

Comments Received and Proposed Disposition on Exposure Draft: ISA 600, “The Work of Related Auditors and Other Auditors in the Audit of Group Financial Statements” and IAPS, “The Audit of Group Financial Statements”
General Statements
Respondent Comment

FSR ASC	In general, we find the Pronouncements very well structured and helpful.
ICAEW	By and large, these proposals represent a significant step forward with broader and better guidance that will help auditors perform better quality audits of groups.
FEE	FEE supports the development of up to date standards on the topic as they are for the most part an improvement in comparison with the existing standards. But we have a major concern about IAASB’s proposal to retain “division of responsibility” as an alternative to “sole responsibility”.
FAR	We commend IAASB for the revision of ISA 600 and the new IAPS on Group Audits. The revision of extant ISA 600 and the new IAPS fill a gap in the international auditing standard-setting and we strongly support the implementation of the revised ISA and new IAPS.
CNCC	<p>The two French institutes welcome the revision of ISA 600 and the creation of an IAPS on the audit of group financial statements. The European Commission identified the audit of group financial statements as one area where standards and guidance were missing from the corpus of the international standards on auditing from the time the green paper on the <i>“Role, Position and Liability of the Statutory Auditor in the European Union”</i> was launched back in 1996 and the French Institutes are pleased to see that the gap, whether perceived or real, has now been filled.</p> <p>The French Institutes are confident that the revised standards and the new IAPS reflect current practice in the audit of group financial statements. The revision of the standard and the creation of the IAPS bring “<i>standards</i>” into line with “<i>practice</i>” and should therefore not be expected to result in tremendous changes in practice by most group auditors around the world.</p>
PWC	We welcome the proposed revision to ISA 600 and the proposed IAPS on group financial statement audits. We believe the proposed revised ISA 600 and proposed IAPS together provide useful direction to auditors in the conduct of group audits and, in particular, how to apply the principles underlying the Audit Risk ISAs in a group audit.

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	In closing, we would like to reiterate our support for the revision to ISA 600 and the proposed IAPS. We believe that they represent an important contribution to the international auditing standards literature, and provide much needed clarification on the responsibilities of group auditors and practical guidance on the application of the ISAs, in particular the new Audit Risk ISAs, to group audits.
ICAS	We are pleased that the IAASB is taking the opportunity to improve the standards in the area of group audits.
ACCA	<p>The Explanatory Memorandum issued with the proposed pronouncements explains that ‘. . . the project aims to establish standards and guidance on matters relevant to the audit of group financial statements that were not covered in existing ISAs, and to provide guidance on the application on the body of ISAs to audits of group financial statements.’</p> <p>This has resulted in revising the existing ISA 600 Using the Work of Another Auditor and developing a new IAPS The Audit of Group Financial Statements.</p> <p>The definitions in the proposed revised ISA 600 make it clear that no distinction is drawn between legal entities, such as subsidiary companies, and divisions or branches; or between the ways in which financial information is aggregated. There is, therefore, no theoretical difference between the audit of group financial statements and the audit of a single entity of equivalent complexity.</p> <p>The fact that several bodies have asked for guidance on the audit of group financial statements, 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 can only be explained by two reasons: either ISAs are not readily understandable by such bodies or ISAs are not adequate for the audit of a single entity. Given the nature of the bodies listed above, the second reason has to be accepted as the one that is valid.</p> <p>The inadequacies in existing ISAs arise because they do not deal consistently with the impact on an audit of the existence of components. Some ISAs refer to the specific considerations that arise; others do not. Recent ISAs have confusingly used the word ‘component’ mainly in the context of ‘components of audit risk’ or ‘components of internal control’.</p> <p>In our November 2003 response to the proposed ISA Planning the Audit, we commented as follows:</p> <p>‘It is appropriate to make a theoretical distinction between planning at the level of the financial statements and planning at the assertion level. The linkage between these can be hindered, however, by dividing the processes into two separate parts. In some circumstances, development of a combined strategy and plan may be carried out effectively. In more complex circumstances, such as the audit of consolidated financial statements, audit planning many involve many layers of decision making analyzed by</p>

