'
  - components that have a history of reporting late
  - components that have had big swings in their profits
- consider the risks arising from the consolidation process itself, including the use of journals and incomplete information relating to adjustments between accounting frameworks or to align accounting policies
- discuss fraud risks with other auditors as appropriate.

### 5. understand internal controls across the group

- request details of material weaknesses in internal control identified by other auditors
- communicate material weaknesses in group-wide controls and significant weaknesses in internal controls of components to group management and those charged with governance of the group

### 6. ensure staff understand the technical complexities of group audits and know when to bring in specialist help

- consider areas of particular concern, where it is important that practitioners are aware of the main issues and bring in expertise where it is needed:

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- a) differing accounting frameworks and policies
  - b) intra group transactions and balances
  - c) fair values on acquisitions
  - d) capturing post-balance sheet events
  - e) intangibles
  - f) the basis and calculation of share options, bonuses
  - g) deferred tax

- plan early any specialist involvement, for example the use of a tax expert to deal with international tax issues or a valuation expert for share options.

## 7. review other auditors' working papers

- group and other auditors should co-operate as regards sharing of information unless prohibited by law. Appropriate use of hold harmless letters may be used to manage risk
- get group management to obtain the consent of subsidiary management to communicate with the group auditor to deal with concerns about client confidentiality and sensitivity
- consider whether holding discussions with or visiting other auditors could deal with secrecy and data-protection issues

## 8. review and update procedures, training and tools

- provide formal training on group audits to supplement on-the-job-experience.
- review standard questionnaires, if any, for effectiveness.
- make sure that training materials and manuals are updated to reflect the new ISA (UK and Ireland) 600 in good time

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