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Group Audits—Summary of Significant Comments – April 2007 IAASB Agenda Item 3-A

Summary of Significant Comments on ED-ISA 600 (March 2006)

Background

1. Several bodies have asked for requirements and guidance on the audit of group financial statements (“group audits”), including the European Commission, the International Organization of Securities Commissions, the former Panel on Audit Effectiveness in the United States, and the International Forum on Accountancy Development. Accordingly, the IAASB commenced a project in 2002 to deal with special considerations that apply to group audits, in particular those that involve component auditors (referred to as “other auditors” in the March 2006 Exposure Draft). It was agreed that extant ISA 600, “Using the Work of Another Auditor” should be revised to deal with such considerations, and that its title should be changed accordingly.
2. Although matters relating to the use of the work of component auditors are addressed at both international and national levels, group audits are not. Therefore, in response to the requests referred to in paragraph 1, and recent financial and audit failures, the IAASB set out to develop requirements and guidance for group audits that are capable of consistent application and, as a result, will improve audit quality and protect the public interest.
3. During the project, the IAASB debated many important matters that affect the quality of group audits, in particular the following:
 - (a) Full vs. divided responsibility.
 - (b) Acceptance and continuance of group audits, including access to relevant information.
 - (c) The application of the *Audit Risk Standards* and [proposed] ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit.”
 - (d) How to define the group engagement partner, group engagement team and component auditor. (“Group engagement team” was referred to as “group auditor” in the March 2006 Exposure Draft.)
 - (e) The group engagement team’s procedures in relation to component auditors.
 - (f) Application of the clarity drafting conventions.
4. The IAASB has consulted widely on its proposals and continues to refine them in response to comments. To date, it has issued three exposure drafts:
 - December 2003 (proposed revised ISA 600, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements” and proposed new IAPS, “The Audit of Group Financial Statements”);

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- March 2005 (proposed ISA 600 (Revised), “The Audit of Group Financial Statements”); and
 - March 2006 (proposed ISA 600 (Revised and Redrafted), “The Audit of Group Financial Statements”).
5. Significant comments on the March 2006 Exposure Draft are summarized in this paper. Fifty comment letters were received. The Appendix contains a list of respondents. An informal submission was received from the IFAC Small and Medium Practices Committee.
 6. During the project, the Task Force has also presented at meetings of the Consultative Advisory Group, the Small and Medium Practices Committee, and the Transnational Auditors Committee.

Audit Quality and Public Interest vs. Cost

7. The majority of respondents to the March 2006 Exposure Draft agreed that the proposed ISA will enhance the quality of group audits and supported the specificity of the group engagement team’s procedures; however, some with qualification.
8. The UK APB noted that it had asked some auditors to estimate the possible effect of the proposed ISA on the cost of some of their current group audits. The results generally indicated estimated cost increases of between less than 0.2% and up to 8%, with most results in the range of 1% to 5%. This was based on a small sample and may not necessarily apply to all group audits. Key reasons given for the cost increases were as follows:
 - Uncertainty over the nature and extent of evidence required to be obtained, and documentation thereof, to demonstrate an appropriate understanding of component auditors (paragraph 14 of the March 2006 Exposure Draft).
 - Costs associated with the requirement in paragraph 40 of the March 2006 Exposure Draft to communicate significant risks that have been identified in the component, but that may not be of significance to the group.
 - A belief by some auditors that they may need to reduce component materiality levels below those currently determined as appropriate, with a consequent increase in the amount of audit work. This was a factor in the higher estimates of cost increases that was received.

The UK APB also noted that the effect on costs of audits of small groups is likely to be disproportionately higher than the effect on larger groups with many components that are not considered significant components. That is because smaller groups with only a few subsidiaries are more likely to have significant components, which require more detailed audit work.

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9. The Task Force is of the view that proposed amendments to the requirements and guidance on the group engagement team's understanding of component auditors and communication with component auditors (as discussed in the relevant sections below) will address the UK APB's concerns noted in the first two bullets of paragraph 8. With regard to materiality, see the Task Force's disposition in the relevant section below.
10. PKF was of the view that even for large and medium sized groups there will be significant cost increases. It indicated conservative estimates in the range of 15-20%. The difference in percentages noted by the UK APB and PKF suggests that the effect on cost may be different for different jurisdictions. The UK APB's informal survey was limited to the UK, while it is assumed that PKF obtained the views of more than one jurisdiction.
11. Based on the comments of the majority of respondents, the Task Force continues to believe that, where the group engagement partner is responsible for the group audit opinion, the group engagement team has to obtain sufficient appropriate audit evidence on which to base that opinion. Significant variances in current group audit practices are confirmed by the comments on the three exposure drafts and, in particular, the variances in the results of the informal surveys conducted by UK APB and PKF.
12. The Task Force, in response to requests for requirements and guidance on group audits and in light of recent financial and audit failures, has focused on developing requirements and guidance that will enhance the quality of group audits and protect the public interest. To ensure consistent application of the requirements and guidance, the Task Force believes that it is necessary to be reasonably specific about the group engagement team's procedures.

Summary of Significant Comments and Recommendations

Scope of the Standard

13. Paragraph 1 of the March 2006 Exposure Draft indicates that the proposed ISA deals with special considerations that apply to group audits, in particular those involving component auditors. It also states that the proposed ISA, adapted as necessary in the circumstances, applies where component auditors are involved in the audit of the financial statements of a single entity.
14. Some respondents (e.g., ACCA, FEE, GT, IBR-IRE, ICAEW, IDW, IFAC SMPC, IOSCO) expressed concerns about the scope of the proposed ISA. It was noted that the proposed ISA does not deal primarily with considerations that are special to group audits; it deals primarily with those group audits that involve component auditors. In addition, they were of the view that the proposed ISA does not provide sufficient guidance on audits of single entities that involve other auditors.

