

Comments of the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India on Exposure Draft of ISA 600(Revised) issued by IAASB

Section I: Reasons for Non-adoption of Extant ISA 600 in India

Few years ago, the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) had undertaken the project to revise SA 600, “Using the Work of Another Auditor” to bring it in line with extant “ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” which was issued by the IAASB in October 2007. At that time, after detailed discussion and deliberations at various AASB meetings, AASB finally at its 138th meeting held on 18th November 2010 was of the view that that having regard to the auditing practices and conditions presently prevailing in India it was not possible to bring out proposed revised SA 600 corresponding to ISA 600. The views of AASB were considered by the Council of ICAI at its 300th meeting held on 24-26 November 2010. At that Council meeting, the Council of ICAI agreed with the views of AASB that keeping in view the auditing practices and conditions presently prevailing in India, it would be not be possible to issue the Proposed Revised SA 600 corresponding to ISA 600.

At that time, the following issues/ circumstances prevailing in India were identified, which would act as impediment in implementation of Revised SA 600 corresponding to ISA 600:

1. **Impact on Small and medium practitioners acting as component auditors -**
Sole proprietors/ 2–5 partner firms constitute almost 90 per cent of the profile of the audit firms in India. The client profile of these SMPs includes small and medium clients. Many of them also are component auditors of larger parent companies, which are audited by larger firms.
- 1.a Hitherto, in India, the practice followed by the group auditors is that they are permitted to mention in their group audit report the extent to which they **have relied on the work of the component auditors**. ISA 600, however, requires the group auditor to take the responsibility of the audit opinion expressed on the entire consolidated/group financial statements, including those audited by the component auditors.
- 1.b Such a requirement could prove to be detrimental to their interests since to be able to take the onus of the entire group financial statements, the group auditors may pressurize the group management to replace the component auditors by the group auditors. Overall savings in cost, uniformity in quality of audits, could also

be some of the reasons advanced by the group auditors to the group managements.

- 1.c This situation is alarming since, in the long run, it could lead to concentration in the audit market and tell negatively upon the growth of SMPs.
2. **Unique circumstances of audit of banks and public sector enterprises** would make implementation of ISA 600 virtually impossible in India. These are as follows:
 - 2.a These enterprises, especially banks, have a huge geographical spread and accordingly, have a large number of component auditors.
 - 2.b The independent/ statutory auditors, both the principal auditors as well as the component auditors of public sector banks and public sector enterprises are **appointed from a panel created by the concerned regulator/ government agency**. The criteria for selection on the panel is also decided by the regulator/ government agency and the selection process itself is quite rigorous.
 - 2.c The principal/group auditors, accordingly, do not have any say in the appointment of the component auditors. Thus, the “component auditors” in such cases do not meet the definition of the “component auditor” as contained in ISA 600, viz.,

“Component auditor – An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.”

It may be noted that the criteria of “request of the group engagement team” does not get satisfied in the cases enumerated above.

3. **Assessment of professional competence of the component auditors** by the group auditor is not relevant for implementation of ISA 600 in India. In India, even the component auditors too are the members of the same professional body as the group auditor, both being subject to the same education, training and licensing requirements. Hence, there should be no need for the group auditor to assess the professional competence of the component auditor. In these circumstances, the professional competence of both the component auditors as well as the group auditor should be presumed to be the same.
 - 3.a In case of public sector banks/ enterprises, where the component auditors appointed are subject to a rigorous selection criteria decided by the regulators/ government agencies, there seems to be no value addition in requiring the group auditor to undertake procedures envisaged by ISA 600 in assessing the professional competence of the component auditor.

Presently, in India such assessment of professional competence is required only if the other auditor is not a member of the Institute of Chartered Accountants of India.

4. **Group Auditor's Report** - In so far as the ***audit report of the group auditor*** is concerned, presently in India, the group auditors specifically bring out the fact as to the extent to which the group auditor has relied on the work of the component auditor. This is expressed in terms of the quantum of revenue, assets and liabilities of such components taken together. On the one hand this helps the users of the group audit report to clearly understand the extent of responsibility of the group auditor, on the other hand it also enhances the accountability of the component auditors *vis a vis* group financial statements. Such reporting practice has been accepted by the regulators also in India.

