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International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance when an auditor, reporting on the financial statements of an entity, uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity. This ISA does not deal with those instances where two or more auditors are appointed as joint auditors nor does it deal with the auditor's relationship with a predecessor auditor. Further, when the principal auditor concludes that the financial statements of a component are immaterial, the standards in this ISA do not apply. When, however, several components, immaterial in themselves, are together material, the procedures outlined in this ISA would need to be considered.
2. **When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit.**
3. "Principal auditor" means the auditor with responsibility for reporting on the financial statements of an entity when those financial statements include financial information of one or more components audited by another auditor.
4. "Other auditor" means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial statements audited by the principal auditor. Other auditors include affiliated firms, whether using the same name or not, and correspondents, as well as unrelated auditors.
5. "Component" means a division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in financial statements audited by the principal auditor.

Acceptance as Principal Auditor

6. **The auditor should consider whether the auditor's own participation is sufficient to be able to act as the principal auditor.** For this purpose the principal auditor would consider:
 - (a) the materiality of the portion of the financial statements which the principal auditor audits;
 - (b) the principal auditor's degree of knowledge regarding the business of the components;
 - (c) the risk of material misstatements in the financial statements of the components audited by the other auditor; and
 - (d) the performance of additional procedures as set out in this ISA regarding the components audited by the other auditor resulting in the principal auditor having significant participation in such audit.

The Principal Auditor's Procedures

7. **When planning to use the work of another auditor, the principal auditor should consider the professional competence of the other auditor in the context of the specific assignment.** Some of the sources of information for this consideration could be common membership of a professional organization, common membership of, or affiliation, with another firm or reference to the professional organization to which the other auditor belongs. These sources can be supplemented when appropriate by inquiries with other auditors, bankers, etc. and by discussions with the other auditor.
8. **The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor's purposes, in the context of the specific assignment.**
9. The principal auditor would advise the other auditor of:
 - (a) the independence requirements regarding both the entity and the component and obtain written representation as to compliance with them;
 - (b) the use that is to be made of the other auditor's work and report and make sufficient arrangements for the coordination of their efforts at the initial planning stage of the audit. The principal auditor would inform the other auditor of matters such as areas requiring special consideration, procedures for the identification of intercompany transactions that may require disclosure and the timetable for completion of the audit; and
 - (c) the accounting, auditing and reporting requirements and obtain written representation as to compliance with them.
10. The principal auditor might also, for example, discuss with the other auditor the audit procedures applied, review a written summary of the other auditor's procedures (which may be in the form of a questionnaire or checklist) or review working papers of the other auditor. The principal auditor may wish to perform these procedures during a visit to the other auditor. The nature, timing and extent of procedures will depend on the circumstances of the engagement and the principal auditor's knowledge of the professional competence of the other auditor. This knowledge may have been enhanced from the review of previous audit work of the other auditor.
11. The principal auditor may conclude that it is not necessary to apply procedures such as those described in paragraph 10 because sufficient appropriate audit evidence previously obtained that acceptable quality control policies and procedures are complied with in the conduct of the other auditor's practice. For example, when they are affiliated firms the principal auditor and the other auditor may have a continuing, formal relationship providing for procedures that give that audit evidence such as periodic inter-firm review, tests of operating policies and procedures and review of working papers of selected audits.

12. **The principal auditor should consider the significant findings of the other auditor.**
13. The principal auditor may consider it appropriate to discuss with the other auditor and the management of the component, the audit findings or other matters affecting the financial information of the component and may also decide that supplementary tests of the records or the financial information of the component are necessary. Such tests may, depending on the circumstances, be performed by the principal auditor or the other auditor.
14. The principal auditor would document in the audit working papers the components whose financial information was audited by other auditors, their significance to the financial statements of the entity as a whole, the names of the other auditors and any conclusions reached that individual components are immaterial. The principal auditor would also document the procedures performed and the conclusions reached. For example, working papers of the other auditor that have been reviewed would be identified and the results of discussions with the other auditor would be recorded. However, the principal auditor need not document the reasons for limiting the procedures in the circumstances described in paragraph 11, provided those reasons are summarized elsewhere in documentation maintained by the principal auditor's firm.

Cooperation Between Auditors

15. **The other auditor, knowing the context in which the principal auditor will use the other auditor's work, should cooperate with the principal auditor.** For example, the other auditor would bring to the principal auditor's attention any aspect of the other auditor's work that cannot be carried out as requested. Similarly, subject to legal and professional considerations, the other auditor will need to be advised of any matters that come to the attention of the principal auditor which may have an important bearing on the other auditor's work.

Reporting Considerations

16. **When the principal auditor concludes that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation in the scope of the audit.**
17. If the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor would consider whether the subject of the modification is of such a nature and significance, in relation to the financial statements of the entity on which the principal auditor is reporting, that a modification of the principal auditor's report is required.

Division of Responsibility

18. While compliance with the guidance in the preceding paragraphs is considered desirable, the local regulations of some countries permit a principal auditor to base the audit opinion on the financial statements taken as a whole solely upon the report of another auditor regarding the audit of one or more components. **When the principal auditor does so, the principal auditor's report should state this fact clearly and should indicate the magnitude of the portion of the financial statements audited by the other auditor.** When the principal auditor makes such a reference in the auditor's report, audit procedures are ordinarily limited to those described in paragraphs 7 and 9.

Public Sector Perspective

1. *The basic principles in this ISA apply to the audit of financial statements in the public sector, however, supplementary guidance on additional considerations when using the work of other auditors in the public sector is needed. For example, the principal auditor in the public sector has to ensure that, where legislation has prescribed compliance with a particular set of auditing standards, the other auditor has complied with those standards. In respect to public sector entities, the Public Sector Committee has supplemented the guidance included in this ISA in its Study 4 "Using the Work of Other Auditors—A Public Sector Perspective."*