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Task Force Disposition

15. The Task Force discussed the scope of the proposed ISA based on the comments. The Task Force did not want to limit the scope of the proposed ISA to those group audits that involve component auditors. The Task Force believes that the proposed ISA contains important requirements and guidance that apply irrespective whether component auditors are involved in the group audit, for example, those relating to the consolidation process.
16. The Task Force also concluded that the proposed ISA was developed in response to stakeholders' request for requirements and guidance for group audits. The Task Force is concerned that expanding or amending the requirements and guidance, which currently focus on component auditors involved in group audits, also to address other auditors involved in the audits of single entities may be confusing and negatively affect the objective of the project, i.e., to develop high-quality requirements and guidance for group audits. The Task Force concluded that the requirements and guidance in [proposed] ISA 220 (Redrafted), "Quality Control for Audits of Historical Financial Information" should apply in the case of other auditors involved in the audits of single entities.
17. The Task Force therefore proposes that:
 - (a) The scope of the proposed ISA be limited to group audits and that it is titled "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)."
 - (b) The last sentence of paragraph 1 of the March 2006 Exposure Draft be deleted.
 - (c) Extant ISA 220 be amended to indicate, after paragraph 20, that [proposed] ISA 600 (Revised and Redrafted) contains additional requirements and guidance for group audits that involve component auditors and that an auditor of a single entity may find [proposed] ISA 600 (Revised and Redrafted), adapted as necessary in the circumstances, useful when component auditors are involved in the audit of the financial statements of the single entity.
 - (d) Similar text be inserted in the application material of the proposed ISA (see paragraph A1).

Objective of the Standard

18. A small number of respondents indicated support for the objective in paragraph 6 of the March 2006 Exposure Draft (e.g., CAFCO, DFCG, DTT, FAR, HKICPA, IDW, INTOSAI, KPMG).¹ Many respondents, however, were concerned about or

¹ Paragraph 6 of the March 2006 Exposure Draft read as follows: In relation to this ISA, the objective of the auditor is to determine whether the auditor is able to act as the group auditor, and to obtain

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commented on the objective (e.g., ACCA, AUAASB, Audit Commission, Basel, CEBS, CICA, CIPFA, EC, GT, IBR-IRE, ICAEW, ICAS, IRBA, IOSCO, JICPA, Mazars, MIA-MICPA, NAO, NIVRA, NZICA, PKF, PWC UNICE, World Bank). Concerns/comments included the following:

- To determine whether the auditor is able to act as the auditor of the group financial statements is one of the results of the objective to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and not an objective in itself. (IRBA)
- The objective should be described more positively / less inward-facing, avoiding the phrase “reduce audit risk ... to an acceptably low level.” (IOSCO, World Bank)
- The objective should state the purpose for obtaining sufficient appropriate audit evidence and link that purpose to the reporting responsibilities of the group engagement partner, consistent with the overall objective of an audit stated in [proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and Concepts Relevant to an Audit of Financial Statements.” (Audit Commission, AUAASB, EC, JICPA, Mazars, MIA-MICPA, NIVRA, PWC)
- The objective should focus on the result / outcome of the group audit. (CEBS, EC, UNICE) EC also supported referring to the fact that the group engagement team may obtain audit evidence from component auditors to reach the objective. ACCA was of a similar view.
- Sub-paragraphs (a) to (d) are not objectives, but ways of achieving the objective of obtaining sufficient appropriate audit evidence on which to base the group audit opinion. (EC, CIPFA, FEE, IBR-IRE, ICAEW, ICAS, IRBA, JICPA, NAO, NIVRA, NZICA, PKF) / The objective is partly described in process terms. It would be conceptually better to split the objective and the main process elements into two different paragraphs. A clear link between sub-objectives (process

sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level by:

- (a) Determining the audit procedures to be performed on the consolidation process and the work to be performed by the group auditor or the other auditors on the financial information of the components;
- (b) Determining the group auditor’s involvement in the work performed by the other auditors;
- (c) Establishing appropriate communication with the other auditors; and
- (d) Evaluating the audit evidence obtained in relation to the consolidation process and the financial information of the components.

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elements) and sections would help to better understand which audit procedures need to be performed for achieving the specified sub-objectives. (World Bank)

Task Force Disposition

19. The Task Force is of the view that the determination of whether the auditor is able to act as the auditor of the group financial statements is a very important aspect of a group audit. However, the Task Force agrees that the objective should focus on the results / outcome of the group audit.
20. The Task Force considered the objective developed by the Clarity Task Force and included in the list of proposed objectives. The Task Force proposes that the objective reads as follows: “The objectives of the auditor are: (a) to determine whether to act as the auditor of the group financial statements; (b) to effectively communicate with component auditors; and (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.” See paragraph 6 of Agenda Item 3-B.

Definition of Component

21. Some respondents (e.g., ACCA, FEE, GT, HKICPA, IDW, IOSCO, MIA-MICPA, PWC) commented on the definition of “component,” which is defined as follows in paragraph 7(a) of the March 2006 Exposure Draft: “A head office, parent, division, branch, subsidiary, joint venture, associated company, or other entity whose financial information is or should be included in the group financial statements.”
22. PWC, HKICPA and MIA-MICPA noted that it is unclear whether the listed types of segment should always be considered components or whether the list is illustrative. They assumed the latter as the definition reflects different levels within an organizational structure. They were of the view that the definition does not recognize that some entities may not report financial information based on a typical organizational structure. Some entities’ organizational structures and financial reporting systems may be based on products, services (or groups of products and services), or geographical locations; rather than legal entities. The entity’s financial reporting and control structure influences the group audit approach. For these reasons, they were of the view that the proposed ISA should include a requirement that, when establishing the group audit strategy and audit plan, the group engagement team needs to gain an understanding of how the entity’s financial reporting system is designed, and how management determines its business segments and geographical segments. The group engagement team should apply professional judgment to determine the components that will form the basis for the design of the group audit approach.

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23. ACCA was of the view that the definition does not provide for subgroup structures, as may be the case in large groups.

Task Force Disposition

24. Based on the comments, the Task Force proposes to amend the definition of “component” as follows: “An entity or business activity for which group or component management prepares financial information that is included in the group financial statements.” See paragraph 7(a) of Agenda Item 3-B.
25. The Task Force also proposes the following new application material:
- “A3. The structure of a group affects how components are identified. Because groups may be structured differently, the identification of components is based on the group engagement team’s professional judgment. For example, the group financial reporting system may be based on an organizational structure that provides for financial information to be prepared by a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity or cost methods of accounting; by a head office and one or more divisions or branches; or by a combination of both. Some groups, however, may organize their financial reporting system by function, process, product or service (or by groups of products or services), or geographical locations. In these cases, the entity or business for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographical location.
- A4. Various levels of components may exist within the group financial reporting system, in which case it may be more appropriate to identify components at certain levels of aggregation rather than individually.
- A5. Components aggregated at a certain level may constitute a component for purposes of the group audit; however, it may also prepare group financial statements that incorporate the financial information of the components it encompasses (i.e., a subgroup). This ISA may therefore be applied by different group engagement partners and teams at different subgroups within a larger group.
- A6. Although all identified components will have component management, it may not be possible to identify those charged with governance for all identified components.” (See Agenda Item 3-B.)
26. In addition, the Task Force proposes that the application material be expanded to indicate that the group engagement team’s understanding of the group, its components, and their environments include matters such as the group structure, including both the legal and organizational structure (i.e., how the group financial reporting system is organized). See paragraphs A12 and A13 of Agenda Item 3-B.