It is noted that a similar kind of practice is also permitted under the Standards issued by the American Institute of Certified Public Accountants.

5. **Sharing of Audit Working Papers** - Implementation of the ISA 600 requires access to the group auditor to the audit working papers of the component auditor. It may be noted that the ***sharing of audit working papers*** is prohibited under the Chartered Accountants Act, 1949.

Due to these fundamental differences between extant ISA 600 and the circumstances and auditing practices prevalent in India, extant ISA 600 has not been adopted in India as on date.

Section II: Whether these Reasons for Non-adoption of Extant ISA 600 in India exist in Exposure Draft of ISA 600(Revised)

After examining the Exposure Draft of ISA 600(Revised) in the light of current circumstances and auditing practices prevalent in India, we have observed that the abovementioned reasons for non-adoption of extant ISA 600 in India (please refer previous Section) exist in Exposure Draft of ISA 600(Revised). These reasons can be broadly bifurcated into three major areas which are as under:

1. Involvement of Group Auditor in appointment of component auditors.
2. Requirement of assessment of professional competence of component auditors.
3. Reliance on the work of component auditors, Reference to the Work of Component Auditors in Group Auditor's Report and Sharing of Working Papers.

Relevant paragraphs of Exposure Draft of ISA 600(Revised) are reproduced below.

1. Involvement of Group Auditor in Appointment of Component Auditors

Definition of component auditor given in Paragraph 9(c)

Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team. (Ref: Para. A13–A14)

Our Views:

The aforesaid definition of Component Auditor is almost same as given in extant ISA 600. As per this definition, group auditor has a say/role in the appointment of component auditors and component auditors are part of the engagement team. However, in India, presently also the component auditors of public sector banks and public sector enterprises are appointed from a panel created by the concerned regulator/ government agency. In other cases also, group auditor does not play any role in the appointment of component auditors.

2. Requirement of assessment of professional competence of component auditors

Engagement Resources

21. In applying proposed ISA 220(Revised), the group engagement partner shall: (Ref: Para. A40)

- (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)
- (b) When information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to the group audit and determine its effect on the group audit. (Ref: Para. A46)

Our Views:

As per paragraph 21(a), group auditor is required to make assessment of competence of component auditors. However, presently in India, such assessment of professional competence of component auditors is not required as component auditor has to be a member of the ICAI (As per Paragraph 11 of SA 600, Using the Work of Another Auditor).

3. Reliance on the work of component auditors, Reference to the Work of Component Auditors in Group Auditor's Report and Sharing of Working Papers

45. The group engagement team shall:

- (a) Discuss significant matters arising from the communications with the component auditor, component management or group management, as appropriate;

- (b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor's audit documentation; and (Ref: Para. A113)
- (c) Evaluate whether the communications with component auditors are adequate for the group engagement team's purposes.

Our Views:

As per paragraph 45(b), group auditor is permitted to review working papers of component auditors. However, as per the provisions of the Code of Ethics, Volume II (Revised 2020) issued by ICAI, sharing of working papers is not allowed. The relevant provisions of the Code of Ethics are as under:

Working Papers of the Auditor

Paragraph 2.15.1.1(v)

An auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a Company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor. For this purpose, the term 'auditor' includes 'internal auditor.'

Auditor's Report

52. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A117–A118)

Our Views:

As per paragraph 52, group auditor is not allowed to make reference to component auditors in his audit report. However, In India, group auditor is permitted to make reference to the work done by component auditor in his audit report. Such reference is made by including an "other matter" paragraph in the audit report.

The Code of Ethics issued by ICAI also prescribes that the auditor can rely on the work of another auditor without referring to his working papers.

Conclusion

As explained in previous Sections, there are fundamental differences between proposals given in Exposure Draft of ISA 600(Revised) and the circumstances and auditing practices prevalent in India. Due to these fundamental differences, it would not be possible to adopt ISA 600(Revised) in India.