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Optimizing Audit Processes for Spanish Subsidiaries of German Multinationals: Challenges and Best Practices

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ABSTRACT

This thesis explores the optimization of audit processes for Spanish subsidiaries of German multinational corporations, focusing on challenges arising from cross-border regulatory divergence and the application of International Standards on Auditing, particularly ISA 600 (Revised). It analyses how differences between IFRS, the German Commercial Code (HGB), and the Spanish General Accounting Plan (PGC) affect audit quality, efficiency, and coordination in group audits.

The theoretical analysis highlights inconsistencies in consolidation rules, control definitions, and goodwill treatment across these frameworks. These differences create procedural difficulties for auditors and complicate the consolidation of financial statements.

A qualitative methodology based on interviews has been employed to gain insights from audit professionals on these challenges and potential solutions.

To address these issues, the study proposes a series of optimization strategies, such as adopting standardized audit templates, strengthening auditor training, implementing formal cross-border communication protocols, and introducing integrated consolidation tools. These measures aim to improve audit consistency, reduce errors, and ensure regulatory compliance.

The thesis sets the foundation for future research focused on the role of technology in auditing and the long-term effects of ISA 600 (Revised) on multinational group audits.

Keywords: group audits, ISA 600 (Revised), IFRS, HGB, PGC, audit optimization, cross-border regulation, consolidation tools.

RESUMEN

Esta tesis explora la optimización de los procesos de auditoría en las filiales españolas de corporaciones multinacionales alemanas, centrándose en los desafíos derivados de la divergencia regulatoria transfronteriza y en la aplicación de las Normas Internacionales de Auditoría, en particular la ISA 600 (Revisada). Se analiza cómo las diferencias entre las NIIF, el Código de Comercio Alemán (HGB) y el Plan General de Contabilidad español (PGC) afectan a la calidad, eficiencia y coordinación en las auditorías de grupo.

El análisis teórico pone de relieve las inconsistencias en las normas de consolidación, las definiciones de control y el tratamiento del fondo de comercio en estos marcos normativos. Estas diferencias generan dificultades procedimentales para los auditores y complican la consolidación de los estados financieros.

Se ha empleado una metodología cualitativa basada en entrevistas para obtener perspectivas de profesionales de la auditoría sobre estos desafíos y posibles soluciones.

Para abordar estas cuestiones, el estudio propone una serie de estrategias de optimización, como la adopción de plantillas de auditoría estandarizadas, el fortalecimiento de la formación de los auditores, la implementación de protocolos formales de comunicación transfronteriza y la introducción de herramientas integradas de consolidación. Estas medidas tienen como objetivo mejorar la consistencia de las auditorías, reducir errores y garantizar el cumplimiento normativo.

La tesis sienta las bases para futuras investigaciones centradas en el papel de la tecnología en la auditoría y los efectos a largo plazo de la ISA 600 (Revisada) en las auditorías de grupos multinacionales.

Palabras clave: auditoría de grupo, ISA 600 (Revisada), NIIF, HGB, PGC, optimización de auditoría, regulación transfronteriza, herramientas de consolidación.

RESUM

Aquesta tesi explora l'optimització dels processos d'auditoria a les filials espanyoles de corporacions multinacionals alemanyes, centrant-se en els reptes derivats de la divergència reguladora transfronterera i en l'aplicació de les Normes Internacionals d'Auditoria, en particular la ISA 600 (Revisada). S'analitza com les diferències entre les NIIF, el Codi de Comerç Alemany (HGB) i el Pla General de Comptabilitat espanyol (PGC) afecten la qualitat, l'eficiència i la coordinació en les auditories de grup.

L'anàlisi teòrica posa en relleu les inconsistències en les normes de consolidació, les definicions de control i el tractament del fons de comerç entre aquests marcs normatius. Aquestes diferències generen dificultats procedimentals per als auditors i compliquen la consolidació dels estats financers.

S'ha emprat una metodologia qualitativa basada en entrevistes per obtenir perspectives de professionals de l'auditoria sobre aquests reptes i possibles solucions.

Per fer front a aquestes qüestions, l'estudi proposa una sèrie d'estratègies d'optimització, com ara l'adopció de plantilles d'auditoria estandarditzades, l'enfortiment de la formació dels auditors, la implementació de protocols formals de comunicació transfronterera i la introducció d'eines integrades de consolidació. Aquestes mesures tenen com a objectiu millorar la coherència de les auditories, reduir els errors i garantir el compliment normatiu.

La tesi estableix les bases per a futures investigacions centrades en el paper de la tecnologia en l'auditoria i els efectes a llarg termini de la ISA 600 (Revisada) en les auditories de grups multinacionals.

Paraules clau: auditoria de grup, ISA 600 (Revisada), NIIF, HGB, PGC, optimització de l'auditoria, regulació transfronterera, eines de consolidació

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I. INTRODUCTION

In today's globalized economy, multinational corporations operate within increasingly complex legal, financial, and regulatory environments. One of the most challenging areas where this complexity becomes evident is in the auditing of consolidated financial statements, particularly when parent companies and their subsidiaries are subject to differing national accounting and auditing frameworks. This thesis focuses on a specific and highly relevant case: German multinational corporations with subsidiaries located in Spain. It aims to analyze the distinctive challenges that arise when auditing these Spanish components as part of a group audit.

The relevance of this study stems from the growing importance of cross-border financial reporting and the need for consistent, high-quality audits within multinational structures. The divergence between International Financial Reporting Standards (IFRS), the German Commercial Code (HGB), and the Spanish General Accounting Plan (PGC) creates a fragmented regulatory landscape. This fragmentation increases the risk of audit inefficiencies and inconsistent financial reporting. The motivation for this research lies in the observable gap between the theoretical foundations of international auditing standards and their practical implementation in cross-jurisdictional contexts. Moreover, the limited academic focus on audits involving German-Spanish corporate structures justifies the need for targeted investigation and analysis.

In addition, the research aligns with several United Nations Sustainable Development Goals (SDGs). In particular:

- Goal 8 – Decent Work and Economic Growth: By proposing improvements in audit efficiency and quality, this thesis contributes to strengthening financial governance and transparency, essential pillars for fostering sustainable economic growth and business integrity.
- Goal 9 – Industry, Innovation and Infrastructure: The study emphasizes the role of technological tools and standardized audit processes in modernizing auditing practices, encouraging innovation in a traditionally conservative field.
- Goal 16 – Peace, Justice and Strong Institutions: Promoting reliable financial information and accountability across borders reinforces trust in institutions and supports the development of more transparent and resilient corporate governance systems.

The central hypothesis of the thesis is that the efficiency and quality of group audits are negatively impacted by regulatory divergence among IFRS, HGB, and PGC. These differences, when combined with operational fragmentation, technological limitations, and inadequate coordination between group and component auditors, lead to inefficiencies, elevated audit risk, and potential inconsistencies in consolidated financial statements.

To explore this hypothesis and respond to the research questions, the study adopts a qualitative research methodology, specifically a case study approach centred on Rödl &

Partner’s audit operations in Spain. Semi-structured interviews were conducted with audit professionals from the firm's Barcelona office. This empirical component provides first-hand insights into real-world challenges faced during cross-border audits. The data collected through these interviews is analysed using thematic analysis, enabling the identification of recurring patterns and practical bottlenecks in the audit process. The findings are then evaluated against the theoretical expectations set by ISA 600 (Revised) and other relevant standards.

The thesis is structured into six chapters:

- Chapter I – Introduction: Outlines the research problem, motivation, objectives, hypothesis, and structure of the study.
- Chapter II – Theoretical Framework: Examines IFRS, HGB, PGC, and ISA 600, analysing their roles in consolidation and identifying regulatory gaps.
- Chapter III – Methodology: Details the research design, interview strategy, data analysis method, and the rationale behind the qualitative approach.
- Chapter IV – Challenges in Auditing Spanish Subsidiaries: Discusses both theoretical and empirical findings, emphasizing the difficulties of cross-border audit coordination, regulatory divergence, and technological limitations.
- Chapter V – Best Practices and Optimization Strategies: Proposes actionable recommendations to improve audit consistency, communication, and technological integration in group audits.
- Chapter VI – Conclusions and Recommendations: Summarizes the key insights, evaluates the impact of the proposed optimizations, and offers suggestions for future research directions.

This thesis would not have been possible without the valuable contributions of the audit professionals at Rödl & Partner, whose time and openness were essential to this research. I also extend my sincere gratitude to my academic advisor for their continued guidance, critical feedback, and encouragement throughout the development of this study.

II. OBJECTIVES

This thesis aims to analyse and improve the auditing processes applied to Spanish subsidiaries of German multinational corporations, within the context of group audits governed by diverse regulatory frameworks. The primary objective is to identify critical obstacles arising from regulatory divergence, coordination challenges, and technological limitations, and to propose practical solutions to enhance audit quality, consistency, and efficiency in cross-border engagements.

The main objective is to examine the main challenges in auditing Spanish subsidiaries of German multinational companies and to develop strategic recommendations for optimizing group audit processes considering international auditing standards and regulatory divergence. The specific objectives are the following:

1. To identify technical and procedural bottlenecks encountered during the audit of Spanish subsidiaries, particularly those related to intercompany eliminations, reconciliation issues, and differing consolidation methodologies.

2. To evaluate the applicability and effectiveness of ISA 600 (Revised) in real-world group audit scenarios involving auditors in Germany and Spain, and to assess its practical strengths and limitations.

3. To compare the main differences between IFRS, the German Commercial Code (HGB), and the Spanish General Accounting Plan (PGC) in the context of consolidation audits and determine how these differences affect audit coordination and reporting quality.

4. To gather qualitative insights from audit professionals through semi-structured interviews in order to understand how theoretical standards are applied in practice and where they fall short.

5. To propose a set of actionable recommendations aimed at standardizing procedures, improving communication between group and component auditors, and leveraging technology to streamline the audit process.

By achieving these objectives, the study seeks to contribute to the broader goal of strengthening audit reliability and promoting better alignment across national and international auditing frameworks in multinational corporate environments.

III. THEORETICAL FRAMEWORK

Spanish subsidiaries play a critical role in the financial consolidation process of German parent companies, as they must comply with both local (Spanish GAAP) and international (IFRS or German GAAP - HGB) accounting standards. This dual reporting requirement often creates discrepancies that auditors must resolve before the final consolidation. Additionally, strict time constraints in financial reporting cycles add pressure to the audit process, making it challenging to detect and correct errors before group-level financial statements are finalized (International Federation of Accountants [IFAC], 2020).

A key issue in these audits is effective coordination between Spanish auditors (component auditors) and German headquarters (group auditors). Language barriers, differences in audit methodologies, and the use of non-standardized reporting formats can lead to misinterpretations and inefficiencies. Furthermore, technological limitations in audit tools and real-time collaboration methods can cause delays in data exchange, reducing the effectiveness of the audit process (Institute of Internal Auditors [IIA], 2020).

Financial auditing and consolidation processes are governed by a structured set of international, national, and industry-specific regulations. These frameworks ensure consistency, accuracy, and compliance in financial reporting, particularly for multinational corporations operating across different jurisdictions (IFAC, 2020). The applicable regulations can be classified into accounting standards, which define the principles for financial reporting, and auditing standards, which provide guidelines for conducting audits.