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How to Define the Group Engagement Partner, Group Engagement Team and Component Auditor

27. The December 2003 Exposure Draft distinguished between related auditors and other auditors, recognizing that, in the case of a related auditor, the group engagement team ordinarily will be able to rely on common policies and procedures on recruitment, training, advancement, auditor independence, audit methodology and quality control. The distinction affected the nature, timing, and extent of the procedures that the group engagement team performs in relation to a related or other auditors' work.
28. Based on the comments received on the December 2003 Exposure Draft, the March 2005 Exposure Draft defined "group auditor" as "the auditor who signs the auditor's report on the group financial statements;" "related auditor" as "an auditor from the group auditor's firm or from a network firm who (a) operates under, and complies with, common monitoring policies and procedures as provided for in paragraph 87 of ISQC 1, 'Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,' and (b) performs work on one or more components for purposes of the audit of the audit of the group financial statements." The distinction between related and unrelated auditor affected the nature, timing and extent of the procedures that the group engagement team performs in relation to the component auditors' work.
29. Several respondents to the March 2005 Exposure Draft were concerned about the consistent application of the distinction between related and unrelated auditor. Some respondents noted that it was not clear whether an auditor from another office of the group engagement partner's firm is a member of the group engagement partner's engagement team or a related auditor.
30. Acknowledging that the structures of audit firms and networks vary and that it is not possible to develop a distinction between related and unrelated auditors that is capable of consistent application in all circumstances, the distinction was eliminated. The requirements and guidance in the March 2006 Exposure Draft reflected the IAASB conclusion that:
 - (a) The nature, timing and extent of the procedures to be performed by the group engagement team to obtain an understanding of a component auditor are affected by factors such as the group engagement team's previous experience with or knowledge of the component auditor; the degree to which the group engagement team and the component auditor perform, or are subject to, common policies and procedures; and the consistency or similarity of laws and regulations, professional oversight and discipline, education and training, professional organizations and standards, and language and culture.
 - (b) The nature, timing and extent of the group engagement team's involvement in the component auditor's work are affected by the significance of the component,

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- identified significant risks and the group engagement team's understanding of the component auditor.
- (c) Both (a) and (b) are affected by whether or not the auditors are related, but not in a clear and consistent way.
31. To clarify the distinction between members of the group engagement partner's engagement team and component auditors, the March 2006 Exposure Draft also defined members of the group engagement partner's engagement team.
32. Many respondents (e.g., ACCA, AUAASB, DFCG, DTT, EC, EYG, GT, HKICPA, ICAEW, IDW, IFAC SMPC, IOSCO, IRBA, JICPA, MIA-MICPA, NAO, NIVRA, PWC, UK APB) commented on the definition of "group auditor," which was defined as follows in the March 2006 Exposure Draft: "The engagement partner who is responsible for the performance of the group audit and for the auditor's report on the group financial statements issued on behalf of the group engagement partner's firm. The obligations or responsibilities of the group auditor may be fulfilled by either the group engagement partner or another member of the engagement team under the direct supervision of the group engagement partner. Where it is expressly intended that the obligation or responsibility be fulfilled by the group engagement partner, the term 'group engagement partner' rather than 'group auditor' is used." Their comments included the following:
- ACCA, DFCG, EC, NAO, and UK APB were concerned that the definition does not mention the group engagement partner's firm. They noted that such exclusion may not be workable in conjunction with legislation that refers to the firm in the context of the statutory audit of group financial statements.
 - The EC and IOSCO were concerned about the second sentence of the definition, which states that "the obligations or responsibilities of the group auditor may be fulfilled by either the group engagement partner or another member of the engagement team ..." The EC was of the view that this tends to make members of the engagement team responsible for the tasks devolved to the group engagement partner, a statement which might contradict EC legislation and paragraph 4 of the March 2006 Exposure Draft, which refers to the fact that the group engagement partner is responsible for the group audit opinion.
 - AUAASB, HKICPA, IDW, IRBA, JICPA, MIA-MICPA, PWC and UK APB were concerned about the term "direct supervision." Some noted that the term implies that the group engagement partner is required to have direct involvement at the time that the procedures or judgments are being carried out by the group engagement team or component auditor, being present at each and every component audit.
 - ICAEW and MIA-MICPA explained that, because of the legal structure of the entity or the regulatory requirements of a particular jurisdiction, the partner who

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issues the auditor's report on the group financial statements *on behalf of the firm* may be different from the partner who is responsible for the performance of the group audit and for determining the contents of the auditor's report on the group financial statements.

33. Some respondents (e.g., ACCA, CICA, DTT, GT, HKICPA, IDW, IOSCO, NIVRA) also commented on the definition of “members of the engagement team under the direct supervision of the group engagement partner,” which was defined as follows in the March 2006 Exposure Draft: “Personnel of the group engagement partner's firm, including any experts contracted by the group engagement partner's firm in connection with the group audit engagement, who are directed and supervised by the group engagement partner to the same extent that members of an engagement team responsible for the audit of the financial statements of a single entity are directed and supervised by the engagement partner in accordance with ISA 220 ...” They were of the view that the definition should be clear, such that the group engagement partner can make an appropriate and consistent decision as to whether or not an auditor is a member of the engagement team.

Task Force Disposition

34. The Task Force is of the view that the requirements in the proposed ISA are addressed to the group engagement partner (i.e., an individual); not the group engagement partner's firm. The group engagement team may, however, assist the group engagement partner in fulfilling his or her responsibilities under the proposed ISA.
35. The Task Force is of the view that a clearer distinction between group engagement partner and group engagement team may address some of the concerns. It therefore proposes that the definition of “group auditor” be replaced with a definition of “group engagement partner” and that the definition of “members of the engagement team under the direct supervision of the group engagement partner” be replaced with a definition of “group engagement team.”
36. With regard to the definition of “group engagement partner,” the Task Force proposes that it be aligned with the definition of “engagement partner” in the *Code of Ethics for Professional Accountants* as follows: “The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial statements that is issued on behalf of the firm.” The phrase “that is issued on behalf of the firm” is in line with that in the definition of “engagement partner” in the Code, and the Task Force is not proposing to eliminate it.
37. Responsibilities (requirements) to be undertaken by the group engagement partner will be addressed to the group engagement partner. Where the group engagement team may assist the group engagement partner in fulfilling a responsibility

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(requirement), the responsibility (requirement) will be addressed to the group engagement team.

