

Ladies and gentlemen,

In pursuance with your kind invitation to comment of the exposure draft of proposed ISA 600 (Revised), Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors) (ED-600) I would like to present certain specific comments on the questions included in your Explanatory Memorandum.

Overall Questions

Question 1

With respect to the linkages to other standards:

(a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?

(b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?

Comments

- a) Yes, but there is no reference to ISA 701 and in may appear reasonable to amend the text by such a reference.
- b) See above.

Question 2

With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?

Comments

It does not matter where such requirements are placed.

Question 3

Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

Comments

Yes

Specific Questions

Question 4

Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).

Comments

Yes

Question 5

Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?

Comments

Yes

Question 6

Do you support the revised definition of a component to focus on the ‘auditor view’ of the entities and business units comprising the group for purposes of planning and performing the group audit?

Comments

The question is not correct and should be divided into two parts:

- a) The possibility for the auditor to define components for planning and performing the group audit – I support such a possibility
- b) The revised definition of a component in para.9b) – I do not support it. (See below. Comments on Question 12)

Question 7

With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

Comments

ED-600 addresses restrictions appropriately.

Question 8

Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:

- (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
- (b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?
- (c) What practical challenges may arise in implementing the risk-based approach?

Comments

- a) Yes
- b) Yes
- c) There are no special considerations in this field different from the risk-based approach to any other audit.

Question 9

Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?

Comments

Yes.

Question 10

Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?

Comments

When components are identified the term «Group performance materiality» seems meaningless.

The category «aggregation risk» seems excessive and does not contain any special considerations in addition to audit risk (See below).

Question 11

Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:

- (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
- (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?

Comments

- a) No, there are not.
- b) Yes.

Question 12

Are there any other matters you would like to raise in relation to ED-600?

Comments

Yes, there are.

Para. 9a) - The term «probability» in the definition of aggregation risk seems inappropriate as risks could be defined not only by terms of probability theory.

«Aggregation risk» is a new category which does not realize any specific sense and practically does not differ from the definition of audit risk. So, to my view this category should be excluded.

Para. 9b) - This definition is not linked with para.9k), para.A54, A87 etc. and should be corrected in appropriate way

Auditor's view on defining components should be equal to the way financial information of the group is organized. If he defines components in any other way as it is mentioned in para.A4, he would not be able to appreciate their relative significance for the audit because of the lack of data and there may appear no component management at all.

Para.11 – Definition of component should be connected with the definition of «consolidation process».

Para.56b) seems excessive. Communication between group and component auditors and concern of the work of component auditor is a matter of responsibility of group auditor and he must solve all of problems of such kind and organize receiving evidence sufficient to prepare auditor's report.

Para. A59, Appendix 3 and 4 include the term «assertion level». Such a term is used in risk standards and other ISAs, but it is not correct. Assertions may not constitute a level. Levels are financial statements as a whole, financial information of subsidiaries or other components, items in financial statements and so on, not assertions (See also para.A59 ED-600). Assertions may constitute analytical sections, way of consideration or something like that. So it seems correct not to use this term in new texts of the ISAs despite the fact that it is used in acting ISAs.

It seems useful to pay more attention to groups with associates, joint ventures and special purpose entities in the standard.

Conforming amendments to other ISAs

Amendment to ISA 220 is not connected with this ED-600. Definition joint auditors is not special for ED-600 and new term should be treated is glossary. May be it would appear better to delete it.

Amendment to ISA 300 (para.11A) - May be it would appear better to delete it or to harmonize terms auditor and engagement partner.

Request for General Comments

Question 13

The IAASB is also seeking comments on the matters set out below:

(a) Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.

(b) Effective Date—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged.

The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

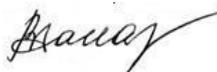
Comments

a) Not applicable as it is of no sense to use translations on such a stage. But definition of a component may appear difficult to translate and adopt correctly to Russian legislation.

b) The period mentioned above seems sufficient.

Hope the comments above will be instrumental for improving the ISA 600.

Best regards,



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