At the broadest level, International Financial Reporting Standards (IFRS) serve as a globally recognized framework for financial reporting. IFRS, developed by the International Accounting Standards Board (IASB), establishes a common accounting language that enhances transparency and comparability across companies worldwide. These standards are particularly relevant for multinational corporations and companies listed on international stock exchanges, as they facilitate cross-border financial reporting and consolidation (IFAC, 2022).

At the national level, countries have their own accounting regulations that align to varying degrees with IFRS. In Germany, the Handelsgesetzbuch (HGB), or German Commercial Code, dictates financial reporting requirements, particularly for companies that are not required to apply IFRS. While HGB is more conservative and emphasizes creditor protection, IFRS focuses on providing relevant financial information to investors. Similarly, in Spain, the Plan General de Contabilidad (PGC) establishes financial reporting principles, largely aligned with IFRS but incorporating local adaptations. Spanish GAAP applies primarily to domestic companies, though IFRS is required for consolidated financial statements of listed entities (International Federation of Accountants [IFAC], 2020).

Beyond accounting standards, auditing plays a crucial role in ensuring financial statement integrity. International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB), provide a globally accepted framework for conducting audits. These standards outline the responsibilities of auditors, risk assessment methodologies, fraud detection procedures, and requirements for auditing consolidated financial statements (International Federation of Accountants [IFAC], 2022).

Among the most relevant ISAs, ISA 200 defines the overall objectives of an audit, while ISA 240 focuses on fraud risk. ISA 315 provides guidance on identifying and assessing risks of material misstatement, and ISA 330 dictates how auditors should respond to these risks. Most importantly for financial consolidation, ISA 600 (Revised) establishes the principles for auditing group financial statements, emphasizing coordination between the group auditor and component auditors in subsidiaries. Given the complexity of consolidating financial data across multiple entities, ISA 600 ensures that audits are conducted consistently across all components of a corporate group (International Federation of Accountants [IFAC], 2020).

By integrating these accounting and auditing standards, multinational corporations can achieve compliance with both local and international regulations, ensuring transparent, consistent, and reliable financial reporting. The following sections will delve deeper into each of these regulatory frameworks, highlighting their role in financial consolidation and audit processes. Having established an overview of the key accounting and auditing frameworks, we will now explore each regulation in greater detail. The objective is to identify potential inefficiencies, regulatory gaps, or areas for optimization within the auditing process of consolidated financial statements. By examining IFRS, HGB, Spanish GAAP, and ISAs, we aim to determine where improvements can be made to enhance audit efficiency and compliance (International Federation of Accountants [IFAC], 2022).

1. International Financial Reporting Standards (IFRS) and Their Role in Audit and Consolidation

1.1. Overview of IFRS in Financial Reporting and Consolidation

International Financial Reporting Standards (IFRS) are a globally recognized set of accounting principles issued by the International Accounting Standards Board (IASB). These standards are designed to ensure transparency, comparability, and consistency in financial reporting across different jurisdictions. IFRS is particularly relevant for multinational corporations, as it facilitates the consolidation of financial statements from subsidiaries operating under different regulatory environments (International Accounting Standards Board [IASB], 2020).

One of the most critical IFRS standards for financial consolidation is IFRS 10 – Consolidated Financial Statements. This standard establishes the principles for presenting and preparing consolidated financial statements when an entity controls one or more subsidiaries. IFRS 10 defines the concept of "control" as having power over the investee, exposure to variable returns, and the ability to influence returns through control over the entity’s operations. This principle-based approach contrasts with the more rule-based criteria used in national regulations such as HGB and Spanish GAAP (IASB, 2020).

Another key standard is IFRS 3 – Business Combinations, which governs how entities recognize and measure assets, liabilities, and goodwill during acquisitions. Additionally, IFRS 12 – Disclosure of Interests in Other Entities sets disclosure requirements for consolidated financial statements, ensuring transparency regarding the structure and financial risks associated with subsidiaries, joint ventures, and associates (IASB, 2020).

1.2. IFRS and Auditing Considerations in Consolidation

The application of IFRS in consolidation has significant implications for auditing. Auditors must verify whether companies correctly apply the control criteria under IFRS 10, properly measure acquired entities under IFRS 3, and disclose sufficient information as required by IFRS 12. Since IFRS uses a principles-based approach, auditors must exercise professional judgment in assessing whether consolidation criteria have been met, unlike the more prescriptive rules-based frameworks in Germany and Spain (International Accounting Standards Board [IASB], 2020).

One of the biggest challenges in auditing consolidated financial statements under IFRS is ensuring consistency in applying accounting policies across all subsidiaries. Since IFRS allows for some level of judgment, inconsistencies may arise when different auditors or subsidiaries interpret consolidation rules differently. This is particularly relevant when subsidiaries are located in countries following local GAAPs, such as HGB or Spanish GAAP, which may have stricter or different recognition and measurement criteria (IASB, 2020).

Another challenge is the audit of intercompany transactions and eliminations. Under IFRS, intra-group transactions must be eliminated in the consolidation process. Auditors must verify whether companies properly adjust for intercompany sales, expenses, and balances. The lack of standardized audit procedures across different jurisdictions can create inefficiencies in this process (International Federation of Accountants [IFAC], 2020).

1.3. Challenges and Potential Gaps in IFRS Auditing

While IFRS offers a flexible and internationally recognized framework for financial consolidation, several inefficiencies and gaps persist in the auditing process. One major challenge stem from the principles-based nature of IFRS, which allows for varying interpretations of control and valuation criteria across different auditors and subsidiaries, potentially leading to inconsistencies in financial reporting (International Accounting Standards Board [IASB], 2020).

Another significant issue is the complexity of reconciliation between IFRS financial statements and those prepared under HGB or Spanish GAAP. Auditors must navigate these differences, which can be time-consuming and resource-intensive, particularly when aligning adjustments related to measurement and recognition policies (IASB, 2020).

In addition, group audits require extensive coordination between auditors operating in different jurisdictions. The absence of fully standardized audit procedures across IFRS and national GAAP frameworks can lead to inefficiencies, misalignments, and delays in the audit process (International Federation of Accountants [IFAC], 2020).

Furthermore, intercompany transactions pose a recurring challenge, as ensuring the correct elimination of intra-group transactions requires auditors to reconcile multiple reporting systems and accounting policies. Differences in timing, recognition methods, and data availability can further complicate this process (IFAC, 2020).

These challenges highlight critical areas for audit optimization, particularly in risk assessment, communication between component auditors, and standardization of procedures. By addressing these gaps, auditors can significantly enhance efficiency, improve audit quality, and ensure greater consistency in the financial consolidation process.

2. German Commercial Code (HGB) and Its Role in Auditing and Consolidation

2.1. Overview of HGB in Financial Reporting and Consolidation

The Handelsgesetzbuch (HGB), or German Commercial Code, serves as the primary legal framework for financial reporting in Germany. Unlike IFRS, which is principles-based, the HGB follows a rules-based approach, emphasizing prudence, creditor protection, and tax alignment rather than investor-focused transparency (International Federation of Accountants [IFAC], 2020).

HGB applies to all companies operating in Germany, but listed companies and certain large entities are required to prepare consolidated financial statements under IFRS. Non-listed companies, including many family-owned businesses and small to medium-sized enterprises (SMEs), typically report under HGB only (IFAC, 2020).

In the context of financial consolidation, HGB includes specific rules under Sections 290-315 HGB, which regulate when and how a parent company must consolidate subsidiaries. While IFRS defines consolidation based on control (power over an entity's financial and operational policies), HGB follows a more legalistic approach, focusing on formal ownership and voting rights. This distinction has major implications for audit procedures, risk assessment, and the treatment of goodwill in financial statements (International Accounting Standards Board [IASB], 2020).

2.2. Auditing Under HGB: Key Considerations

The rules-based approach of the HGB significantly influences the auditing process, particularly in the context of consolidated financial statements. Audits under the HGB framework focus on legal control, prudence, and strict compliance with formal regulations, shaping the methodology auditors must follow (Institut der Wirtschaftsprüfer [IDW], 2020).

One of the primary factors in HGB consolidation is legal control as the basis for consolidation. A company is required to consolidate a subsidiary if it holds the majority of voting rights (over 50%) or has a controlling influence based on legal ownership structures. Unlike IFRS, which applies an economic control model that considers the power to direct financial and operational policies, HGB relies primarily on legal contracts and formal ownership agreements to determine consolidation requirements (Handelsgesetzbuch [HGB], 2020).

Another key aspect is the treatment of goodwill and amortization in consolidated statements. Under HGB, goodwill is systematically amortized over time, typically over ten years, unless another useful life can be justified. Unlike IFRS, which requires annual impairment testing based on fair value assessments, this approach ensures a predictable and consistent expense recognition, reducing the impact of subjective impairment judgments on financial statements (HGB, 2020).

The principle of prudence (Vorsichtsprinzip) plays a crucial role in HGB financial reporting and auditing. This principle requires financial statements to avoid overstatement of assets and income, ensuring a conservative representation of a company's financial position. Auditors must carefully review financial reports to verify that they prioritize stability and risk mitigation over short-term profitability (IDW, 2020).

Regarding consolidation adjustments, HGB establishes strict rules for eliminating intra-group transactions to prevent double counting within the consolidated financial statements. Transactions such as intercompany sales and loans must be properly eliminated, ensuring that the consolidated financial position is not artificially inflated. Additionally, equity consolidation follows the book value method, meaning that investments in subsidiaries are recorded at their historical acquisition cost rather than fair market value. This contrasts with IFRS, which often applies a fair-value-based approach in business combinations (HGB, 2020).

In terms of audit execution, German auditors (Wirtschaftsprüfer) adhere to the IDW Auditing Standards, issued by the Institute of Public Auditors in Germany (IDW). These standards align closely with the HGB's legal framework, reinforcing compliance with formal rules rather than subjective evaluations of financial substance. Unlike IFRS audits, which focus on fair presentation and economic reality, HGB audits emphasize technical accuracy, legal conformity, and adherence to statutory requirements (IDW, 2020).

Overall, auditing under HGB follows a highly structured and compliance-driven approach, where auditors ensure that financial statements strictly reflect legal obligations rather than making broader interpretations of financial position or performance. This approach prioritizes regulatory certainty and creditor protection, reinforcing the stability of financial reporting in Germany's corporate environment (HGB, 2020).

2.3. Challenges and Potential Gaps in HGB Auditing

Despite its structured and rules-based approach, HGB-based consolidation audits present several challenges that can impact the accuracy and efficiency of financial reporting, particularly in an international context.

One key issue is the lack of flexibility in consolidation criteria. HGB strictly defines consolidation based on legal control, requiring a company to consolidate subsidiaries only if it holds the majority of voting rights (over 50%) or has a legally defined controlling influence. This approach means that economically controlled subsidiaries, which might be consolidated under IFRS due to managerial or operational control, may remain outside the consolidated financial statements under HGB. As a result, the group's financial position may not fully reflect economic reality, potentially impacting investors' and stakeholders' assessments (International Federation of Accountants [IFAC], 2020).

Another challenge lies in goodwill treatment discrepancies. Unlike IFRS, which requires annual impairment testing based on fair value, HGB mandates systematic amortization of goodwill, typically over ten years. While this method ensures predictable expense recognition, it can lead to significant differences in asset valuation and profitability when compared to IFRS-based reports. These differences create reconciliation difficulties in multinational audits, particularly when aligning the financial statements of German subsidiaries with IFRS-compliant parent companies (International Accounting Standards Board [IASB], 2020).