38. In accordance with [proposed] ISA 220 (Redrafted), the group engagement partner is required to be satisfied that those performing the group audit engagement collectively have the appropriate capabilities and competence to perform the engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor's report on the group financial statements that is appropriate in the circumstances. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement. The Task Force is of the view that the requirements of [proposed] ISA 220 (Redrafted) apply regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. In the case of the group engagement team, or a component auditor that is from the group engagement partner's firm, the group engagement partner may be able to rely on the group engagement partner's firm's system of quality control with regard to leadership responsibilities for quality within the firm, compliance with ethical requirements, acceptance and continuance of client relationships and specific engagements, human resources, engagement performance, and monitoring (see [proposed] ISQC 1 (Redrafted)). Meeting the requirements in the proposed ISA is intended to enable the group engagement partner to meet the requirements of [proposed] ISA 220 (Redrafted) as they relate to component auditors that are not on the group engagement team or from the group engagement partner's firm. The Task Force proposes that this be explained in the Introduction section of the proposed ISA. See paragraphs 2-3 of Agenda Item 3-B.
39. The Task Force proposes the following definition for "group engagement team:" "Partners and staff of the group engagement partner's firm who establish the overall group audit strategy, communicate with component auditors, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements." ("Staff" is defined in the Code as "professionals, other than partners, including any experts the firm employs.")
40. In addition, the Task Force proposes that the term "other auditor" be replaced with the term "component auditor." This will aid clarity when the term is used in an ISA other than [proposed] ISA 600 (Revised and Redrafted).
41. It is proposed that the term "component auditor" be defined as "an auditor who performs work on the financial information of a component for the group audit." Paragraph A6 of Agenda Item 3-B explains that a component auditor may be from the group engagement partner's firm and may or may not be a member of the group engagement team. When an auditor performs work on the financial information of a component at the request of the group engagement team, that auditor is a component auditor. Paragraph A31 of Agenda Item 3-B explains that the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or

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knowledge of the component auditor and the degree to which the group engagement team and the component auditor perform, or are subject to, common policies and procedures.

Full vs. Divided Responsibility

42. The December 2003 Exposure Draft permitted the group engagement partner to divide responsibility for the group audit opinion with component auditors if national standards enable, and national law or regulation permits, such an approach. There was a wide divergence of views on this proposal.
43. The March 2005 Exposure Draft did not distinguish between full and divided responsibility. The proposed requirements and guidance were based on the following:
 - (a) The group engagement partner is responsible for expressing the group audit opinion.
 - (b) In order to obtain sufficient appropriate audit evidence on which to base the group audit opinion, the group engagement team has to determine the audit procedures to be performed on the consolidation process and the work to be performed on the components' financial information, both by the group engagement team and by component auditors.
 - (c) The group engagement team's procedures are the same whether the group engagement partner accepts full or divided responsibility. As a result, the requirements and guidance apply equally to all group audits performed in accordance with the ISAs.
 - (d) Should the group engagement team be unable to obtain sufficient appropriate audit evidence in relation to a component, it constitutes a scope limitation and it has to consider the effect thereof on the group audit opinion.
44. The majority of respondents supported this proposal. A small number of respondents were of the view that there are situations in which the divided responsibility alternative is particularly useful, for example, where an entity has significant components accounted for by the equity method of accounting that are audited by component auditors. Some noted that the reference to a component auditor in the auditor's report on the group financial statements is necessary to preserving transparency to the users of group financial statements. Others were concerned about the resources and consequential cost implications of the proposed requirements. The IAASB concluded that no new arguments against the proposal to eliminate the distinction between full and divided responsibility were presented.
45. Responses to the March 2006 Exposure Draft indicate continued support for the approach described in paragraph 43 of this paper, while a small number of respondents (AICPA, EYG, GAO and UNICE) are still of view that there are situations in which the divided responsibility alternative is particularly useful.

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46. In addition to the above, Basel, EC and IOSCO commented on paragraph 4 of the March 2006 Exposure Draft, which states that: “Although other auditors may perform work on the financial information of components for the group audit and as such are responsible for their overall findings, conclusions or opinion in their memoranda or reports of work performed, the group auditor alone is responsible for the group audit opinion.” They were of the view that the status of the Introduction section does not sufficiently underpin the importance of the assertion.

Task Force Disposition

47. The Task Force considered the comments and concluded that no new arguments against the proposal to eliminate the distinction between full and divided responsibility were presented.

48. Based on the other comments, the Task Force developed a new requirement and moved the text of paragraph 4 of the March 2006 Exposure Draft, appropriately amended, to the application material. Paragraph 4 of Agenda Item 3-B states: “Because the group engagement partner or the group engagement partner’s firm is responsible for the group audit opinion, the group engagement partner shall not refer to a component auditor in the auditor’s report on the group financial statements.” The application material (see paragraph A10 of Agenda Item 3-B) explains that, although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner’s firm is responsible for the group audit opinion. The group engagement partner does not, therefore refer to a component auditor in the auditor’s report on the group financial statements.

Acceptance and Continuance of Group Audits – Access to Information

49. All three exposure drafts reflected the IAASB’s view that a restriction on the group engagement team’s access to relevant information is a scope limitation, which may affect the group audit opinion.

50. The March 2005 Exposure Draft proposed that the group engagement partner do not accept an engagement to audit group financial statements if (a) its access to relevant information will be restricted, and (b) the possible effect of the group engagement team’s inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements, such that the group engagement partner is likely to disclaim an opinion on the group financial statements.

51. Many respondents to the March 2005 Exposure Draft were concerned that the proposed requirement will give rise to practical difficulty. They noted that jurisdictions exist where, due to legal or regulatory impediments, the group engagement team may not have the access to relevant information, or the group engagement partner may be prohibited by law or regulation from refusing or

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resigning from an engagement. They believed that there should be further guidance on what the group engagement team should do if there were restrictions on access to relevant information.

