

The Audit of Group Financial Statements – Summary of Significant Comments and Task Force’s Recommendations**Introduction**

1. Forty-four comment letters were received on the re-exposure draft of the proposed ISA 600 (Revised), “The Audit of Group Financial Statements,” (the “ED”) which was issued in March 2005. A list of respondents is included in the Appendix.
2. This paper summarizes the significant comments under each of the questions raised in the Explanatory Memorandum, as well as other significant comments, and the Task Force’s recommendations.

Overall Comments

3. Respondents were generally supportive of the requirements and guidance in the ED. Respondents were of the view that the ED:
 - Is an improvement on the previously issued exposure draft (CNCC, FEE, FSR, ICAEW, INTOSAI, LSCA, PWC);
 - Significantly improves existing national and international standards with regard to the performance of group audits (GT);
 - Will serve to strengthen public confidence in the global auditing profession and the public interest (ICPAS);
 - Will enhance the efficiency (DFCG) and quality of group audits (DFCG, KPMG, PAAB, PWC, UK APB); and
 - Will result in greater clarity of the group auditor’s responsibility (ACAG, Basel, EC, CNCC) and harmonize the auditing practice in groups, and thus enhance the protection of investors (EC).
4. One respondent (CNCC) was of the view that the ED reflects current practice in group audits. The revision aligns the standard with “best practice,” and should therefore not be expected to lead to significant change in practice by most group auditors.
5. Respondents’ made a number of key comments. Two respondents (FEE, IDW), in particular, felt strongly that the ED should be amended to focus on the reduction of audit risk to an acceptably low level (as per paragraph 24 of ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”),¹ rather than the approach currently proposed that is aimed at obtaining sufficient appropriate audit evidence on which to base the group audit opinion.

¹ ISA 200.24: **The auditor should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of an audit.** The auditor reduces audit risk by designing and performing audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base an audit opinion. Reasonable assurance is obtained when the auditor has reduced audit risk to an acceptably low level.

Responses to Questions

QUESTION 1

Is the approach to the work of other auditors practical, having regard to the elimination of the divided responsibility option?

6. Thirty-two respondents commented on Question 1. Four respondents (AICPA, E&Y, GAO, ICAEW) explicitly stated that they were of the view that the approach to the work of other auditors was not practical. The majority of the other respondents, although supportive of the approach taken, noted concerns about the proposed requirements. Significant comments related to (a) the elimination of the divided responsibility alternative, (b) the distinction between related and unrelated auditors, and the effect thereof on the group auditor's procedures. (c) the group auditor's involvement in the work performed by other auditors, and (d) review of the other auditors' audit documentation.

Division of Responsibility

7. Two respondents (AICPA, GAO) were concerned about eliminating the divided responsibility alternative.
 - AICPA was of the view that an effective audit can be achieved with division of responsibility, as well as under sole responsibility. Amongst other matters, it noted the following:
 - Eliminating the divided responsibility alternative will result in higher audit fees with no demonstrable benefits to users of financial statements. When a subsidiary or equity investee is audited by another auditor, users are relying on the work of that other auditor with respect to the audited financial statements of that entity. To require the group auditor to take sole responsibility of the group financial statements, when subsidiary or equity investee users are already relying on the work of the other auditor, seems inconsistent, unreasonable and a duplication of effort for no demonstrable benefit.
 - The proposed requirements impose significant practical difficulties on the group auditor's ability to perform the group audit, especially when circumstances do not permit the group auditor to undertake sufficient evidence gathering procedures in substitution of the other auditor's work (e.g., an entity may have multiple investments accounted for by the equity method of accounting that are audited by other auditors). A scope limitation due to practical inability to access another auditor's work or a component's information may not be a viable option and dividing responsibility in the group auditor's report may be the only practical way of dealing with the situation.
 - The proposed requirements likely will give rise to an increased number of modified group audit opinions due to scope limitations imposed on the group

auditor. It is questioned how helpful a scope limitation in lieu of divided responsibility reporting is to users of financial statements. Furthermore, regulators may not consider the requirements for audited financial statements met when the group audit opinion is modified. This could also have a negative effect on existing loan covenants that require unmodified audit opinions.

- GAO was of the view that the flexibility to refer to another auditor in the auditor's report on the group financial statements is essential to preserving transparency to the users of group financial statements, maximizing audit efficiency, and providing auditors and audited entities with practical options, especially when entities are large, complex, and diverse in nature, including national governments. Amongst other matters, it noted the following:
 - Certain U.S. federal departments and agencies, and a number of state and local governments, require that the auditors proposing to perform group audits provide for minority or smaller firms, or both, to participate in the conduct of group audits.
 - Given the size and complexities of the U.S. government, as well as large state and local governments, it is frequently impractical, inefficient, or uneconomical for group auditors to review the working papers of other auditors or perform significant other procedures on financial information of components audited by other auditors. In addition, there may be circumstances in which group auditors decide, regardless of any other considerations, to refer in their reports to the audits of other auditors in order to clearly indicate the division of responsibility.
 - In the U.S., over ninety percent of the fifty state auditors make reference to other auditors in their reports on the financial statements of state governments. At the federal government, the flexibility to refer to other auditors in the auditors' reports is essential to the auditors of large and complex federal departments and agencies, as well as at the U.S. government consolidated level. For instance, at the U.S. federal government level, several hundred different component-level audits are involved.
8. Three respondents (E&Y, NIVRA, PWC) noted that there are situations in which the divided responsibility alternative is particularly useful. The following examples were provided:
- An entity enters into a transaction to acquire another entity late in the fiscal year after a significant amount of audit work has already been completed by other auditors. Filing deadlines and resources do not allow the group auditor to perform sufficient audit procedures on the acquiree to assume sole responsibility.
 - An entity has significant investees accounted for by the equity method of accounting that are audited by other auditors. The entity does not have sufficient influence to either require a change to the investee's auditors or to require the investee's auditors to make their working papers or other information available to the group auditor.