HGB's rules-based structure also limits professional judgment in auditing. While this enhances consistency and legal certainty, it can be a disadvantage in complex business structures where economic substance plays a more significant role than legal form. Auditors operating under HGB have less discretion in evaluating control and financial position, which may lead to less accurate representations of business reality in certain consolidation scenarios (IFAC, 2020).

Additionally, tax-oriented financial reporting under HGB adds another layer of complexity. Since HGB financial statements serve as the basis for tax reporting in Germany, auditors must ensure that adjustments made for IFRS compliance do not conflict with German tax regulations. This dual reporting obligation can complicate multinational group audits, requiring careful coordination between tax and audit professionals to maintain compliance across different frameworks (IASB, 2020).

Finally, disclosure limitations in HGB financial statements present transparency challenges. Compared to IFRS, HGB has fewer mandatory disclosures, which can lead to information gaps when consolidating subsidiaries into an IFRS-compliant parent company. These reduced disclosure requirements may impact stakeholders' ability to gain a comprehensive understanding of a company's financial position, particularly in cases where significant intercompany transactions or off-balance-sheet arrangements exist (IFAC, 2020).

Overall, while HGB provides a rigid and structured approach to consolidation audits, its legalistic focus, tax implications, and limited flexibility create challenges that must be carefully managed—especially in the context of multinational corporations and cross-border financial reporting.

3. Spanish Accounting Standards (PGC) and Their Impact on Auditing and Consolidation

3.1. Overview of HGB in Financial Reporting and Consolidation

The Plan General de Contabilidad (PGC) is the primary accounting framework in Spain, governing financial reporting for companies operating within the country. The PGC is largely influenced by both IFRS and the European Accounting Directives, incorporating a structured and rules-based approach while maintaining a strong emphasis on prudence and tax compliance. Unlike IFRS, which is primarily investor-oriented, the PGC prioritizes creditor protection and financial stability, leading to more conservative financial reporting practices (International Federation of Accountants [IFAC],2020). The PGC applies to all companies in Spain, with additional requirements for large corporations and listed entities, which must also adhere to IFRS for consolidated financial statements. Non-listed companies and small to medium-sized enterprises (SMEs) generally report only under PGC standards, unless they are subsidiaries of international groups required to comply with IFRS or other foreign accounting regulations (IFAC, 2020).

In the context of financial consolidation, the PGC provides specific rules under Royal Decree 1159/2010, which regulates when and how a parent company must consolidate its subsidiaries. While IFRS bases consolidation on the concept of control, the PGC follows a more structured and legal approach, primarily considering ownership percentage and voting rights to determine consolidation requirements (International Accounting Standards Board [IASB], 2020). Additionally, the PGC mandates goodwill amortization (rather than an impairment-only model), affecting the financial statements and requiring auditors to assess both goodwill valuation and impairment tests periodically. These differences have significant implications for audit procedures, risk assessment, and the treatment of intercompany transactions in consolidated financial reports (IFAC, 2020).

3.2. Auditing Under PGC: Key Considerations

Auditing financial statements prepared under the Plan General de Contabilidad (PGC) presents specific challenges due to its rules-based structure, emphasis on prudence, and alignment with tax regulations. These factors shape the way consolidation is performed and audited, requiring a detailed approach to subsidiary inclusion, intercompany transactions, goodwill treatment, and financial adjustments. Ensuring compliance with PGC consolidation rules is essential for auditors to verify the accuracy, completeness, and reliability of the consolidated financial statements (International Federation of Accountants [IFAC], 2020).

A primary consideration in PGC-based audits is determining whether all subsidiaries have been correctly consolidated. The PGC mandates that a parent company must consolidate entities where it exercises control, typically defined as holding more than 50% of voting rights or having the power to appoint the majority of the board of directors. Auditors must verify that the group structure is accurately reflected, ensuring that no subsidiaries that meet consolidation criteria are omitted. This process requires a thorough review of legal agreements, shareholder structures, and voting rights to confirm compliance with Royal Decree 1159/2010, which governs consolidation in Spain (International Federation of Accountants [IFAC], 2020).

Another key aspect is the elimination of intercompany transactions, which is critical in avoiding double counting of revenues, expenses, and balances within the corporate group. The PGC requires that all intra-group transactions—such as sales, loans, interest payments, and dividends—be eliminated in the consolidated financial statements. However, auditing these eliminations can be complex, particularly when subsidiaries use different accounting policies or when timing differences create reconciliation challenges. Auditors must carefully assess whether all intercompany balances have been properly adjusted, ensuring consistency across the group (International Accounting Standards Board [IASB], 2020).

The treatment of goodwill is another area of focus in PGC audits. Unlike IFRS, which requires impairment testing, the PGC mandates that goodwill be amortized over its useful life, typically not exceeding ten years. Auditors must verify that amortization schedules are correctly applied and that impairment reviews are conducted when necessary. Given the subjective nature of impairment assessments, auditors must ensure that assumptions and valuation methods used to determine goodwill impairment are reasonable and adequately supported by financial data (IFAC, 2020).

The principle of prudence (principio de prudencia), which is deeply embedded in Spanish accounting, also impacts audits by requiring a conservative approach to financial reporting. This principle dictates that companies must recognize expenses and liabilities as soon as they are foreseeable, while revenues should only be recognized when realized. While this ensures financial stability, it may also lead to understatement of income or overstatement of provisions, requiring auditors to evaluate whether the application of prudence is justified and does not distort the financial position of the group (IASB, 2020).

Finally, auditing consolidated financial statements under the PGC often requires reconciling differences between Spanish GAAP and IFRS, particularly for multinational companies. As subsidiaries of international groups may prepare their financial statements under IFRS or other national GAAPs, auditors must ensure that all necessary adjustments are made before consolidation under PGC. This process involves aligning accounting policies, adjusting financial instruments, and ensuring consistent valuation methods across the group, which can be time-consuming and require extensive documentation (IFAC, 2020).

In summary, auditing under the PGC requires a structured and meticulous approach, with a strong emphasis on consolidation accuracy, intercompany eliminations, goodwill amortization, and prudent financial reporting. Auditors play a crucial role in ensuring that the consolidated financial statements fairly represent the financial position of the group, addressing potential discrepancies between Spanish and international accounting standards while maintaining compliance with regulatory requirements (IASB, 2020).

3.3. Challenges and Potential Gaps in PGC Auditing

Auditing financial statements under the Plan General de Contabilidad (PGC) presents several challenges, particularly in the context of financial consolidation, regulatory compliance, and consistency in reporting. While the PGC provides a structured framework, its rules-based approach, emphasis on prudence, and differences from international standards can create gaps and inefficiencies in the auditing process. These challenges are particularly relevant for multinational corporations that must reconcile Spanish GAAP with IFRS or Handelsgesetzbuch (HGB), as well as for auditors seeking to ensure accuracy, transparency, and comparability in financial reporting.

One of the most significant challenges in PGC auditing is the consolidation process itself. The PGC establishes clear criteria for when a parent company must consolidate subsidiaries, primarily based on legal control and ownership structure. However, unlike IFRS, which emphasizes substantive control, the PGC relies on formal legal relationships, potentially leading to cases where economic influence exists but is not reflected in consolidation requirements. This creates a risk that certain entities that should be consolidated under IFRS may remain outside the consolidated financial statements under PGC, impacting the true representation of financial performance. Auditors must carefully assess whether all relevant entities have been included, especially in complex group structures with joint ventures, associated companies, or indirect control mechanisms (International Federation of Accountants [IFAC], 2020).

Another key issue is intercompany transactions and eliminations. The PGC requires that all intra-group transactions be fully eliminated in consolidated financial statements to prevent overstatement of revenues, assets, and liabilities. However, in practice, discrepancies often arise due to timing differences, differing accounting policies between subsidiaries, and inadequate intercompany reconciliation processes. In multinational groups, subsidiaries may report under different accounting frameworks, making it challenging to ensure complete and accurate eliminations. Auditors must dedicate significant effort to verifying the consistency of reported figures across entities, reconciling differences, and ensuring that all intercompany transactions have been appropriately eliminated (International Accounting Standards Board [IASB], 2020).

The treatment of goodwill under the PGC also presents notable difficulties. Unlike IFRS, which requires impairment testing, the PGC mandates that goodwill be amortized over its useful life (typically up to ten years). While this approach provides predictability, it may also lead to financial statements that do not accurately reflect economic reality. For example, amortization may cause goodwill to be systematically reduced, even when the underlying business continues to perform well. At the same time, the absence of an annual impairment test increases the risk that goodwill impairments are not recognized in a timely manner, potentially leading to an overstatement of assets. Auditors must evaluate whether goodwill amortization schedules are reasonable and correctly applied, while also ensuring that impairment indicators are properly assessed to prevent misstatements (International Federation of Accountants [IFAC], 2020).

Additionally, the prudence principle embedded in Spanish accounting standards (principio de prudencia) influences financial reporting decisions. While prudence ensures financial stability, its subjective application can lead to inconsistencies in recognizing provisions, liabilities, and revenues. Some companies may adopt an overly conservative approach, recognizing excessive provisions that reduce taxable income and distort profitability, while others may delay recognizing certain gains. Auditors must carefully assess whether the application of prudence is justified and compliant with accounting regulations, ensuring that financial statements provide a fair and balanced view of the company’s financial position (International Federation of Accountants [IFAC], 2020).

Finally, the alignment of Spanish GAAP with IFRS and other international standards remains an ongoing challenge for auditors. While Spain has incorporated many IFRS principles into the PGC, differences still exist in measurement, recognition, and disclosure requirements. Companies operating as subsidiaries of foreign parent companies often need to prepare multiple sets of financial statements, one under PGC and another under IFRS or HGB, leading to adjustments, reconciliation issues, and additional audit complexities. Auditors must ensure that all necessary conversions are made, particularly in areas such as financial instruments, lease accounting, and deferred tax recognition, to maintain consistency between local and consolidated reports (International Accounting Standards Board [IASB], 2020).

4. International Standards on Auditing (ISA) and Their Role in Audit and Consolidation

4.1. Overview of ISA in Financial Reporting and Consolidation

The International Standards on Auditing (ISA) are a globally recognized set of guidelines issued by the International Auditing and Assurance Standards Board (IAASB). These standards establish principles and procedures for conducting high-quality audits, ensuring consistency, reliability, and credibility in financial reporting. ISAs are particularly important for auditors performing statutory audits of consolidated financial statements, especially for multinational corporations operating under diverse regulatory frameworks such as IFRS, Handelsgesetzbuch (HGB), or Spanish GAAP.

In the context of group audits and financial consolidation, ISA 600 – Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) plays a pivotal role. This standard outlines how auditors should plan, execute, and evaluate group audits when multiple auditors are involved in auditing subsidiaries or components of a consolidated entity. ISA 600 emphasizes the importance of coordination, risk assessment, and proper communication between the group auditor and component auditors to ensure a consistent audit approach across different jurisdictions. This is particularly important in cross-border group audits where subsidiary audits may be conducted under different national accounting standards, including HGB or PGC, which can introduce complexities in the consolidation process (International Federation of Accountants [IFAC], 2020).

Other relevant ISAs that directly impact the audit of consolidated financial statements include:

ISA 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit: This standard establishes the fundamental principles and responsibilities of auditors in conducting an audit in accordance with ISAs. It provides the framework within which auditors should carry out their work, ensuring that audits are done with due professional care and in accordance with ethical standards (IFAC, 2020).

ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements: This standard provides guidelines for auditors to assess fraud risks and the implications of fraudulent activities on financial reporting. Fraud risks can have a significant impact on group audits, especially when auditing complex multi-national corporate structures (International Auditing and Assurance Standards Board [IAASB], 2020).

ISA 315 – Identifying and Assessing the Risks of Material Misstatement: Focuses on understanding the entity, its environment, and internal controls to assess risks that may lead to material misstatements. In a group audit, this is especially important as auditors must assess the risks of misstatements across subsidiaries and ensure that these risks are mitigated during the audit process (IAASB, 2020).

ISA 330 – The Auditor's Responses to Assessed Risks: Establishes the necessary responses and procedures auditors must apply when risks of material misstatement have been identified. This ensures that the auditor's approach is comprehensive and addresses the specific risks posed by group audits and complex consolidation procedures (IFAC, 2020).

These standards collectively ensure that group audits and financial consolidations adhere to a rigorous, risk-based approach, which enhances the credibility and reliability of financial statements, providing stakeholders with greater confidence in the accuracy and fairness of the consolidated financial position of the group.

4.2. ISA and Auditing Considerations in Consolidation

The application of International Standards on Auditing (ISAs) to consolidated financial statements presents specific challenges that auditors must address to ensure compliance with international audit quality standards. These challenges arise from the complexity of consolidating financial information from multiple subsidiaries, each potentially operating under different accounting frameworks, such as IFRS, HGB, or Spanish GAAP.

A key area of focus is risk assessment, particularly under ISA 315, which requires auditors to understand the complexity of the consolidated entity. This includes analysing the operations of its subsidiaries, intercompany transactions, and variations in accounting policies across the group. A comprehensive risk analysis is essential for identifying areas prone to material misstatements, such as revenue recognition, goodwill impairment, and the elimination of intra-group transactions (International Federation of Accountants [IFAC], 2020). Since consolidated financial statements combine multiple entities with varying financial conditions and policies, auditors must carefully assess how risks in individual subsidiaries could affect the group's overall financial position.

ISA 600 emphasizes the importance of coordination between the group engagement team and component auditors. In multinational audits, where subsidiaries may follow local GAAP instead of IFRS, differences in accounting treatments must be carefully analysed. For example, discrepancies may arise when subsidiaries report using different goodwill amortization schedules or consolidation methodologies. Group auditors are responsible for ensuring that component auditors apply consistent procedures and report accurate financial data to facilitate proper consolidation. This is particularly crucial in cross-border audits where subsidiaries may be subject to varying local regulatory frameworks, which can lead to inconsistencies in how financial data is presented (International Auditing and Assurance Standards Board [IAASB], 2020).

ISA 240 plays a critical role in fraud risk assessment within consolidation audits. Auditors must be vigilant about risks such as management override of controls, inappropriate revenue recognition, or hidden related-party transactions that may distort financial reporting. Fraud risks are particularly challenging in decentralized corporate structures, where subsidiaries operate in different regulatory environments with varying levels of oversight. Auditors must ensure that fraud detection mechanisms are robust, especially in cases where management may attempt to manipulate the financial consolidation process (IAASB, 2020).

Under ISA 330, auditors are required to implement appropriate responses to assessed risks, ensuring that audit procedures are tailored to the specific complexities of group consolidation. This includes testing consolidation adjustments, evaluating the impact of foreign exchange translations, and verifying compliance with accounting frameworks. The adjustments necessary for consolidating subsidiaries into the group accounts, such as eliminating intercompany transactions or aligning different accounting treatments, must be carefully reviewed to ensure that they do not result in misstatements in the group's financial position.

Furthermore, auditors must adhere to the responsibilities outlined in ISA 200, which require maintaining professional scepticism and judgment throughout the engagement. Given the subjective elements in consolidation—such as goodwill valuation, control assessments, and fair value adjustments—auditors must critically evaluate management's judgments and estimates. These subjective estimates play a key role in the consolidation process, and auditors need to challenge them to ensure that they reflect the economic reality of the group's financial situation (International Federation of Accountants [IFAC], 2020).

In summary, the application of ISAs to consolidated financial statements requires a highly coordinated and risk-based approach, especially when dealing with multiple subsidiaries operating under various accounting frameworks. By focusing on risk assessment, fraud detection, and careful execution of audit procedures, auditors can ensure that the consolidation process is accurate, consistent, and compliant with international auditing standards.

4.3. Challenges and Potential Gaps in ISA Auditing

The International Standards on Auditing (ISA) provide a comprehensive framework for conducting audits, but several challenges and potential gaps arise in the auditing process, particularly when auditing consolidated financial statements. These issues stem from the complexity and variability of international regulations, diverse business structures, and practical limitations in applying these standards across multiple jurisdictions.

One of the most significant challenges stems from the principles-based approach of ISA standards, particularly under ISA 200 (Objective and General Principles Governing an Audit of Financial Statements). While the flexibility offered by this approach allows for professional judgment, it can also lead to varying interpretations of the standards by different auditors, especially in multinational group audits. These differences in judgment may result in inconsistencies across audits, particularly when auditors come from different regulatory environments and cultural contexts. In group audits, this inconsistency can lead to difficulties in aligning findings and ensuring comparability in the financial statements (International Auditing and Assurance Standards Board [IAASB], 2020).

Another challenge lies in the reconciliation process when consolidating financial statements from subsidiaries using different national accounting frameworks, such as IFRS, HGB, or Spanish GAAP. The differences in recognition, measurement, and valuation principles across these frameworks create significant hurdles for auditors. For example, discrepancies in how goodwill is treated, or how intercompany transactions are accounted for, can complicate the consolidation process. ISA 240 (The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements) further complicates matters by requiring auditors to be vigilant in identifying potential fraud or misreporting during consolidation adjustments. Ensuring that adjustments align with the financial realities of all subsidiaries involved is an ongoing challenge for auditors (International Federation of Accountants [IFAC], 2020).

Coordination between auditors from different jurisdictions also presents a recurring difficulty. ISA 315 (Identifying and Assessing the Risks of Material Misstatement) stresses the importance of understanding the entity and its environment, which becomes much more complex when audits are conducted across multiple regions. The lack of standardized audit procedures between jurisdictions can delay the audit process, and inconsistencies in interpreting the standards can lead to misalignment in audit findings and conclusions. This can become especially problematic when discrepancies in financial reporting are not properly communicated across auditors, potentially leading to significant issues in the final consolidated financial statements (International Auditing and Assurance Standards Board [IAASB], 2020).

A particularly challenging aspect of group audits is dealing with intercompany transactions. Under ISA 330 (The Auditor’s Responses to Assessed Risks), auditors are required to respond to the risks of material misstatement, including assessing whether intra-group transactions are properly identified and eliminated. However, differing accounting policies, reporting periods, and transaction recognition practices between subsidiaries often result in errors or omissions in the elimination of these transactions. As a result, auditors must dedicate significant effort to verifying that all intercompany transactions are accurately eliminated to prevent overstatement of revenues or assets. The lack of a uniform system for reconciling these transactions increases the risk of discrepancies, requiring auditors to perform additional work to ensure the accuracy and completeness of these adjustments.

Finally, ISA 600 (Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)) presents unique challenges in multi-jurisdictional audits. This standard emphasizes the importance of coordinating the work of auditors across different components of a group, yet managing consistency and communication between auditors from different countries can be difficult. Differences in legal environments, language barriers, and varying audit practices can create inefficiencies and misinterpretations. These challenges are especially apparent when auditors are required to collaborate on complex group consolidations. Effective coordination is crucial but achieving it across different regions and cultural contexts remains a significant hurdle for multinational groups (International Federation of Accountants [IFAC], 2020).

These challenges and potential gaps in ISA auditing highlight areas where significant improvements can be made. Enhancing the standardization of audit procedures across jurisdictions, improving communication between component auditors, and developing more efficient methods for reconciling financial statements are key steps that could increase the effectiveness and efficiency of the audit process. By addressing these gaps, audit quality can be improved, ensuring greater consistency and reliability in the consolidated financial statements.

5. Differences Between IFRS, HGB, PGC, and ISA in the Context of Consolidation Audits

The International Financial Reporting Standards (IFRS), German Commercial Code (HGB), Spanish General Accounting Plan (PGC), and International Standards on Auditing (ISA) each provide distinct frameworks for the preparation and auditing of consolidated financial statements. These frameworks differ in their focus, principles, and approach to consolidation and audit practices. Below is an exploration of the key differences and potential gaps in consolidation auditing across these standards.

5.1. Principles vs. Rules-Based Approach

- IFRS: The International Financial Reporting Standards (IFRS) follow a principles-based approach. This gives auditors greater professional judgment in determining consolidation requirements and applying accounting policies. IFRS emphasizes economic substance over legal form, promoting transparency and comparability across jurisdictions (IFRS Foundation, 2023).
- HGB: The German Commercial Code (Handelsgesetzbuch – HGB) is rules-based and strictly prescriptive. Consolidation is determined mainly by legal control (e.g., ownership of more than 50% of voting rights), and the framework favors consistency and legal certainty over economic interpretation (Baetge et al., 2017).
- PGC: The Spanish General Accounting Plan (Plan General de Contabilidad – PGC) is a mixed system combining both rules-based and principles-based elements. While it includes detailed regulatory guidance, it permits judgment on economic substance in specific cases (Instituto de Contabilidad y Auditoría de Cuentas [ICAC], 2021).
- ISA: The International Standards on Auditing (ISA) do not regulate accounting practices but focus on the auditing process. They establish global principles to ensure that audits—especially of consolidated financial statements—are conducted with objectivity, transparency, and professional skepticism (International Auditing and Assurance Standards Board [IAASB], 2022).

Approach	**Rules-Based Accounting**	**Principles-Based Accounting**
Definition	A system with strict, detailed, and prescriptive rules that companies must	A system that provides general guidelines (principles) and allows for

	follow when preparing financial statements.	professional judgment in applying them.
Flexibility	Low – Companies must comply with specific rules, even if they result in less relevant financial reporting.	High – Companies can interpret principles in a way that best represents their financial situation.
Main Focus	Legal/formal compliance – Ensures consistency and reduces risk of misinterpretation.	Economic reality – Focuses on presenting financial information that reflects the true financial position.
Judgment Required	Minimal – Accountants and auditors follow predefined rules with limited discretion.	Significant – Accountants and auditors must apply professional judgment in different situations.
Examples	HGB (German GAAP), U.S. GAAP – Detailed regulations for recognizing transactions (e.g., fixed goodwill amortization).	IFRS, Spanish GAAP (PGC) – Broad principles with room for interpretation (e.g., goodwill impairment testing).

5.1.1. How This Affects Auditing and Consolidation

- HGB (Rules-Based):
    - Focuses on legal control in consolidations → A company is consolidated only if it has majority voting rights.
    - Goodwill must be amortized over time, even if its value does not decrease.
    - Less professional judgment needed → Auditors check compliance with the specific legal requirements.

- IFRS (Principles-Based):
    - Consolidation depends on economic control → A company can be consolidated even without majority voting rights, if it has real influence over financial and operational policies.
    - Goodwill is not amortized but tested annually for impairment based on management's assessment.
    - Auditors must use judgment to evaluate if financial statements fairly represent reality.