52. The March 2006 Exposure Draft explained that, before accepting or continuing a group audit engagement, the group engagement partner should have a reasonable expectation of obtaining sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. This is achieved by the group engagement team performing the work on the consolidation process; and either performing the work on the financial information of significant components, or being involved in the work that component auditors perform on the financial information of significant components to the extent necessary to obtain sufficient appropriate audit evidence. Where the group engagement team is not able to be involved in the work that a component auditor will perform on the financial information of a potentially significant component, it is unlikely that the group engagement team will be able to obtain sufficient appropriate audit evidence. Consequently, the proposed ISA required the group engagement partner to refuse or resign from the engagement if he or she concludes that it will not be possible to obtain sufficient appropriate audit evidence, and the possible effect of this inability will result in a disclaimer of opinion on the group financial statements. Where law or regulation prohibits the group engagement partner from refusing or resigning from an engagement, he or she was required to express a disclaimer of opinion on the group financial statements.
53. Various comments were received on this proposal. UK APB and CEBS, for example, were of the view that the requirement not to accept the engagement should be limited to cases where restrictions are imposed by group management. In all other cases, the group engagement partner should disclaim an opinion and explain the reason(s) for disclaiming an opinion in the auditor's report on the group financial statements. EC and FEE noted that there may be circumstances beyond group management's control where it may be in the public interest for the group engagement partner to complete the engagement rather than resigning.

Task Force Disposition

54. The Task Force agrees that the requirement not to accept the engagement should be limited to cases where restrictions are imposed by group management. The relevant paragraphs were amended accordingly. See paragraphs 12 and A15-A19 of Agenda Item 3-B.

Materiality

55. Many respondents (e.g., ACCA, CICA, DTT, EC, EYG, FEE, GT, IBR-IRE, ICAI, ICMAP, IDW, IOSCO, IRBA, JICPA, KPMG, NAO, PWC, UK APB) commented

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on the requirements relating to materiality (paragraphs 18 and 19 of the March 2006 Exposure Draft). Significant comments included the following:

- EYG suggested deleting paragraph 18 and moving paragraph 19 to the application material, linking it to paragraph 22.
- CICA, DTT, FEE and IOSCO requested application material. CICA noted that the concept of using amounts lower than the materiality level established for the overall audit strategy when assessing the risks of material misstatements and designing further audit procedures may be new to many auditors. DTT noted that the determination of materiality in the context of a group audit is often a complicated task and that practices probably vary significantly. As written, auditors may interpret paragraphs 18 and 19 in different ways. FEE noted that, during its discussion of paragraph 19, it was apparent that there are different interpretations of what it means. Both DTT and FEE asked that the different levels of materiality, and how they relate, be clarified. IOSCO was of the view that there should be more guidance on how materiality should be allocated to components, given the particular risks in a group audit, and the qualitative aspects of materiality.
- IDW noted that the paragraphs are unclear as to the levels of materiality and “tolerable error” required for group audits. GT believed that paragraph 19 is unclear with regard to the difference between materiality and tolerable error to be applied at the component level.
- KPMG was of the view that component materiality can be equal to or lower than group materiality. It noted that there may be situations where an individual component represents substantially all the operations of the group, thus justifying the same planning materiality level as the group. NAO was concerned that the requirement in paragraph 19 could be interpreted as meaning that group materiality should be allocated to the components so that the total allocated does not exceed group materiality.
- ACCA suggested (strongly) that there be no requirement to determine “tolerable error” at the component level. It was of the view that ISAs provide for risks to be assessed at the financial statement level and the assertion level; the proposed ISA, however, introduces a new level. It noted that there is no research or theoretical underpinning for this requirement (UK APB suggested that the IAASB commission research in this regard).
- FEE noted that the proposed ISA needs to clarify that, where a component requires an audit in its own right (e.g., for statutory reporting), the component auditor is responsible for determining the appropriate materiality level for that purpose. Where this is the case, the group engagement team only needs to evaluate, in advance of the work being performed, whether that component materiality level is appropriate for group audit purposes, or whether the

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component auditor should be required to use a different materiality level for group audit purposes. In practice, the group engagement team will specify that, for purposes of reporting to the group engagement team, the component auditor can apply a higher materiality threshold. FEE noted that this approach should remain appropriate and that it is unnecessary to specify that the group engagement team “determines” materiality levels for the component.

- ACCA were of the view that component materiality is relevant only when the financial information of the component is audited; however, the requirements do not make that distinction. ICAI, ICMAP, IRBA and KPMG asked whether the requirements apply to a review of the financial information of a component. GT noted that the requirements do not take into account the type of work to be performed.

Task Force Disposition

Should Proposed ISA 600 Contain Requirements and Guidance on Materiality?

56. The Task Force is of the view that the proposed ISA does not establish new principles with regard to materiality; the requirements and guidance are based on the principles in [proposed] ISA 320 (Revised and Redrafted). However, the requirements and guidance are important because proposed ISA 320 (Revised and Redrafted) does not deal with materiality in the context of a group audit. (For example, [proposed] ISA 320 (Revised and Redrafted) does not explain the concepts of amounts lower than component materiality for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level (see paragraph 22 of Agenda Item 3-B).)

Different Levels of Materiality

57. Based on [proposed] ISA 320 (Revised and Redrafted), some of the Task Force members are of the view that, in the context of a group audit, three levels of materiality should be determined. That is, materiality for the group financial statements as a whole, component materiality (see paragraph 58 below), and amount(s) lower than component materiality (see paragraph 59 below). (The other Task Force members are of the view that proposed ISA 600 should not deal with the third level, i.e., amount(s) lower than component materiality. See paragraph 60 below.)

58. To reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, the materiality level for a component is set lower than the materiality level for the group financial statements as a whole. If the component material level were to equal the group materiality level, the planned level of assurance

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would not be met; even if no misstatements are found in the financial information of the components.

59. It is also important to reduce the risk that the aggregate of detected and undetected misstatements in the financial information of a component exceeds the component materiality level. To accomplish this, one or more amounts lower than the component materiality level are determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level. These lower amounts allow the component auditor to identify misstatements without having to change the scope of work performed on the financial information of the component. At the same time, they allow the group engagement team to avoid changing the scope of work to be performed on the financial information of the other components when misstatements are identified in one or more components.
60. Some Task Force members (and some respondents) do not agree (a) that the determination of amount(s) lower than the component materiality level should be required, or (b) that such lower amounts should be determined by the group engagement team or, where they are determined by the component auditor, that the group engagement team should determine whether they are appropriate. Participants in the informal survey conducted by the UK APB, for example, were concerned that the three levels of materiality may result in a lower “tolerable error” for the component and hence more work; especially where the component’s financial statements are not subject to a statutory audit. Some members of the Task Force was concerned that, requiring the group engagement team to be involved in setting the “tolerable error” for a component, is moving away from a principles-based approach and into an area that is bound to cause confusion. However, based on the explanation provided in paragraph 59 above, the Task Force proposes that the requirement be retained (see paragraph 22 of Agenda Item 3-B).
61. The Task Force also proposes new application material to clarify the different levels of materiality and how they relate. See paragraphs A39-A41 of Agenda Item 3-B.

