Committee: IAASB  
Meeting Location: Tokyo  
Meeting Date: October 12-17, 2003  

The Audit of Group Financial Statements

Objectives of Agenda Item
1. To review a proposed IAPS, “The Audit of Group Financial Statements.”
2. To review proposed standards and guidance on division of responsibility.
3. To discuss matters highlighted for further consideration by the IAASB.

Task Force
The members of the task force are as follows:

Suresh Kana (Chair)  
John Fogarty  
Jan Bo Hansen  
Gen Ikegami  
Zhiguo Yang  
Ian Plaistowe

Activities Since Last IAASB Discussions
The task force met twice since the July 2003 IAASB meeting and had several telephone conferences.

Documents Presented to the IAASB
The task force agreed to present the following documents to the IAASB:

- A proposed IAPS, “The Audit of Group Financial Statements,” which is a stand-alone document that incorporates the text of the proposed revised ISA 600, “Considering the Work of Other Auditors.” The scope of the IAPS is limited to sole responsibility.
- Proposed standards and guidance on division of responsibility.
Discussion of Documents at the October 2003 IAASB Meeting

The task force is of the opinion that these documents contain all the guidance on the subject matter that the task force considers necessary and appropriate.

Although the final documents will not be in the same format (see Matters Highlighted for Further Consideration by the IAASB below), a review of the documents will enable the IAASB to provide the task force with the comments necessary to finalize the proposed exposure draft(s) for approval at the December 2003 IAASB meeting.

Accordingly, the task force proposes that a paragraph by paragraph review of the documents is conducted at the meeting and that the Matters Highlighted for Further Consideration (i.e. format of proposed standards and guidance, and potential bold lettering) are discussed subsequent to this review.

The IAASB is urged to conduct a full review of the documents before the discussion thereof at the meeting.

Significant Proposals

The proposed IAPS is based on the Audit Risk Model and contains guidance that the task force believes may not be common practice and, therefore, will require significant changes in practice. Significant proposals relate to the following:

- The extent of information to be obtained at the acceptance and continuation stage of the engagement (refer paragraphs 7 to 14 of the proposed IAPS).
- Group planning and evaluation materiality and materiality determined by the group auditor for components (refer paragraphs 16 to 18).
- The understanding to be obtained of the components and the consolidation (refer paragraphs 19 to 29).
- Performing a risk assessment at group level and scoping the work to be performed at components (paragraphs 33 to 49).
- Performing audit procedures on the consolidation (paragraphs 55 to 63).
- Distinguishing between related auditors and other auditors.
- Obtaining a representation on the other auditor’s quality control process (refer paragraph 81).
- The group auditor’s participation in the other auditor’s work (refer paragraphs 13 and 43).

Matters for Further Consideration by the IAASB

FORMAT OF PROPOSED STANDARDS AND GUIDANCE

Based on previous submissions of the task force, the IAASB agreed that the task force should prepare a revised ISA 600 “Considering the Work of Other Auditors” and a new IAPS “The Audit of Group Financial Statements.” The IAASB also agreed that the proposed revised ISA 600 should contain standards and guidance on sole responsibility and division of responsibility, and that the scope of the IAPS should be limited to sole responsibility.

As the project progressed, some task force members became concerned that the above approach may not lead to a change in behavior if the guidance in the IAPS is not supported by bold lettered principles/procedures. Although the guidance on the group auditor’s consideration of the work of
related auditors and other auditors will be supported by bold lettered principles/procedures in the proposed revised ISA 600, other important guidance, such as the scope of work to be performed on components’ financial information and the group auditor’s participation in the other auditors’ work, will not be supported by bold lettered principles/procedures.

As a result, the task force has highlighted text in the proposed IAPS (see grey shaded text) that it believes should be reflected as bold lettered principles/procedures. The task force is seeking the IAASB’s advice on:

- The format in which the proposed standards and guidance should be presented, e.g. revised ISA 600 and new IAPS; or new ISA on “The Audit of Group Financial Statements,” incorporating all the text of the proposed IAPS presented to the IAASB, and withdrawal of ISA 600, and
- The completeness and appropriateness of the proposed bold lettered principles/procedures, i.e. shaded text in the proposed IAPS presented to the IAASB.

### IAASB Action Required

1. Does the IAASB agree that a need exists for some of the guidance (other than the guidance relating to the consideration of the related auditors’ and other auditors’ work) to be supported by bold lettered principles?
2. If so, are the proposed bold lettered principles/procedures (i.e. grey shaded text) complete and appropriate?
3. If so, how should the standards and guidance be presented – as ISA and IAPS or only as a new ISA, with ISA 600 being withdrawn, etc.?

### DIVISION OF RESPONSIBILITY

The task force has agreed not to indicate that sole responsibility is the desirable approach. However, application of division of responsibility is limited to instances where the approach is specifically permitted in national regulation, and the group auditor is required to follow the national regulations.

Additional standards and guidance have been prepared by the task force. These are reflected in Agenda Item 8-B. The intention is for the standards and guidance to be included as a separate section at the end of a proposed revised ISA 600 or new ISA, depending on the outcome of the above discussions.

### IAASB Action Required

1. Does the IAASB agree with the proposal to limit the application of the division of responsibility approach as indicated above?
2. Are the proposed standards and guidance on division of responsibility complete and appropriate?
3. Does the IAASB agree with the proposed positioning of the standards and guidance on division of responsibility?
Timetable for Completion of Project
Approval of proposed exposure draft(s) December 2003
Comment date March 31, 2004
Final review June 2004
Approval of final pronouncement(s) September 2004

Material Presented
(Pages 1515-1546)

Agenda Paper 8-B Standards and Guidance on Division of Responsibility
(Pages 1547-1548)

Action Requested
The IAASB is asked to consider the following:


2. The standards and guidance on division of responsibility.

3. The matters highlighted for further discussion.