5.2. Control Definition

- IFRS: Under IFRS 10, "control" involves power over the investee, exposure or rights to variable returns, and the ability to use power to affect those returns. This emphasizes economic control, even in the absence of majority voting rights (IFRS Foundation, 2023).

- HGB: HGB uses a legal control model, typically requiring ownership of more than 50% of voting rights for consolidation. This approach may overlook de facto control scenarios (Baetge et al., 2017).
- PGC: Like HGB, PGC prioritizes legal control but integrates aspects of economic reality in exceptional cases, especially where contractual or operational dependencies exist (ICAC, 2021).
- ISA: ISA does not define "control" per se, as this is determined by the applicable financial reporting framework (e.g., IFRS, HGB, or PGC). However, ISA 600 requires auditors to assess whether group financial statements properly reflect the consolidation process based on the chosen framework (IAASB, 2022).

5.3. Treatment of Goodwill

- IFRS: Under IFRS, goodwill is not amortized but must undergo annual impairment testing as per IAS 36. This process relies heavily on subjective estimates of the future cash flows and fair value of the cash-generating unit (IFRS Foundation, 2023).
- HGB: According to the HGB, goodwill is amortized systematically over its useful life, typically up to ten years, if the useful life cannot be reliably estimated. This approach reduces earnings volatility but may understate the current value of assets (Baetge et al., 2017).
- PGC: The PGC mirrors IFRS in terms of goodwill recognition, but amortization may be allowed under certain tax-related criteria. Spanish regulations allow amortization if impairment testing is not viable (ICAC, 2021).
- ISA: ISA 540 (Revised) addresses the auditing of accounting estimates, including those used in goodwill impairment testing. It requires auditors to assess management's assumptions and the valuation models applied, particularly in the context of IFRS (IAASB, 2022).

5.4. Consolidation Adjustments

- IFRS: The IFRS framework (particularly IFRS 3 and IFRS 10) mandates the elimination of intra-group transactions and requires the acquisition method for business combinations. Fair value adjustments and goodwill recognition are central, often requiring complex judgment (IFRS Foundation, 2023).
- HGB: The HGB also requires the elimination of intercompany balances and transactions but often uses the equity method in consolidation, which is more conservative and places less emphasis on fair value adjustments (Baetge et al., 2017).
- PGC: PGC requires the removal of intra-group transactions, but its standards are less detailed than IFRS regarding valuation and fair value adjustments, leading to greater reliance on legal form (ICAC, 2021).
- ISA: ISA 600 obliges auditors to assess whether consolidation adjustments, including intercompany eliminations and goodwill accounting, are compliant with the chosen financial reporting framework and appropriately documented (IAASB, 2022).

5.5. Disclosure Requirements

- IFRS: IFRS 12 outlines extensive disclosure requirements about interests in subsidiaries, joint ventures, and associates. It requires transparency about the nature of control, risks, and financial effects (IFRS Foundation, 2023).
- HGB: Disclosure requirements in HGB are more limited and focused primarily on legal and tax obligations. The principle of prudence often overrides the need for extensive transparency (Baetge et al., 2017).
- PGC: While PGC requires relevant disclosures, they are more aligned with national regulations and tax reporting rather than with international comparability and transparency standards (ICAC, 2021).
- ISA: ISA standards do not impose specific disclosures but require auditors to verify that all material disclosures mandated by the applicable framework are accurate and complete (IAASB, 2022).

5.6. Auditing Focus

- IFRS: Audits under IFRS emphasize professional judgment, the assessment of economic substance, and the accuracy of complex estimates used in consolidation processes (IFRS Foundation, 2023).
- HGB: HGB audits are more rules-based, prioritizing strict compliance with legal regulations. The focus is on legal form, conservative valuation, and the protection of creditors (Baetge et al., 2017).
- PGC: Audits in the context of PGC combine compliance with legal rules and the application of judgment, especially in areas impacted by Spanish tax law and local regulations (ICAC, 2021).
- ISA: The ISA framework promotes global audit quality by enforcing professional scepticism, risk-based approaches, and consistent application of auditing standards across jurisdictions (IAASB, 2022).

5.7. Key Differences Overview

Aspect	IFRS	HGB	PGC	ISA
Approach	Principles-based	Rules-based	Mixed rules and principles-based	Audit process-based
Control definition	Power, exposure to variable returns	Legal control (over 50% voting)	Legal control	Based on financial reporting framework
Goodwill	No amortization, annual impairment	Amortized over 10 years	Similar to IFRS, with differences in amortization	Audit of impairment and estimates

Consolidation adjustments	Eliminate intra-group transactions	Equity method, legal control focus	Eliminate intra-group transactions	Ensure compliance with consolidation adjustments
Disclosure	Extensive disclosures	Less extensive, tax-focused	Detailed but not as extensive as IFRS	Ensure proper disclosure according to framework
Audit focus	Professional judgment in consolidation	Legal compliance, prudence	Compliance with legal and tax rules	Consistency, objectivity, and transparency in auditing

6. Research Gaps and Proposals in Consolidation Audits

The International Financial Reporting Standards (IFRS), the German Commercial Code (HGB), the Spanish General Accounting Plan (PGC), and the International Standards on Auditing (ISA) not only present distinct regulatory frameworks but also reveal several areas where similar gaps and inefficiencies emerge in the preparation and auditing of consolidated financial statements. Despite their different origins and approaches, these standards often face common challenges related to the interpretation of consolidation principles, consistency in financial reporting, and coordination during group audits.

This section explores the recurring gaps that arise across these frameworks and identifies potential opportunities for optimization. By analyzing points of convergence and shared difficulties, the study aims to highlight how multinational audit processes can be enhanced, ensuring greater alignment, efficiency, and compliance in cross-border financial reporting and auditing practices.

6.1. Similar gaps

6.1.1. Interpretation Variability

Across IFRS, HGB, and PGC, differences in how control and consolidation are defined can lead to inconsistencies in the consolidation process. IFRS's principles-based nature contrasts with the more rigid frameworks of HGB and PGC, where legal control may take precedence over economic control. This variability in interpretation poses risks for auditors, particularly in multinational groups.

6.1.2. Reconciliation Complexity

When a group operates under multiple reporting frameworks (e.g., IFRS, HGB, and PGC), reconciling differences in consolidation approaches, intercompany transactions, and goodwill treatment can be a complex, time-consuming task. This is especially relevant in group audits, where the audit teams may be dealing with multiple sets of financial statements prepared under different frameworks.

6.1.3. Coordination Between Auditors

Group audits, especially those involving subsidiaries in different jurisdictions, face challenges in coordination. The lack of standardized auditing procedures across different frameworks can result in inefficiencies, errors, and delays, particularly in multi-jurisdictional audits where language, legal, and operational differences may hinder effective communication.

6.1.4. Intra-Group Transactions

Ensuring proper elimination of intercompany transactions remains a recurring challenge. Disparities between the recognition and measurement principles of different accounting standards, especially in relation to fair value adjustments and amortization, can lead to discrepancies in consolidated financial statements.

6.2. Proposal and optimization opportunity

6.2.1. Harmonization of Control Definitions

- Proposal: Establish a global framework or guidelines to standardize the definition of "control" in the context of consolidation across different standards like IFRS, HGB, and PGC. This could reduce interpretation variability and improve consistency in consolidation processes, ensuring that auditors are on the same page when assessing whether economic or legal control should be prioritized.

- Optimization Opportunity: Encouraging collaboration between regulatory bodies to develop clearer, unified guidelines for multinational groups operating under different frameworks would streamline consolidation audits and reduce inconsistencies.

6.2.2. Development of Integrated Reconciliation Tools

- Proposal: Implement advanced software or tools that automatically identify and reconcile the differences between the consolidation approaches, intercompany transactions, and goodwill treatments under various frameworks. These tools could help auditors quickly identify discrepancies and inconsistencies between financial statements prepared under IFRS, HGB, and PGC, simplifying the reconciliation process.

- Optimization Opportunity: By integrating artificial intelligence and machine learning into the reconciliation process, firms could significantly reduce the time and resources spent on manual comparisons and adjustments, improving audit efficiency and accuracy.

6.2.3. Standardization of Audit Procedures Across Frameworks

- Proposal: Develop standardized auditing procedures or templates that can be adapted across multiple reporting frameworks, ensuring a more cohesive and consistent approach to group audits. This could include common audit checklists, guidelines for intercompany transaction elimination, and procedures for evaluating fair value adjustments.

- Optimization Opportunity: By fostering greater consistency across auditing practices, group audits would be more efficient and less prone to errors, especially when dealing with subsidiaries operating under different standards. This would also help reduce coordination challenges among audit teams in various jurisdictions.

6.2.4. *Use of Blockchain for Intra-Group Transaction Tracking*

- Proposal: Explore the use of blockchain technology to track intra-group transactions and ensure proper elimination during the consolidation process. Blockchain could provide a secure and transparent way to record and trace intercompany transactions, reducing the risk of discrepancies and improving audit reliability.

- Optimization Opportunity: By using blockchain, auditors could have access to a real-time, immutable record of all intercompany transactions, simplifying the elimination process and reducing the chances of errors or omissions.

6.2.5. *Cross-Border Communication Protocols*

- Proposal: Establish clear cross-border communication protocols for audits involving subsidiaries in different jurisdictions. This would include standardized reporting formats, a common language for audit documentation, and guidelines to address legal and operational differences between jurisdictions.

- Optimization Opportunity: By enhancing communication between auditors across borders, this proposal would minimize delays and errors during multi-jurisdictional audits, fostering better coordination and a more efficient audit process overall.

6.3. *Thesis Proposal*

Based on the theoretical framework presented so far, this thesis proposes to examine how regulatory divergences between IFRS, HGB, and PGC affect the effectiveness and consistency of group audits, particularly in the context of Spanish subsidiaries of German multinational corporations. The aim is to identify key inefficiencies in the consolidation audit process, such as definitional inconsistencies, intercompany eliminations, and coordination challenges between jurisdictions. The next section will introduce a methodological approach designed to complement this analysis by exploring how these theoretical issues manifest in real-world audit practices.

IV. METHODOLOGY

This research adopts a qualitative case study methodology to explore the practical challenges and opportunities involved in the auditing of Spanish subsidiaries of German multinational corporations. The study particularly focuses on the application of ISA 600 (Revised) and aims to generate actionable recommendations to enhance efficiency, audit quality, and cross-border coordination.

A qualitative case study was chosen due to its effectiveness in exploring complex phenomena within their real-life context (Yin, 2018). The research is based exclusively on semi-structured interviews conducted with audit professionals at Rödl & Partner, Barcelona, enabling in-depth insights into the application of international auditing standards in multinational audit environments.

1. Semi-Structured Interviews with Audit Professionals

A series of semi-structured interviews were conducted with the following members of the Rödl & Partner audit team:

- César Goni – Associate Partner
- Marcelo Aguilera – Manager
- Francisco Sánchez – IT Auditor
- Brian Clemente, Carlos Luna, Bernat Girvent and Alfonso Fernández– Senior Auditors

The semi-structured interview format was selected to maintain consistency across participants while allowing flexibility to explore emerging themes and unique experiences (Kallio et al., 2016). Key topics included:

- Cross-border coordination and communication between Spanish component auditors and German group auditors
- Operational bottlenecks during audit planning, execution, and reporting
- Suggestions for improving integration, audit quality, and use of technology
- Role-specific challenges and perspectives within the audit hierarchy

The semi-structured format ensured consistency across key themes while allowing for flexibility to follow emerging ideas and concerns specific to each interviewee's experience and responsibilities.