Components Subject to Audit by Statute, Regulation or Other Reason

62. The Task Force also proposes the following new requirement: “When a component is subject to audit by statute, regulation or other reason, and the group engagement team decides to use that audit to provide audit evidence for the group audit, the group engagement team shall determine whether (a) the materiality level determined for the component financial statements as a whole, and (b) the lower amounts determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level meet the requirements of this ISA.” See paragraph 23 of Agenda Item 3-B.

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Limiting the Requirements to Audits or Reviews of the Components' Financial Information

63. In addition, paragraph 21 of Agenda Item 3-B has been amended to indicate that the requirement to determine component materiality applies when the group engagement team or component auditor conducts an audit or review of the financial information of the component as part of the group audit. Paragraph 22 now indicates that the requirement to determine one or more amounts lower than component materiality for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level applies when the group engagement team or component auditor conducts and audit of the financial information of the component as part of the group audit.

Determining the Work to be Performed on the Financial Information of Components

64. ACCA, ICAI and ICAS were of the view that the lists in paragraphs 22 and 24 of the March 2006 Exposure Draft should be moved to the application material, while EC was of the view that guidance is necessary to assist the group engagement team in deciding which procedures to choose from the lists. ACCA, FEE and NAO questioned whether there is sufficient difference between sub-paragraphs (b) and (c) to warrant separating these items. GT suggested that paragraphs 22-25 be revised to include only the minimum procedures necessary to address the risks at the group level and to align them with the *Audit Risk Standards*; thereby eliminating the notion of a “complete audit” and a “review” of the component.

65. CICA did not believe that the tests in paragraphs 22-23 of the March 2006 Exposure Draft for determining whether a component is significant are mutually exclusive. It was of the view that the ordering of these two paragraphs and the consequent presentation of the diagram in paragraph A27 may mislead auditors regarding the nature of work to be performed on significant components. As the diagram is presented, auditors may respond “yes” at the first box and believe that there is a choice as to the nature and extent of procedures to be performed on the financial information of a significant component. Auditors may not move on to the second box which indicates that an audit must be performed on the financial information of components that are significant due to their individual financial significance to the group. CICA suggested that paragraph 23 precedes paragraph 22 and that the diagram in paragraph A27 be revised accordingly.

66. Basel, CEBS and IOSCO were concerned that some components may not be audited for a long period of time as the last sentence of paragraph A28 of the March 2006 Exposure Draft does not require, but only allows, the group engagement team to vary the selection of components. EC also suggested a requirement for the group engagement team to ensure that each component falling in the category described in paragraph 25 is reviewed at least periodically. World Bank was not convinced that the

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proposed approach whereby all components that are not individually significant can remain unaudited will provide in all cases the required high level of assurance on the group financial statements.

67. Various comments were received on paragraph 25 of the March 2006 Exposure Draft (e.g., by ACCA, AICPA, CICA, CIPFA, DTT, EC, EYG, FEE, GT, ICAEW, ICAS, IDW, KPMG). These comments mainly related to the types of analytical procedure envisaged (i.e., substantive analytical procedures or analytical procedures performed at or near the end of the audit), how they would be applied (i.e., on individual components or components as a group), and why the group engagement team is required to perform analytical procedures on components that are not individually significant.

Task Force Disposition

68. The Task Force agrees with the comment that, in the first instance, the group engagement team should consider components that are significant components due to their individual financial significance to the group. The requirements and application material therefore were amended as suggested by CICA.
69. The Task Force proposes that the requirements for types of work to be performed on significant components be retained (see paragraphs 26-27 of Agenda Item 3-B), but that guidance be provided on the application of these requirements. See new application material in paragraphs A43-A44 of Agenda Item 3-B.
70. The Task Force also proposes that a new requirement be added to the subsection Components that are Not Significant Components, i.e.: “The group engagement team shall vary the selection of components and work to be performed on their financial information over a period of time.” See paragraph 29 of Agenda Item 3-B.
71. In addition, the Task Force proposes new application material to paragraph 28 of Agenda Item 3-B (paragraph 25 of the March 2006 Exposure Draft). Paragraph A45 of Agenda Item 3-B explains that analytical procedures for components not selected for the period under review are performed at group level at or near the end of the group audit when forming an overall conclusion as to whether the group financial statements as a whole are consistent with the group engagement team’s understanding of the group. The results of the analytical procedures corroborate the group engagement team’s conclusions about the insignificance of the components.

The Group Engagement Team’s Procedures in Relation to Component Auditors

Specificity of the Group Engagement Team’s Procedures

72. Respondents to the December 2003 Exposure Draft were of the view that the group engagement team’s procedures should be strengthened, both in respect of the direction of the audit by the group engagement team and the group engagement

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team's involvement in the work of the component auditors. They were of the view that this would be of particular importance if the distinction between full and divided responsibility was eliminated.

73. Based on the arguments presented, the March 2005 Exposure Draft proposed more stringent requirements with regard to (a) the group engagement team's determination of the type of work to be performed on the components' financial information, (b) the group engagement team's involvement in the work of the component auditors, (c) the group engagement team's evaluation of the adequacy of the component auditors' work, and (d) the group engagement team's communications with component auditors. Although the majority of respondents supported the proposals – in particular those performed in relation to the component auditors' work – several respondents were concerned about the consistent application of the distinction between related and unrelated auditor (as discussed in paragraph 29 of this paper).
74. The majority of respondents to the March 2006 Exposure Draft agreed that the proposed ISA will enhance the quality of group audits and supported the specificity of the group engagement team's procedures; however, some with qualification, which included requests for more flexibility.