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	<p>geographical region or industry or legal entity and by office, network firm or other auditor.’</p> <p>This goes to the heart of the matter: the application of ISAs is disjointed and ineffective unless guidance properly addresses the issues arising from the existence of components.</p> <p>ACCA has commented previously on the need for holistic updating of ISAs. We do not believe that it is appropriate to try to address the relevant inadequacies of existing ISAs in two pronouncements which, because of their titles, will be perceived as being of no relevance except to group financial statements (as normally defined).</p> <p>In due course, as we have recommended in our comments on other recent proposed ISAs, IAASB should prepare principles-based standards which are easily adapted for use in all types of audit through the issue of tailored guidance. As well as for large listed entities, guidance should be produced for smaller entities and for public sector bodies. Guidance for entities where components are present would be better addressed in this way.</p>
MAZARS	We welcome guidance in the area of group audits and we generally support the content of the ISA and IAPS.
CICA	<p>Overall, we support the proposed standard. Because of the trend for corporations to expand globally, we believe that guidance on how to conduct an audit in this environment is timely.</p> <p>However, we have identified some significant matters that we feel you should consider in further developing this standard and related guidance, as set out below.</p>
GCPAS	The GCPAS believes that – due to recent developments in the audit and assurance area (such as the Parmalat case) – it is helpful and necessary to give more and adjusted guidance on how work of either Related Auditors or Other Auditors shall be integrated in the audit of Group Financial Statements.
GT	We support the IAASBs initiatives to establish standards and provide guidance in regards to audits of group financial statements. We believe such standards and guidance are necessary to enhance the quality of group audits. However, based on our concerns expressed below, we cannot support the issuance of the revised ISA 600 and related IAPS, as currently exposed. We believe significant modifications need to be made in order to strengthen and clarify the group auditor’s responsibilities when the group auditor takes sole responsibility and when he or she divides such responsibility with another unrelated auditor. Our concerns and recommendations follow. Additional paragraph-level comments are presented in Appendix A.
ICPA Kenya	We are in agreement that the proposed revised Standard broadens the scope by covering significant matters not covered in the existing ISAs. It also provides a more detailed and clear guideline on the approach to the audit of group financial statements when the group auditor is to consider the work of a related auditor or other auditor. We support the Board’s belief that the decision as to

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	<p>whether to request a related auditor or other auditor to perform work on a component's financial information should be made later in the audit process, i.e. after the group auditor has conducted the group risk assessment, categorized the components based on the results of the group risk assessment and determined the scope of work to be performed on the components' financial information. This however may not be the case with the division of responsibility approach as we shall discuss later in this response.</p>
AuASB	<p>The Australian Auditing & Assurance Standards Board (AuASB) has considered the above Exposure Draft issued in June 2003 by the IAASB. The AuASB supports the issue of the revised guidance on the audit of group financial reports. The proposed new IAPS "The Audit of Group Financial Statements" should be particularly helpful in assisting auditors under the new risk model to identify and make an assessment of risk concerning corporate groups and their components for the purposes of auditing the group financial report.</p>
	<p>Given that we would like to issue an AUS and an Auditing Guidance Statement (AGS) based on this proposed ISA and IAPS, we would very much appreciate the IAASB taking our comments into account when finalizing these documents.</p>
APB	<p>The APB is generally supportive of the proposed revised ISA and the IAPS but has significant concerns in relation to:</p> <ol style="list-style-type: none"> 1. The decision by the IAASB to retain "division of responsibility". 2. Review of work of related auditors. 3. The communication of risk assessments.
ICANZ	<p>Overall we support the proposed ISA and the proposed IAPS and believe that these documents assist in clarifying audit requirements for the audit of group financial statements. Our detailed comments are limited to the proposed ISA 600. We have considered the proposed IAPS and have no specific comments on this document.</p>
DTT	<p>We believe the issuance of further policies and guidance in the area of group audits is critical and are strongly supportive of the development of this revised standard and new practice statement. However, we do have some recommendations for clarifying the proposed ISA 600 and IAPS, as described below.</p>
NYSSCPA	<p>The proposed pronouncements represent improvements to the existing guidance on group audits. Group audits present unique problems for the group auditor, the related auditor, and the other auditor. Group audits ordinarily present a higher than average level of engagement risk and, as such, the role of each of these auditors needs to be carefully articulated. Communication among these auditors and an understanding of each other's responsibilities is of the utmost importance. The proposed pronouncements address these issues.</p>