2. Data Analysis

Interview data will be analysed using thematic analysis. This involves identifying, grouping, and interpreting recurring patterns, concerns, and recommendations raised by participants.

Themes will be compared with the principles and requirements outlined in ISA 600 (Revised) to evaluate practical alignment and identify any significant deviations between theory and implementation.

3. Validity and Reliability

To ensure credibility and trustworthiness, the study incorporates the following strategies:

- Triangulation of perspectives by including auditors from different hierarchical levels
- Cross-checking consistency of findings across multiple interviewees
- Contextualizing interpretations within the operational and cultural realities of multinational audit engagements

These strategies are consistent with qualitative research standards for ensuring internal validity and transferability (Lincoln & Guba, 1985).

4. Justification of the Methodology

This qualitative interview-based approach enables an in-depth, grounded understanding of auditing practices within Rödl & Partner. By engaging directly with professionals across hierarchical levels—from senior leadership to experienced auditors—the study provides a multidimensional view of current practices and potential improvements.

Focusing on interview data exclusively enhances the richness of the insights and allows for more detailed exploration of complex issues that may not be captured in survey responses. This method supports the goal of producing actionable recommendations to improve audit efficiency, coordination, and compliance in cross-border engagements governed by ISA 600 (Revised).

V. CHALLENGES IN AUDITING SPANISH SUBSIDIARIES

Auditing Spanish subsidiaries of German multinational corporations presents a unique set of challenges due to the intersection of diverse legal, cultural, and regulatory frameworks. These complexities are particularly pronounced in the context of consolidated financial statements, where differing accounting and auditing standards—such as IFRS, HGB, and the Spanish PGC—must be reconciled. Moreover, the coordination between group and component auditors, often operating in different jurisdictions with distinct professional practices, adds an additional layer of difficulty. This chapter explores the practical challenges faced by auditors in this cross-border setting, based on a combination of theoretical insights and empirical data gathered through semi-structured interviews with professionals at Rödl & Partner in Barcelona.

1. Review of Theoretical Framework

The review of the regulatory frameworks—IFRS, HGB, PGC, and ISA—revealed several inherent difficulties in multinational audits. These include:

- The divergence between legal and economic definitions of control.
- Differences in goodwill treatment and consolidation methods.
- The fragmented application of auditing procedures under ISA 600 (Revised).
- Technological disparities that impair efficiency, especially the continued reliance on spreadsheets.

These discrepancies challenge auditors in achieving uniformity and efficiency when consolidating financial statements across borders.

2. Interview Findings

The interviews conducted with professionals from Rödl & Partner Barcelona revealed both shared and role-specific challenges.

2.1. Common Themes Across Roles:

- Intercompany eliminations and homogenization**:** Identified as the most technically complex tasks by almost all respondents, especially in groups with many entities (Clemente, Girvent, Luna, Fernández, Aguilera).
- Technological tools: While automation tools like shared platforms were valued, reliance on Excel persists and is seen as a source of error (Sánchez, Aguilera).
- ISA 600 (Revised): Valued for its structure and clarity but seen as resource-intensive (Clemente, Goni, Fernández).

2.2. *Individual Insights*

- Brian Clemente: Emphasized risk-based tailoring of audits, supported mandatory audits for voluntarily prepared consolidated financials, and advocated for automation to reduce human error.
- Bernat Girvent: Highlighted intercompany eliminations as a major issue and supported audits for voluntarily prepared consolidated reports.
- Carlos Luna: Stressed difficulties reconciling IFRS with PGC, especially in inventory transactions, and recommended improving coordination and standardization.
- Francisco Sánchez: Cited integration issues between ERP systems, manual reconciliations, and risk of fraud. He supported real-time monitoring tools and dashboards.
- Alfonso Fernández: Emphasized communication challenges and language/documentation barriers. Recommended detailed planning and standardized audit procedures.
- Marcelo Aguilera: Pointed to unclear instructions as a common issue. Advocated for automated programs to perform eliminations and adjustments.
- César Goni: Highlighted oversight responsibility of the group auditor under ISA 600 and the need for improved communication. Suggested the group auditor should physically visit component sites.

3. Discussion: Identifying Normative Gaps

The interviews and theoretical review point to critical normative and procedural gaps in auditing Spanish subsidiaries:

3.1. *Lack of Harmonization in Control Definitions*

While IFRS relies on economic control, HGB and PGC emphasize legal ownership. This discrepancy leads to differing consolidation scopes across jurisdictions, complicating audit procedures.

3.2. *Procedural Inconsistencies under ISA 600*

Although ISA 600 (Revised) clarifies group auditor duties, its real-world application still suffers from:

- Inconsistent quality of communication and feedback loops between group and component auditors.
- Variability in the interpretation and implementation of risk-based audit procedures.

3.3. *Technological Fragmentation*

Despite the increasing use of platforms like GATE, most consolidation processes still rely heavily on Excel. This inconsistency hinders:

- Real-time collaboration,
- Data integrity,
- Traceability of audit trails across components.

3.4. Insufficient Training in Standards and Sector-Specific Practices

Multiple interviewees emphasized that auditors often lack adequate training in:

- Application of IFRS, HGB, and PGC in consolidated contexts.
- Sector-specific risks and regulations.

This gap limits their ability to exercise sound professional judgment, especially under a principles-based framework like IFRS.

Auditing Spanish subsidiaries of German multinationals involves a web of interrelated challenges rooted in regulatory divergence, operational complexity, and uneven technological adoption. While frameworks like ISA 600 (Revised) provide a strong foundation, their effectiveness depends on robust training, harmonized procedures, and integrated technology. Addressing these gaps through standardization, cross-border collaboration protocols, and specialized auditor education will be essential for improving audit quality, reducing risk, and aligning with the strategic needs of multinational groups.

VI. BEST PRACTICES AND IMPROVEMENT PROPOSALS

1. Optimization Proposal

My optimization proposal would focus on several key areas. First, enhancing the structure and frequency of kick-off meetings and ongoing communication with component auditors. While preliminary calls happen, I believe formalizing these sessions for every group audit, with clear explanations of scope, materiality, risks, and deadlines, would greatly help. Also, regular follow-up meetings during the audit period would improve alignment and allow quick resolution of issues.

Secondly, implementing a standardized consolidation software across the group instead of relying heavily on Excel files. Such a tool should automate intercompany eliminations, currency conversions, and provide real-time dashboards accessible to both group and component auditors. This would reduce manual errors, speed up consolidation, and increase transparency.

Third, standardizing the instructions and reporting templates that component auditors receive. Clear, uniform templates would make it easier for auditors to know exactly what is expected, ensure better documentation quality, and facilitate comparability between components and periods.

Finally, I would propose more focused and frequent training programs. This should cover updates on IFRS, differences with local GAAP, industry-specific risks, and practical case studies on group audits. Making this training mandatory and updated annually would improve auditors' technical skills and confidence when dealing with complex group structures.

2. Expected Impact

The expected impact of these measures would be significant. Improved kick-off and communication would lead to better coordination, less misunderstanding, and faster problem-solving. A common consolidation tool would minimize manual errors, speed up closing, and allow group auditors to monitor everything more effectively in real time. Standardized reporting packages would streamline data collection and improve audit evidence quality, making reviews easier and more reliable. Enhanced training would boost the technical level of the team, increasing audit quality and consistency across different countries and industries.

3. Evaluating the Feasibility of Implementing these Tools within Rödl & Partner's Audit Framework

Evaluating the feasibility of implementing these tools within Rödl & Partner's audit framework, I believe formalizing kick-off and follow-up meetings is very achievable with minimal disruption, using existing video conferencing tools and structured agendas. Introducing dedicated consolidation software requires some investment and training, but given Rödl & Partner's existing IT infrastructure, a phased rollout starting with the largest or most complex groups would be realistic. Developing uniform instruction templates would need collaboration between audit leaders and sector specialists, but pilot testing with selected clients could help tailor them effectively. Lastly, expanding auditor training is feasible by leveraging Rödl & Partner’s commitment to continuous professional development and online learning platforms to ensure scalable delivery.

In summary, these proposals build on what is already being done, harness current technology and organizational strengths, and promise to improve the quality, efficiency, and risk management of group audits at Rödl & Partner.

VII. CONCLUSIONS AND RECOMMENDATIONS

1. Summary of Key Findings in Relation to Research Objectives

This study set out to investigate the challenges faced in auditing Spanish subsidiaries of German multinational corporations, particularly within the framework of group audits involving multiple regulatory systems. The analysis was guided by five core objectives, each of which is addressed below:

- Identifying Technical and Procedural Bottlenecks:

The research revealed recurring technical issues such as the complexity of intercompany eliminations, differences in inventory valuation methods, and inconsistent audit documentation. Procedural inefficiencies stemmed from the widespread reliance on Excel, lack of standardized reporting templates, and limited formal coordination between group and component auditors.

- Evaluating the Applicability and Effectiveness of ISA 600 (Revised):

While ISA 600 (Revised) provides a more structured approach for group audits, interviewees noted that its implementation remains uneven in practice. Key challenges include insufficient oversight by group auditors, unclear communication protocols, and inconsistent application of risk-based audit procedures. Although the standard enhances audit transparency and accountability, its operational impact is limited by varying levels of auditor experience and resource constraints.

- Comparing IFRS, HGB, and PGC in the Context of Consolidation Audits:

The study confirmed that regulatory divergence is a major contributor to audit complexity. IFRS adopts a principles-based approach emphasizing economic control, while HGB and PGC adhere to rules-based frameworks focused on legal control and prudence. These discrepancies affect goodwill treatment, scope of consolidation, and disclosure requirements—necessitating time-consuming reconciliations and increasing audit risk.

- Gathering Qualitative Insights from Audit Professionals:

Semi-structured interviews provided practical perspectives on cross-border audit challenges. Auditors at Rödl & Partner highlighted issues such as limited training in international standards, difficulties aligning audit expectations between jurisdictions, and insufficient technological integration. These insights validated the theoretical concerns raised and informed the optimization strategies proposed.

- Proposing Actionable Recommendations:

Based on the above findings, the thesis proposes several practical improvements:

- Standardization of audit templates and consolidation packages.

- Formalization of cross-border communication protocols (e.g., mandatory kick-off and follow-up meetings).
- Adoption of group-wide consolidation software to replace Excel-based systems.
- Enhanced and recurring training programs focused on IFRS, ISA 600, and reconciliation between frameworks.

2. Potential Impact of Optimizing the Audit Process

The proposed optimization measures—centered on standardization, enhanced communication, technological integration, and targeted training—are expected to generate substantial benefits in both audit quality and operational efficiency. The alignment of these improvements with the specific challenges identified in the study reinforces their practical relevance and feasibility.

- Improved Audit Quality and Consistency:

Introducing standardized templates and instructions for component auditors can help reduce variability in documentation and ensure more consistent application of audit procedures across jurisdictions. This standardization supports better comparability and enhances the reliability of consolidated financial statements.

- Greater Cross-Border Coordination:

Formalizing communication protocols—such as structured kick-off meetings, interim status updates, and joint planning sessions—would strengthen collaboration between group and component auditors. These mechanisms would allow earlier identification of critical issues and ensure clearer delegation of responsibilities.