Task Force Disposition

75. Based on the comments of the majority of respondents, the Task Force continues to believe that, where the group engagement partner is responsible for the group audit opinion, the group engagement team should obtain sufficient appropriate audit evidence on which to base that opinion. Significant variances in current group audit practices are confirmed by the comments on the three exposure drafts and, in particular, the variances in the results of the informal surveys conducted by UK ABP and PKF.
76. As explained in paragraphs 11-12 of this paper, the Task Force, in response to requests for requirements and guidance on group audits and recent financial and audit failures, has focused on developing requirements and guidance that will enhance the quality of group audits and protect the public interest. To ensure consistent application of the requirements and guidance, it is necessary to be reasonably specific about the group engagement team's procedures. The Task Force is of the view that proposed amendments to the requirements and guidance relating to the group engagement team's understanding of the component auditors and communication with component auditors (as discussed in the relevant sections below) will address the respondents' concerns.

Obtaining an Understanding of the Component Auditors

77. Many respondents to the March 2006 Exposure Draft (e.g., ACCA, CICA, DTT, EC, EYG, FEE, HKICPA, ICAEW, ICAI, ICAS, IDW, IFAC SMPC, IOSCO, IRBA, Mazars, MIA-MICPA, NAO, NIVRA, PKF, PWC, SAFA, UK APB) commented on

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the requirements and guidance relating to obtaining an understanding of the component auditors.

- CICA, DTT, EYG, IRBA, MIA-MICPA, PWC and UK APB noted that the nature and extent of the evidence that needs to be obtained and documented to demonstrate compliance with the requirement in paragraph 14 of the March 2006 Exposure Draft are not clear. (This was confirmed by the informal survey conducted by UK APB.)
- EC was of the view that more emphasis needs to be given to the system of audit regulation in the country.
- UK APB and others (EYG, FEE, HKICPA, ICAI, ICAS, MIA-MICPA, NIVRA and PWC) were of the view that common quality control policies and procedures and monitoring thereof should be given added emphasis in order to avoid unnecessary procedures being performed and extra costs being incurred. PKF asked that the use of “proven and reliable audit methodologies” be recognized in assessing the involvement needed in the component auditor’s work. FEE and IFAC SMPC noted that, although smaller firms may have common policies and procedures, such policies and procedures not be formalized.

Task Force Disposition

78. Based on the comments, the Task Force proposes to revise the requirement as follows: “When the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following: (a) whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent; (b) the component auditor’s professional competence; (c) whether the component auditor will provide the group engagement team with the necessary access to relevant audit documentation; and (d) whether the component 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.” See paragraph 17 of Agenda Item 3-B.
79. To address concerns relating to the extent of evidence and documentation necessary to demonstrate compliance with the abovementioned requirement, and the effect of common quality control monitoring policies and procedures on the group engagement team’s procedures to obtain an understanding of the component auditor, the Task Force proposes to restructure and amend the application material to explain that the nature, timing and extent of the group engagement team’s procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or knowledge of the component auditor and the degree to which the group engagement team and the component auditor perform, or are subject to, common policies and procedures. See paragraph A31-A32 of Agenda Item 3-B.

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80. The group engagement team may obtain an understanding of the component auditor in a number of ways. In the first year of involving a component auditor, the group engagement team may, for example: evaluate the results of the quality control monitoring system where the group engagement team and component auditor are from a firm or network that operates under and complies with common monitoring policies and procedures as provided for in paragraph 87 of ISQC 1; visit the component auditor; request confirmations or completion of questionnaires; or discuss the component auditor with others. In subsequent years, the understanding of the component auditor may be based on the group engagement team's previous experience with the component auditor. The group engagement team may request the component auditor to confirm whether anything has changed since the previous year. See paragraph A33 of Agenda Item 3-B.

Involvement in the Work Performed by Component Auditors

81. Various comments were received on paragraphs 26 and 27 of the March 2006 Exposure Draft, which describe the group engagement team's involvement in the work of component auditors in general (paragraph 26) and for significant components (paragraph 27).

82. With regard to paragraph 26, the comments mainly related to the fact that the list of actions should be in the application material as it is not required in virtually all circumstances (ACCA, EYG, FEE, ICAEW, ICAI, ICAS, IRBA, KPMG, NAO, PWC), the timing of the actions (Basel, CEBS, CICA, FEE, DTT, GAO, GT, ICAEW, IOSCO, PKF, PWC), and the fact that the requirement is open ended (i.e., referring to the phrases "where considered necessary," and "one or more") (EC, DTT, EYG, GT, ICAEW, IOSCO). FEE, IRBA, KPMG and NAO was of the view that the list of actions in paragraph 27 should also be moved to the application material.

83. IOSCO was of the view that paragraphs 26 and 27 should also discuss how the three factors – significance of the component, the identified significant risks, and the group engagement team's understanding of the component auditors – interact with one another and how they affect group engagement team's judgment as to the actions required.

Task Force Disposition

84. Based on the comments, the Task Force proposes that the actions listed in paragraph 26 of the March 2006 Exposure Draft be moved to the application material as examples of forms of involvement in the work of a component auditor. See paragraph A49 of Agenda Item 3-B.

85. The Task Force is of the view that, in line with ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" and ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks," the group engagement team has to be involved in the risk assessment

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procedures that a component auditor performs on a significant component and the further audit procedures to be performed in response to identified significant risks of material misstatement of the group financial statements.

86. The Task Force therefore continues to propose that the requirements for the group engagement team to be involved in the work of a component auditor should be as follows: In the case of an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by the group engagement team's understanding of the component auditor, but – at a minimum – shall include the actions listed in paragraph 27 of the March 2006 Exposure Draft (see paragraph 30 of Agenda Item 3-B). When significant risks of material misstatement of the group financial statements have been identified in a component on which a component auditor performs the work, the group engagement team shall determine whether the further audit procedures to be performed to respond to the identified significant risks are appropriate. Based on its understanding of the component auditor, the group engagement team shall also determine whether it is necessary to be involved in the further audit procedures. See paragraph 31 of Agenda Item 3-B.
87. The application material explains how the group engagement team's involvement in the work of the component auditor is affected by the significance of the component, the identified significant risks of material misstatement of the group financial statements, and the group engagement team's understanding of the component auditor. In the case of a significant component or identified significant risks, the group engagement team performs the procedures described in paragraph 86 above. In the case of a component that is not a significant component, the nature, timing and extent of the group engagement team's involvement in the work of the component auditor will vary based on the group engagement team's understanding of the component auditor. The fact that the component is not a significant component becomes secondary. For example, even though a component is not considered a significant component, the group engagement team nevertheless may decide to be involved in the component auditor's risk assessment, because it has less than serious concerns about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the component auditor does not operate in an environment that actively oversees and enforces the independence and professional competence of auditors and the quality control systems of their firms. See paragraph A48 of Agenda Item 3-B.