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IDW	<p>We have concluded that these Pronouncements will provide a useful basis for improving the quality of group audits on a global basis. We therefore support the overall thrust of, and most of the detail in, both Pronouncements.</p> <p>However, we also have significant concerns in a number of areas. Of course, the comments in this letter concentrate on those areas with which we have concerns, rather than dwelling on the matters with which we agree.</p> <p>This comment letter contains general comments on each of the two Pronouncements addressing issues of greater importance or of a general nature. Matters of lesser importance are addressed by paragraph in a separate appendix, for each pronouncement, attached to the comment letter. However, some of the comments on ISA 600 (Revised) are also relevant to the IAPS and therefore we will note such relevance when it occurs. To keep the comment letter to a reasonable length, we have not always chosen to include proposed wording based upon our comments. The technical advisor to the German member will provide you with such proposed wording.</p> <p>Other than the implications arising from our general comments on the Standard noted above, we have no additional general comments on the IAPS. We therefore refer to our comments by paragraph on the IAPS in Appendix 2. However, we have not mentioned all of the conforming changes that would be required to the IAPS in Appendix 2 based upon our proposed revisions to the Standard. Some of the revisions required to implement our suggestions based on our comments on the Standard may be substantial.</p>
Basel	<p>The Committee has a strong interest in promoting high quality international standards for audits, and believes that the exposure drafts include many useful proposals.</p> <p>The Basel Committee on Banking Supervision has a strong interest in high quality and independent audits of banks and has carefully analysed the proposals.</p> <p>The Committee is pleased to note that the Board intends to expand guidance on the audit of group financial statements by revising the existing ISA 600 and developing a new IAPS. The Committee recognizes that auditors are faced with many difficult challenges in the audit of the financial statements of a group and therefore welcomes the Board's initiative to provide updated and expanded guidance on this important subject.</p>
KPMG	<p>We agree that there is a need to update and expand standards and guidance relating to the audit of group financial statements. We therefore generally support the exposure draft. Our primary concerns and recommendations are set out below.</p>
NIVRA	<p>We welcome the proposed revision to ISA 600 and the proposed IAPS on group financial statement audits. We believe the proposed revised ISA 600 and proposed IAPS together provide useful direction to auditors in the conduct of group audits and, in particular, how to apply the principles underlying the Audit Risk ISAs in a group audit.</p>

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In closing, we would like to reiterate our support for the revision to ISA 600 and the proposed IAPS. We believe that they represent an important contribution to the international auditing standards literature, and provide much needed clarification on the responsibilities of group auditors and practical guidance on the application of the ISAs, in particular the new Audit Risk ISAs, to group audits.

However, we strongly encourage IAASB to revisit the proposed position regarding divided responsibility. We do not believe giving equal recognition to both sole and divided responsibility shows the leadership that a global standard setter should be taking on this issue and believe that sole responsibility is in the best interests of promoting high quality audits.

E&Y

We are generally supportive of the proposals contained in ISA 600 and the IAPS, as we recognize the need for standards and guidance for auditors to approach the audit of group financial statements in a consistent manner. We also support retaining the recognition in international auditing standards of both the “sole responsibility” and “division of responsibility” approaches to auditing and reporting for audits of group financial statements, as more fully described below. We have some concerns, however, about some of the requirements in ISA 600 and the level of detail in the IAPS, which we have summarized below for your consideration.