- Operational Efficiency through Technology:

Adopting centralized, automated consolidation tools would significantly reduce manual work, particularly around intercompany eliminations and currency conversions. This would improve accuracy, shorten audit timelines, and reduce the risk of human error.

- Enhanced Transparency and Stakeholder Confidence:

Improved audit rigor and procedural alignment with international standards such as ISA 600 (Revised) can increase the credibility of audit results and enhance trust among investors, regulators, and other stakeholders.

- Stronger Risk Management Capabilities:

Leveraging technology to improve tracking of intercompany transactions—potentially through blockchain or real-time dashboards—could help detect anomalies earlier and mitigate risks related to fraud or reporting inconsistencies in complex group structures.

3. Future research directions

While this study provides a comprehensive view of audit challenges and optimization opportunities, further research is needed to deepen understanding and extend practical applications:

- Quantitative Analysis of Audit Efficiency Gains: Future studies could measure the actual time and cost savings achieved through audit process optimization (e.g., technology implementation, standardized procedures).

- Comparative Studies Across Jurisdictions: Expanding the focus to include subsidiaries in other European or non-European countries could reveal broader trends and inform the development of a more harmonized audit framework.

- Technology-Driven Audit Models: Further research into AI-based audit tools, blockchain applications in audit trails, and ERP-integrated audit systems could provide innovative solutions to cross-border audit inefficiencies.

- Training Program Effectiveness: Investigating the impact of tailored training programs on audit accuracy and auditor confidence would help firms design more effective continuing professional development strategies.

- Longitudinal Studies on ISA 600 (Revised): Evaluating how the revised standard affects audit outcomes over multiple years could offer valuable insights into its long-term effectiveness and areas for refinement.

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APPENDIX

Interview Questions – Semi-Structured Interview with Brian Clemente

1. **What experience do you have in auditing consolidated financial statements?**
   I have been auditing them for 4 years, but I have no experience in preparing them (which is not the same as auditing them).

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's point of view (e.g., intercompany eliminations, homogenization adjustments, equity method)?**
   Homogenization adjustments and intercompany balance eliminations.

3. **What difficulties do you typically encounter when coordinating with other audit teams within the group, especially in international audits?**
   No major difficulties as such; the only notable issue is that sometimes the timelines are very tight.
4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?**
   Yes. The mere act of preparing consolidated financial statements implies that entries could be made in the process that do not comply with regulations.

5. **Have you noticed any specific limitations in the current audit report format regarding consolidated entities?**
   No.

6. **How effective do you find the revised ISA 600 in reflecting the reality of auditing complex groups?**
   The revised ISA 600 places strong emphasis on a risk-based approach, which allows the group auditor's audit strategy to be tailored to the complexity and specific characteristics of each component. This enables the group auditor to focus on critical areas and makes it easier to identify them.

7. **What role are technological tools (shared platforms, automated consolidations, etc.) currently playing in your audits of consolidated financial statements? Do you think they could be improved?**
   In many cases, such tools are already in use. The automation of certain reports or even the consolidation process helps eliminate human error—whether accidental or intentional.

8. **Are there specific audit procedures that you believe should be standardized in group audits to improve consistency and comparability?**
   Yes. Instructions for consolidation, the use of a unified consolidation or reporting tool, or standardizing certain audit aspects such as risk assessment or materiality definition.

9. **How do you usually approach materiality and risk assessment in consolidated audits, especially when components vary significantly in size or activity?**
   First, the group-wide materiality is determined based on the consolidated financial statements. Once this is established, materiality for each component is defined—this may differ from the group materiality—based on the component's risk or size. In this way, some components may be deemed insignificant for the group consolidation, meaning that a prior audit may not be required before incorporating their figures into the consolidated statements.
   Lastly, for risk assessment at both group and component level, each entity should be analysed individually, taking into account industry complexity, organizational changes, accounting judgments, regulatory environment, and specific circumstances of that entity, among other factors.

10. **Based on your experience, what do you think could most improve the quality and efficiency of consolidated financial statement audits?**
    Maximum automation of processes, as this eliminates the human error factor and leaves only a review of the consolidation process (which does not exempt the final audit of the process itself).

Interview Questions – Semi-Structured Interview with Bernat Girvent

1. **What experience do you have in auditing consolidated financial statements?**
   I assisted in the preparation of the consolidated financial statements for the 2021 fiscal year of Grup Montaner.

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's point of view (e.g., intercompany eliminations, homogenization adjustments, equity method)?**
   Performing intercompany eliminations—especially in a complex group or one with numerous eliminations—is, in my view, the area that deserves the most attention to avoid errors or omissions.

3. **What difficulties do you usually encounter when coordinating with other audit teams within the group, especially in international audits?**
   I have not been in that situation.

4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?**
   Yes, because of the complexity involved in preparing consolidated financial statements, and to ensure that the information is free from material misstatements, it should be audited.

Interview Questions – Semi-Structured Interview with Francisco Sánchez

1. **What experience do you have in auditing consolidated financial statements?** I have conducted audits of multinational companies, preparing the consolidated financial statements for the following firms: Grupo Prisa, Total, Grupo Dragados, Peugeot, Kia Motors, among others.

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's point of view (e.g., intercompany eliminations, homogenization adjustments, equity method)?** In my opinion, intercompany eliminations are the most challenging, due to poorly executed automation. The ERPs of subsidiaries are often not well integrated, which means reconciliations and working papers must be done manually. There can also be fraudulent practices in intercompany transactions that are not properly corrected. Additionally, reconciliation errors may occur due to incorrect entries or foreign exchange rates.

3. **What difficulties do you usually encounter when coordinating with other audit teams within the group, especially in international audits?** We typically encounter difficulties such as:
   - Differences between local standards and group standards.
   - Varying levels of professional skill or competence—there may be individuals unqualified to handle group audits.
   - Reluctance to share information.
   - System issues, particularly with providing access to information for the involved auditors.

4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?** Yes, I agree. Here are my reasons:
   - The audit of consolidated financial statements provides a more objective view for presentation to the market or stakeholders.
   - It helps avoid risks of accounting manipulation.
   - Without an audit, the information does not meet the principle of reliability.

5. **Have you noticed any specific limitations in the current audit report format regarding consolidated entities?** Yes, several limitations can be observed in the current audit report format regarding consolidated entities:
   - Lack of clarity on the audit scope.
   - Limited visibility into the involvement of other group auditors.
   - The language and technical terminology used should be more accessible to non-expert users.

6. **How effective do you find the revised ISA 600 in reflecting the practical reality of auditing complex groups?**
   The revised ISA 600 is more effective than its previous version because it is better able to address the real complexities of group audits. Key improvements include:
   - Better supervision and control tools.
   - A more risk-focused approach.
   - Clearer definition of responsibilities.

7. **What role do technological tools (shared platforms, automated consolidations, etc.) currently play in your audits of consolidated financial statements? Do you think they could be improved?**
   Technological platforms play a crucial role in consolidated audits, especially for companies with complex structures and multiple locations. Their impact on efficiency and quality control is significant. Key features of these platforms include:
   - Automated currency conversions.
   - Real-time supervision.
   - Identification of unreconciled intercompany transactions.
   - Centralized access to working papers.

   Areas for improvement:
   - Develop scripts to monitor intercompany transactions in real time.
   - Create interfaces and applications that simplify data extraction.
   - Build dashboards for real-time analysis.
   - Provide advanced technical training and develop more user-friendly systems.

8. **Are there specific audit procedures that, in your opinion, should be standardized in group audits to improve consistency and comparability?**
   Standardizing certain procedures in group audits does not eliminate professional judgment—it aims to ensure analytical rigor and quality in critical areas. This is especially important for groups that:
   - Are highly regulated.
   - Have decentralized operations.

   These standardized practices would improve audit efficiency, enable period comparisons, and enhance the traceability of risks and auditor responses.

9. **How do you usually approach materiality and risk assessment in consolidated audits, especially when components vary significantly in size or activity?**
   Addressing materiality and risk assessment in consolidated audits with components of varying size or activity requires sound professional judgment and thorough documentation. Materiality is typically calculated based on relevant group metrics such as revenue, assets, profit before tax, or EBITDA.
   A range between 0.5% and 5% is usually applied, depending on the risk.
   Key steps include:
   - Identifying specific components.

- Documenting decisions on scope and coverage.
- Considering the most risky components, not just the largest ones.
- Applying proportional criteria adapted to the group's specific context.

10. **In your experience, what do you believe would most improve the quality and efficiency of this type of audit?**
In my opinion, to improve the quality and efficiency of consolidated financial statement audits, it is essential to have:
    - Solid and efficient training.
    - Strong communication among stakeholders.
    - A consistent work plan and standardized methodology.
    - Effective supervision with special attention to risks.
    - Updated technological tools aligned with international standards.

Interview Questions – Semi-Structured Interview with Carlos Luna

1. **What experience do you have in auditing consolidated financial statements?**
Since my first year in audit, I have worked with clients that are either part of a group or the parent company of a consolidated group. After three years of experience, I was directly responsible for auditing the consolidated financial statements of the parent company, reviewing intercompany adjustments and leading the group audit.

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's perspective (e.g., intercompany eliminations, homogenization adjustments, equity method)?**
The most complex part is the intercompany adjustments related to inventory, especially stock in transit. Coordination between different entities must be very efficient to avoid duplications that overstate inventory without reflecting reality. For instance, if one entity sells to another within the group and the correct matching isn't applied, it may result in duplicated inventory recorded in both balance sheets. If this area isn't reviewed thoroughly, it can lead to significant issues in validating these entries.

3. **What difficulties do you usually encounter when coordinating with other audit teams within the group, especially in international audits?**
The main difficulty lies in accounting differences, as Spanish GAAP (PGC) differs from most other regulations that apply IFRS. This leads to adjustments due to accounting standard differences (e.g., IFRS 16 for lease recognition or IFRS 15 for revenue), which require more analytical testing of how these adjustments are mapped to our local accounting framework.

4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?**
A consolidated group represents a business structure that stems from the need to

manage different business models, geographic operations, industrial organizations, etc. This inherently involves diversity in group entities. When one subsidiary has balances with other group entities, such as a financial asset owed by the parent, the health of the consolidated financial statements becomes critical to assess whether that asset is truly recoverable or needs impairment. This group-level information is essential for subsidiaries and their stakeholders, so mandatory audits of voluntarily prepared consolidated financial statements seem both reasonable and appropriate.

5. **Have you noticed any specific limitations in the current audit report format regarding consolidated entities?**
   The structure of the audit report for a consolidated group is flexible in terms of exceptions or basis for opinion. Therefore, I wouldn't say I've encountered any specific limitations in my experience. In special situations, there may be some challenges, but not in my case so far.

6. **How effective do you find the revised ISA 600 in reflecting the practical reality of auditing complex groups?**
   As I mentioned earlier, I have only worked with group companies since 2023. Therefore, the revised standard was already in application by the time I had any decision-making or responsibility in this area. From my earlier experience at a Big 4 firm, audit work is more divided among team members, and aligning the audit procedures with theoretical standards is typically the responsibility of the engagement partner, who holds the most in-depth knowledge of these aspects.

7. **What role do technological tools (shared platforms, automated consolidations, etc.) currently play in your audits of consolidated financial statements? Do you think they could be improved?**
   First, shared platforms within audit teams working on multiple group entities are essential. When companies are closely linked through intercompany balances and transactions, having access to all information is critical.