Communication with Component Auditors

88. Commenting on the March 2006 Exposure Draft, IOSCO was of the view that the importance and necessity of two-way communication throughout the audit should be

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mentioned, ideally in the Requirements section, but at least in the application material.

89. Some respondents (e.g., CIPFA, EC, FEE, IBR-IRE, ICAEW, IDW, JICPA NAO, PWC, UK ABP) were concerned about the prescriptive nature of paragraphs 37-40 of the March 2006 Exposure Draft. FEE and IBR-IRE, for example, was of the view that, where there has been effective sharing of information during the planning and risk assessment stages between the group engagement team and the component auditor about significant matters relevant to the group audit, accompanied by comprehensive instructions on the nature and significance of the matters that the component auditor should communicate to the group engagement team, the completion process could often be simplified to confirmation of key information and further reporting only (by exception) on additional significant matters arising.
90. AICPA, IDW, IOSCO and PWC commented on the form of communication. They suggested that the proposed ISA allow for flexibility in this regard, recognizing that communication takes place throughout the audit process and by means other than letters of instruction or memoranda or reports of work performed. EC noted that, where the communication is in the form of oral communication, the group engagement team should be required to document such communication when it is relevant for purposes of reaching conclusions about the group audit.

Task Force Disposition

91. Based on the comments, the Task Force proposes to amend the objectives to include the following: “The objectives of the auditor are ... to effectively communicate with component auditors about the scope and timing of the work to be performed on the financial information of the components ...” (see paragraph 6(b) of Agenda Item 3-B). Paragraph A52 of Agenda Item 3-B now explains the importance of two-way communication between the group engagement team and component auditors.
92. In addition, the Task Force proposes that:
 - (a) The requirements and application material be amended to refer to “communication” instead of “letter of instruction” or “memorandum or report of work performed.”
 - (b) The group engagement team be required to communicate its requirements to the component auditor on a timely basis. This communication sets out the work to be performed and the form and content of the component auditor’s communication with the group engagement team. Paragraph 40 of Agenda Item 3-B lists matters to be included in the group engagement team’s communication with the component auditor. This list also includes requests for specific information to be communicated to the group engagement team during the course of performing work on the financial information of the component (e.g., significant risks of material misstatement of the group financial statements identified by the

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- component auditor that were not included in the list of significant risks communicated by the group engagement team).
- (c) The group engagement team be required to request the component auditor to communicate to the group engagement team matters relevant to the group engagement team's conclusion with regard to the group audit (see paragraph 41 of Agenda Item 3-B). This list includes matters that are communicated after completing the work on the financial information of the component.
 - (d) Application material explains that communication between the group engagement team and the component auditor may not necessarily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. However, the documentation requirements of the proposed ISA nevertheless apply. (See paragraph A53 of Agenda Item 3-B.)

Responsibilities of Component Auditors

- 93. Many respondents to the March 2006 Exposure Draft continue to be concerned about the fact that the proposed ISA does not contain explicit requirements for component auditors (e.g., AICPA, Basel, CEBS, EYG, FEE, HKICPA, ICAEW, ICAI, ICPAC, PKF, UK APB).
- 94. AICPA, Basel, CEBS, FEE, HKICPA, IBR-IRE, ICAEW, ICAI, ICPAC, UK APB were of the view that the proposed ISA should include a requirement for the component auditor, knowing the context in which the group engagement team will use his/her work, to cooperate with the group engagement team. HKICPA and UK APB noted that such a requirement help to ensure that appropriate cooperation is forthcoming and for both the group engagement team and component auditors to explain to clients why such cooperation is necessary and appropriate. CEBS, IBR-IRE and ICAEW recognized that a requirement for the component auditor to cooperate with the group engagement team may also be addressed in the *Code of Ethics for Professional Accountants*.

Task Force Disposition

- 95. The Task Force is not proposing any amendments in this regard. The Task Force is of the 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. Further, it will not be possible for the group engagement team to obtain audit evidence of a component auditor's compliance with a requirement to cooperate with the group engagement team. The group engagement team could, however, obtain an understanding (and written confirmation) whether the component auditor will provide it with the necessary access to relevant audit documentation. See paragraph 17(c) of Agenda

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Item 3-B. The Task Force is further of the view that the new objective of the auditor to effectively communicate with the component auditor will assist in this regard.

96. The Task Force proposes that the IAASB request the Ethics Standards Board for Accountants to consider whether this matter should be addressed in the *Code of Ethics for Professional Accountants*.

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List of Respondents		
AICPA	American Institute of Certified Public Accountants	1
ACCA	The Association of Chartered Certified Accountants	2
APB	Auditing Practices Board (United Kingdom)	3
Auditor-General, NZ	Office of the Auditor-General of New Zealand	4
ACAG	Australasian Council of Auditors-General	5
AUAASB	Australian Government, Auditing and Assurance Standards Board	6
Audit Comm - UK	Audit Commission United Kingdom	7
Basel	Basel Committee on Banking Supervision	8
CACFO	China Association of Chief Financial Officers	9
CICA	The Canadian Institute of Chartered Accountants	10
CPA Au	CPA Australia	11
CIPFA	Chartered Institute of Public Finance and Accountancy	12
CEBS	Committee of European Banking Supervisors	13
DTT	Deloitte Touche Tohmatsu	14
DnR	Den Norske Revisorforening	15
DFCG	Association Nationale des Directeurs Financiers et de Controle de Gestion	16
EYG	Ernst & Young Global	17
EC	European Commission	18
FEE	Federation des Experts Comptables Europeens	19
FAR	Foreningen Auktoriserade Revisorer (Sweden)	20
GAO	United States Government Accountability Office	21
GT	Grant Thornton International	22
HKICPA	Hong Kong Institute of Certified Public Accountants	23
IDW	Institut der Wirtschaftsprufer	24
IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der	25

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ICAEW	The Institute of Chartered Accountants in England and Wales	29
ICAI	The Institute of Chartered Accountants in Ireland	30
ICAS	The Institute of Chartered Accountants of Scotland	31
ICMAP	Institute of Cost and Management Accountants of Pakistan	32
IOSCO	International Organization of Securities Commissions	33
INTOSAI	International Organization of Supreme Audit Institutions	34
IRBA	Independent Regulatory Board for Auditors	35
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MIA-MICPA	Malaysian Institute of Accountants & The Malaysian Institute of Certified Public Accountants	39
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