

# IAASB CAG PAPER



**International Federation of Accountants**

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## Agenda Item **B-2**

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** London

**Meeting Date:** September 20-21, 2007

### **Report Back—Group Audits**

#### **Objectives of Agenda Item**

To provide a brief report back on the April 2-3, 2007 proposals of Representatives on ISA 600 (Revised and Redrafted), “Special Considerations—The Audit of Group Financial Statements (Including the Work of Component Auditors).” The final ISA was approved by the IAASB in July 2007.

#### **April 2-3, 2007 CAG Proposals**

Below is an extract from the minutes of the April 2-3, 2007 CAG meeting and an indication of how the IAASB Task Force or the IAASB responded to the Representatives’ comments.

Representatives’ comments	IAASB task force/IAASB response
<b>AUDIT QUALITY AND PUBLIC INTEREST VS. COST</b>	
Mr. Hansen asked Representatives whether the requirements are set at an appropriate level of specificity. Mr. Hallqvist noted that it is mainly auditor associations that are concerned about increased costs; however, it is the owners that decide how much to pay for a quality audit. Mr. Krantz noted that management may have to assist the owners in understanding the cost of a quality audit.	Noted.
Mr. Roussey noted that the IAASB CAG Working Group did not consider the proposed ISA; however, he was of the view that the proposed approach is reasonable. He noted that the proposed ISA provides solutions to very difficult matters, such as those of group engagement partner and group engagement team.	Noted
<b>OBJECTIVES OF THE STANDARD</b>	

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Representatives' comments	IAASB task force/IAASB response
<p>Ms. Sucher asked how the group engagement team will determine that it has achieved part (b) of the objectives (i.e., to effectively communicate with component auditors). Mr. Morris questioned whether “communicate” is the correct word. He suggested “supervise” or “monitor.” Mr. Hansen responded that monitoring is dealt with in part (c) of the objectives (i.e., to obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework).</p> <p>Mr. Johnson referred to paragraph 40 (which requires the group engagement team to communicate specified matters to component auditors), paragraph 41 (which requires the group engagement team to request component auditors to communicate specified matters), and paragraphs 42 and 43 (which deal with the evaluation of that information). He was of the view that “communicate” was the correct word based on these requirements. He noted that the objective should not be read in isolation. Mr. Roussey suggested a clearer link between the objectives and the requirements. This could be achieved by headings.</p>	<p>Based on the Representatives' comments and comments of the IAASB, the objective was revised to read as follows: “The objectives of the auditor are:</p> <ul style="list-style-type: none"> <li>(a) To determine whether to act as the auditor of the group financial statements;</li> <li>(b) To communicate clearly with component auditors about the scope and timing of their work on financial information related to components and their findings; and</li> <li>(c) To obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.”</li> </ul>
<p>Mr. Hallqvist and Dr. Manabat were of the view that in certain circumstances the group engagement team should be able to rely on the work of component auditors and limit procedures to a review of the component auditors' working papers. Mr. Hansen explained that the proposed ISA follows a risk-based approach. In the case of significant components, the group engagement team is required to be involved in the component auditor's work.</p>	<p>As per Mr. Hansen's response at the meeting, as noted at left.</p>
DEFINITIONS	

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Mr. Damant was of the view that the proposed definitions of group engagement partner, group engagement team and component auditor are much clearer. Mr. Rabine also supported the proposed definitions. He was of the view that the ISA is moving in the right direction, and that it clearly reflects the duties and responsibilities of those involved in a group audit. Ms. Sucher was of a similar view.	Noted.
Ms. Rand asked that the Task Force consider the outcome of the discussion of the definition of engagement team in proposed ISA 620 (Revised and Redrafted) and how it affects the definition of group engagement team in the proposed ISA. Mr. Hansen was of the view that the single entity audit solution should apply equally in the case of a group audit.	As per Mr. Hansen's response at the meeting, as noted at left.
Mr. Sekiguchi noted that the definition of group engagement partner does not provide for more than one partner or other person in the firm signing the group auditor's report. He was of view that such partners or other persons in the firm are collectively responsible for the group audit engagement and its performance. Mr. Damant suggested that the proposed ISA clarify that the singular includes the plural. Mr. Kellas noted that this was not about joint audits, but about joint signatories. He cautioned against taking a definitive view in this regard in the proposed ISA. He noted that multiple signatories may be a matter of national law, while it may be clear that one partner or other person in the firm is responsible for the performance of the group audit.	As per Mr. Kellas' response at the meeting, as noted at left.
THE GROUP ENGAGEMENT TEAM'S PROCEDURES IN RELATION TO COMPONENT AUDITORS	
Ms. Rand was of the view that the proposed ISA provides insufficient application material with regard to the requirement for the group engagement team to obtain an understanding of whether the component	Paragraph 19 of ISA 600 (Revised and Redrafted) requires the group engagement team to obtain an understanding of whether the component auditor operates in a regulatory environment that actively

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auditor operates in a regulatory environment that actively oversees and enforces the independence and professional competence of auditors, and the quality control systems of their firms. Mr. Rabine was of a similar view. He noted that this is a driver of lower costs. Mr. Hansen agreed, noting that it may positively affect the nature and extent of the group engagement team's involvement in the component auditors' work.	oversees auditors. New application material in paragraph A36 reads as follows: "Where independent oversight bodies have been established to oversee the auditing profession and monitor the quality of audits, awareness of the regulatory environment may assist the group engagement team in evaluating the independence and competence of the component auditor. Information about the regulatory environment may be obtained from the component auditor or information provided by the independent oversight bodies."
RESPONSIBILITIES OF COMPONENT AUDITORS	
Mr. Pickeur referred to the Task Force's view "... that the relationship is between the group engagement partner and those charged with governance of the group; not between the group engagement partner and the component auditor. A requirement for the component auditor to cooperate with the group engagement team may have legal implications." He asked what the reference to "relationship" mean. He also asked about the reference to "legal implications." Mr. Hansen noted that the word "relationship" could be replaced with "engagement" or "contract." He explained that the Task Force obtained input from certain jurisdictions that a requirement for component auditors to cooperate with the group engagement team may have legal implications.	As per Mr. Hansen's response at the meeting, as noted at left.
OTHER TASK FORCE PROPOSALS	
Mr. Rabine suggested that the requirements relating to the consolidation process clarify that the group engagement team has to obtain and understanding of and evaluate the process.	The requirements relating to the consolidation process in ISA 600 (Revised and Redrafted) now refer to paragraph 17, which requires the group engagement team to obtain an understanding of the consolidation process, including the instructions issued by group management to components.
The Representatives did not have comments on the	Noted.

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other proposals of the Task Force.	

**The final ISA will be posted to the IFAC website after due process approval by the Public Interest Oversight Board.**