Meeting: IAASB  
Meeting Location: New York, USA  
Meeting Dates: June 15–19, 2015

Agenda Item 6

Group Audits – Staff Audit Practice Alert

Objective of Agenda Item

1. The objective of this agenda item is to obtain final IAASB input on a revised draft Staff Audit Practice Alert, which is set out in Agenda Item 6-A.

Group Audits Working Group

2. The Group Audits Working Group (GAWG) is comprised of the following members:
   - Megan Zietsman, IAASB Member and Chair of the Working Group (supported by Dora Burzenski, Deloitte)
   - Robert Dohrer, IAASB Member
   - Brendan Murtagh, IAASB Member
   - Wolf Böhm, IAASB Technical Advisor
   - Josephine Jackson, IAASB Technical Advisor
   - Len Jui, National Standards Setters (China) Representative
   - Derek Broadley, National Standards Setters (Hong Kong) Representative

   Other issues considered by the GAWG and presented for the IAASB’s consideration at its March 2015 meeting are included as Agenda Item 9.

March 2015 Board Meeting Decision Summary

3. At the March 2015 Board meeting, the IAASB was asked to consider the GAWG’s recommendation to issue a Staff Audit Practice Alert (SAPA or Alert) on the topic of the audit of “letterbox” companies. The Board’s views on the proposal are summarized in the draft minutes as follows:

   [The draft minutes on the broader issues related to the Group Audits projects are included in Agenda Item 9-A.]

   Board members expressed reactions to the proposal for a Staff document to be prepared to specifically address the issues that have been raised by certain audit regulators in respect to “audits of letterbox companies”, noting in particular that the issues relating to such audits are complex and that they are not necessarily unique to these audits, but rather issues that have broader applicability to many other group audit situations. Certain Board members indicated that the term “audits of letterbox companies” was not consistently understood and that it also carried negative connotations. On balance however, the Board...
understood that there was a need for short term action and the Working Group was asked to proceed with developing a brief Staff publication that, although non-authoritative and also not an interpretation of the ISAs, would nevertheless be a useful reminder to auditors of their responsibilities under the ISAs in the circumstances discussed. The Board also agreed that the draft Staff publication should provide information about the broader project that is underway. Some members cautioned that:

- Care would be needed to ensure that the staff document did not result in an interpretation of the existing standards that would go beyond just reminding auditors of the existing requirements and guidance.
- A staff alert may have little value and could run the risk of creating more issues in the area of group audits.

The Board agreed that issues pertaining to “audits of letterbox companies” applied more broadly to group audits and were supportive of them being explored in more detail in the planned Discussion Paper; noting that the Discussion Paper would provide the opportunity for the complexities to be fully identified and understood.

Development of the Staff Practice Alert

4. In accordance with the process for the development of a staff publication, the following steps have been undertaken since the IAASB commissioned the development of the SAPA at its March 2015 meeting:

- At a physical meeting in April 2015, the GAWG held discussions with Staff to facilitate the development of an initial draft of the SAPA (including providing input on technical matters and drafting suggestions), and reviewed and commented on the draft publication. In particular, in providing input to and in developing the initial draft, the GAWG and Staff were mindful of the concerns raised by some IAASB members during the March 2015 Board Meeting discussions.

- In May 2015, the IAASB was given an opportunity to consider and comment on the draft SAPA, with a focus in particular on providing views as to whether the draft Alert was consistent with, and did not extend beyond, the ISAs. Responses from Board members indicated varying levels of support for the draft and for its issuance as an Alert and raised a variety of issues with the SAPA as drafted, summarized as follows:

  - Eleven members expressly supported the issuance of the draft Alert in the near term and either (i) indicated that they had no comments or concerns on the draft SAPA or (ii) provided constructive feedback on ways to improve the initial draft Alert.

  - Three members recognized the likely need to publish such a document, but were not fully supportive of issuing an Alert at this stage, preferring the topic to be dealt with in the Discussion Paper that will be issued as part of the larger Group Audits project. These members also provided suggestions for improvement, the majority of which were consistent with comments raised by those who expressly supported issuing the Alert.

  - One Board Member expressed significant concerns on both the content and the issuance of the Practice Alert in general.

1 The process for developing a Staff Publication is described at:
This feedback, as well as comments from Technical Advisors and numerous editorial comments, was taken into account and a revised draft of the Alert was discussed with the GAWG in its May 2015 teleconference. Many of the changes made to the draft initially circulated to the Board were made to provide a closer link to certain requirements in the ISAs, with the goal of stressing the applicability of ISA 220\(^2\) to all audits conducted in accordance with ISAs. The GAWG also reflected again on the correspondence received from, and communications with, audit oversight bodies on the issue of audits of “letterbox” companies and issues relating to quality control more generally, and made further changes to more closely align with how the regulatory concerns had been described.

5. This revised draft of the Alert is presented as **Agenda Item 6-A**. Notwithstanding the substantive concerns raised by a few Board members about issuing the alert, the GAWG is of the view that the Alert would be a useful means of reminding auditors of their responsibilities under the ISAs and that as drafted, the revised Alert is not interpretive in nature, but is responsive to the calls of some stakeholders to take some action.

6. In light of previous interactions on the topic, the Chair and Staff of the GAWG intend to discuss **Agenda Item 6-A** with the International Forum of Independent Audit Regulators’ Standards Coordination Working Group (IFIAR SCWG) and representatives from the Global Public Policy Committee (GPPC) to obtain their views on the usefulness and appropriateness of the draft Alert.

7. To the extent that these discussions have taken place prior to the June IAASB meeting, the Chair of the GAWG will provide feedback during the Board’s discussions of this Agenda Item. The discussion will also provide an opportunity for IAASB to (i) consider and comment on how their concerns raised both at the March 2015 IAASB meeting and on the subsequently distributed draft Alert have been addressed by Staff in the revised draft; and (ii) provide any additional input, including views as to whether the SAPA should be issued.

8. Should the Board continue to support its issuance, Staff in consultation with the GAWG, Technical Director and IAASB Chairman will then finalize the Alert. Depending on the nature and extent of the final changes, the SAPA may be circulated for a “fatal” flaw review subsequent to the June 2015 IAASB meeting, with the final Alert published on the IAASB’s website as soon as practicable.

**Action Requested**

9. The IAASB is asked to consider the draft SAPA presented in **Agenda Item 6-A** and provide input to enable the Staff to finalize it for issuance.

**Material Presented**

Agenda Item 6-A  
[Draft] Staff Audit Practice Alert – Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner Is Not Located Where the Majority of the Audit Work Is Performed

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\(^2\) ISA 220, *Quality Control for an Audit of Financial Statements*