   Second, there are various platforms used to report to group auditors. When the group is audited by the same firm (e.g., Rödl Spain and Rödl Germany), internal platforms like GATE help facilitate information exchange. When reporting to a different firm, the process is usually done via email using exhibit templates provided in the group instructions.

   In reality, the key is having well-written instructions where the appendices and required information are clear. If the instructions are good, it's easy to understand what the group auditor needs. The method of delivery is secondary in the end.

8. **Are there specific audit procedures that, in your opinion, should be standardized in group audits to improve consistency and comparability?**
   Primarily, the delivery of instructions and reporting frameworks should be standardized.

Understanding these documents is one of the most critical steps, and having uniformity would make the process much easier.

9. **How do you usually approach materiality and risk assessment in consolidated audits, especially when components vary significantly in size or activity?** It depends on the structure and industry of the group, but generally I use criteria similar to those applied to local materialities, aggregating related balances.

10. **In your experience, what do you believe would most improve the quality and efficiency of this type of audit?** In my view, group auditors should perform a more thorough preliminary process, including a kick-off call with each of the local auditors to briefly go through the instructions and ensure everything is clear for the rest of the audit over the following months.

Interview Questions – Semi-Structured Interview with Alfonso Fernández

1. **What experience do you have in auditing consolidated financial statements?** I have participated in several audits of both national and international corporate groups, most of them with complex structures and subsidiaries in different countries. I have worked in various phases of the process, from planning and identifying significant areas to executing procedures at subsidiaries and coordinating with the group audit team, providing all the necessary information.

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's perspective (e.g., intercompany eliminations, homogenization adjustments, equity method)?** From my experience, the most challenging aspect is ensuring proper coordination between the different audit teams, especially when components are located in different countries. From a technical standpoint, intra-group eliminations and accounting homogenization are particularly complex.

3. **What difficulties do you usually encounter when coordinating with other audit teams within the group, especially in international audits?**

   The main difficulties are typically related to deadlines for delivering information, availability of documentation in English or other languages, and differences in the quality or format of information provided by other teams.

4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?** Yes, I agree. If consolidated financial statements are prepared with the aim of providing information to the market or third parties, their reliability must be ensured through an audit, regardless of whether their preparation is mandatory or voluntary.

5. **Have you noticed any specific limitations in the current audit report format regarding consolidated entities?**
Sometimes, the report may fall short in reflecting the complexity of the group or the specific scope of the work carried out on the components. Greater transparency about the group auditor's involvement in different countries could be helpful.

6. **How effective do you find the revised ISA 600 in reflecting the practical reality of auditing complex groups?**
The revised ISA 600 significantly improves the definition of responsibilities and the need for supervision by the group auditor. It brings greater clarity, although it also entails an additional burden in terms of planning and documentation, which can be demanding for all teams and thus present a challenge.

7. **What role do technological tools (shared platforms, automated consolidations, etc.) currently play in your audits of consolidated financial statements? Do you think they could be improved?**
Shared platforms greatly facilitate communication and traceability in group audits. However, there is still room for improvement in terms of system integration and automation of common procedures among components.

8. **Are there specific audit procedures that, in your opinion, should be standardized in group audits to improve consistency and comparability?**
Yes, particularly those related to obtaining evidence from components, reviewing intra-group transactions, and documenting the work performed. Establishing common minimum procedures would help reduce differences between teams.

9. **How do you usually approach materiality and risk assessment in consolidated audits, especially when components vary significantly in size or activity?**
From the component auditor's perspective, it is common for the group auditor to communicate the assigned materiality and identified risks. From there, we perform the required procedures to address those risks and meet the group's expectations.

10. **In your experience, what do you believe would most improve the quality and efficiency of this type of audit?**
More detailed planning from the beginning, better communication between teams, and greater use of technological tools to share documentation and information in a standardized way would significantly enhance both quality and efficiency. However, time is often very limited compared to the amount of work required, which can pose a major challenge for the teams.

Interview Questions – Semi-Structured Interview with Marcelo Aguilera

1. **What experience do you have in auditing consolidated financial statements?**
   I have experience auditing consolidated financial statements under Chilean, Spanish, and IFRS accounting standards, covering approximately five fiscal years and five different corporate groups.

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's perspective (e.g., intercompany eliminations, homogenization adjustments, equity method)?**
   I believe the most challenging part is identifying intercompany transactions and ownership percentages, which are essential for properly executing eliminations. Ideally, automated tools should be used to identify entities and accounts involved in such transactions to perform eliminations and adjustments efficiently. When using Excel, calculation errors are common, especially when dealing with a large number of entities.

3. **What difficulties do you usually encounter when coordinating with other audit teams within the group, especially in international audits?**
   Often, the instructions received are not clear, user-friendly, predefined, or timely. This leaves room for misinterpretation and error and may result in additional effort both for those receiving the instructions and for those responsible for the final consolidation.

4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?**
   In my view, any financial information used for making important decisions—whether at the group level, for investment, or other key purposes—should be audited to ensure its reliability.

5. **Have you noticed any specific limitations in the current audit report format regarding consolidated entities?**
   I haven't noticed any significant limitations in that regard.

6. **How effective do you find the revised ISA 600 in reflecting the practical reality of auditing complex groups?**
   The standard is comprehensive; however, the challenge lies in the fact that not all audit firms have the resources to invest in sufficient training or technological tools to address all relevant risks adequately.

7. **What role do technological tools (shared platforms, automated consolidations, etc.) currently play in your audits of consolidated financial statements? Do you think they could be improved?**

   There is always room for improvement, but the use of technology helps reduce the margin of error and automates basic processes, allowing audit teams to focus their resources on key areas that require professional judgment.

8. **Are there specific audit procedures that, in your opinion, should be standardized in group audits to improve consistency and comparability?** Yes, particularly those related to group transactions and transfer pricing, which ultimately require adjustments or eliminations. These should be clearly audited to reduce the workload during the final consolidation process.

9. **How do you usually approach materiality and risk assessment in consolidated audits, especially when components vary significantly in size or activity?**

   Materiality is assigned based on each component's impact on the final consolidated financial statements. Additionally, analytical procedures are performed to assess whether any component could affect the group beyond its proportional equity—for example, if a component is involved in illegal activities or poses reputational or legal risks related to clients, suppliers, or the community, which could result in shared liabilities at the group level.

10. **In your experience, what do you believe would most improve the quality and efficiency of this type of audit?**
    I believe the group auditor should occasionally travel to the countries or locations where instructions have been sent to verify firsthand that instructions, identified risks, and materialities are being properly understood and followed. This would provide a higher level of assurance that the entire group is being audited consistently and reasonably.

Interview Questions – Semi-Structured Interview with César Goni

1. **What experience do you have in auditing consolidated financial statements?** Well, my experience: I've been in the audit world for almost 19 years. The vast majority of my career has been auditing financial statements for companies—SMEs, mid-sized, and large entities. Most of these audits were individual. I have done some consolidated audits, but not many—at most one, two, or three per year. And they weren't particularly complex either: small groups, with a parent company and three or four subsidiaries, low complexity, few significant adjustments. But I do have some experience.

2. **In your opinion, which aspect of the consolidation process is technically the most challenging from the auditor's perspective (e.g., intercompany eliminations, homogenization adjustments, equity method)?**
   The elimination adjustments, particularly the inventory part when there are intercompany transactions. Knowing which inventory is in one company or another and has not yet been sold—or failing to identify that kind of inventory—is always more complicated. Within the complex process, that is the most difficult part because it's data that the company has and it's very hard to pin down.

3. **What difficulties do you usually encounter when coordinating with other audit teams within the group, especially in international audits?**
   Communication is essential. Instructions are provided at the beginning; deadlines and required documentation, such as exhibits, are set. You have to follow the regulations. You can't deviate from them.

4. **Do you agree that voluntarily prepared consolidated financial statements should be subject to mandatory audit, as required by Spanish regulations? Why?**
   Yes, of course. The more the financial statements are audited, the more peace of mind for investors, management, and everyone else. So, of course I agree. Yes. And on top of that, since it's not an easy process—it's complex and a lot of information is disclosed—it needs to be verified and contrasted. Having an auditor involved gives stakeholders greater confidence.

5. **Have you noticed any specific limitations in the current audit report format regarding consolidated entities?**
   The information disclosed in the notes to the consolidated financial statements. The clearer the disclosures in the notes, the better for third parties. Beyond that, not much.

6. **How effective do you find the revised ISA 600 in reflecting the practical reality of auditing complex groups?**
   Now that is updated, it clarified several concepts—especially defining the role of the group auditor, their responsibilities, and the communication required between the group auditor and the component auditors. It also clarifies how this interaction should be structured.

   Importantly, the group auditor now has to be more involved in the component auditor's work. More communication and more supervision. Previously, component auditors were given a lot of independence to do their job and simply reported to the group auditor, who based their working papers on that documentation. Now, under the new standards, the group auditor must be much more hands-on and supervise component auditors more closely.

   In our case, for example, group auditors have been present in meetings with clients—both closing and initial meetings. They've wanted to be there. They've held preliminary meetings with all component auditors via videoconference to explain how they're approaching the group audit and what they expect from component auditors. There is much more involvement from group auditors with the component auditors.

In my opinion, that's perfect. The more supervision, the better. The more communication with the group auditor, the better. I've experienced cases where, as a local auditor, you have your own risks and issues, and communication is simply handing over a document to the group auditor without any real feedback. With these meetings and supervision, you get better communication and can ask questions when needed.

7. **What role do technological tools (shared platforms, automated consolidations, etc.) currently play in your audits of consolidated financial statements? Do you think they could be improved?**
   There's always room for improvement, but they are essential. Many companies still consolidate using classic Excel, but others use more advanced tools, especially for reporting, which is a step forward. When subsidiaries send financial data to the group, they already separate intercompany balances and transactions from others. This makes consolidation easier.
   There are tools—like one from Sage, or Navision also had one—that make it much easier to consolidate because everyone uses the same standardized format, and it's software, not Excel. Many companies still use Excel and send files to the parent, who combines them. But others use actual software, which is much more practical.
   As for the audit itself, it's about reviewing eliminations and standardizations, all in accordance with ISA 600 and the relevant accounting standards.

8. **Are there specific audit procedures that, in your opinion, should be standardized in group audits to improve consistency and comparability?**
   What needs to be reviewed is the consolidation process itself and how to communicate and report it across the group. This is already well addressed with the updated standards.

9. **How do you usually approach materiality and risk assessment in consolidated audits, especially when components vary significantly in size or activity?**
   It depends on the activity and risks considered to determine materiality. The first thing the standards tell you is to use auditor judgment—based on the risks you consider most significant, depending on many variables. The standards also allow for using certain benchmarks—like revenue, profit, or equity. It depends.

   In many groups, you can't standardize the criteria; you have to individualize. When a group has many subsidiaries with different year-ends and varying importance, you need to define the scope of the group being audited—the consolidation perimeter. Then you assess which entities are worth auditing or reviewing, based on materiality thresholds.

10. **In your experience, what do you believe would most improve the quality and efficiency of this type of audit?**

One of the ongoing risks in auditing is the human factor—it's the main risk. So, the more tasks are done manually, the greater the chance of error. Therefore, the more you automate, the better. If it's done using software, great. If it's done in Excel, there's a risk of errors in formulas.

Also, I think training could be improved—especially more training in regulations, and also more specific training depending on the industry.