9. E&Y did not believe that in these circumstances the public interest is best served by a group auditor expressing a modified opinion (for failure to obtain sufficient appropriate evidence) as opposed to an unmodified opinion in an auditor's report that clearly communicates the divided responsibility, thus providing transparency to the readers of the report by disclosing that more than one auditor was involved in the audit and the extent of work performed by each auditor. E&Y also noted that in some jurisdictions a scope limitation leading to a modified opinion will not be acceptable for listed entities. If an entity and its group auditor determine that the completion of a business acquisition in the current period would result in the auditor being forced to express a modified opinion because of the inability to use the work of another auditor or otherwise obtain sufficient appropriate audit evidence on a timely basis, the entity may decide that the only course of action is not to complete the transaction. Similarly, an entity may decide that it needs to divest itself of an equity accounted investment in order to obtain an unqualified audit opinion. E&Y did not believe that the reporting model should constrain an entity's business decisions for acquisition or investment transactions.
10. One respondent (IOSCO) supported an approach that focuses on the objectives, criteria, and audit work that is needed for the conduct of a high-quality group audit, regardless of where the audit work is undertaken, and regardless of the responsibility reporting approach used in the audit.
11. Some respondents (E&Y, ICAEW, ICAS, LSCA) were of the view that there will be significant resource and consequential cost implications for firms implementing the ED, for example, in obtaining access to working papers. They noted that the IAASB needed clear evidence to justify this increase in the costs of group audits.
12. Some respondents (E&Y, GAO, ICANZ) were of the view that, should the IAASB issue a final revised standard that eliminates the divided responsibility alternative, the standard should explicitly state that divided responsibility is no longer permitted, explain the effect on the auditor's report under various scenarios, and provide for transitional matters.

Task Force's Recommendation

13. The Task Force remains of the opinion that the group auditor is solely responsible for the group audit opinion. The guidance in the ED has been amended to clearly state this fact. See paragraph 4 of Agenda Item 5-B.
14. The Task Force agrees that the final revised ISA should clearly state that the group auditor is not permitted to refer to another auditor in the auditor's report on the group financial statements. See paragraph 53 of Agenda Item 5-B.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendations?

Distinction between Related² and Unrelated³ Auditors and the Effect thereof on the Group Auditor's Procedures

15. Several respondents (see below) were concerned about the distinction between related and unrelated auditors, and the effect thereof on the group auditor's procedures. Comments included the following:

- UK APB was of the view that the extent to which the group auditor is encouraged to rely on the work of related auditors is overstated in the ED. While the existence of network firms may assist the group auditor to obtain some assurance regarding the competence and quality control systems of related auditors, it does not assist significantly with the risk assessment process and the evaluation of the degree to which the related auditors' work can be relied upon. Obtaining an understanding of the significant risks of material misstatement related to components is an issue of communication – it is not greatly facilitated by common quality control policies and procedures and audit methodologies. Furthermore, the group auditor may not have sufficient information to rely on the quality of the related auditors' work without some degree of involvement in that work.
- DI and SAAJ were concerned that it might be practically impossible to continue to use unrelated auditors. This might result in an unhealthy monopoly by a few international firms. Furthermore, the exclusive use of related auditors might be costly because an entity often has a long-standing good relationship, particularly in developing countries, with independent local firms, and changing firms would have an adverse effect on the entity's operations. Therefore, where the reliability of unrelated auditors has been confirmed, they should be treated like related auditors.
- JICPA supported the views of DI and SAAJ. JICPA was of the view that, although the unrelated auditor is not an auditor from a network firm that operates under and complies with common monitoring policies and procedures, the group auditor may evaluate the reliability of the unrelated auditor to be high when the group auditor confirms that:
 - The unrelated auditor's quality control system complies with ISQC 1;
 - The unrelated auditor sufficiently understands, and will comply with, the related ethical requirements;
 - The unrelated auditor sufficiently understands the applicable financial reporting framework; and

² ED-ISA 600.5(k): "Related auditor" means an auditor from the group auditor's firm or from a network firm who (i) operates under, and complies, with common monitoring policies and procedures as provided for in paragraph 87 of International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements," and (ii) performs work on one or more components for purposes of the audit of the group financial statements.

³ ED-ISA 600.5(p): "Unrelated auditor" means an auditor other than the group auditor or a related auditor who performs work on one or more component for purposes of the audit of the group financial statements.

- The unrelated auditor sufficiently understands, and will comply with, the auditing or other standards applicable to the audit of the group financial statements.

When the group auditor evaluates the reliability of the unrelated auditor to be equivalent to that of a related auditor, the group auditor's involvement in the unrelated auditor's work should be limited to the group auditor's involvement in the work of a related auditor.

- FEE and IDW were of the view that the ED does not apply a risk-based approach to the use of another auditor's work based on the nature of the relationship between the group auditor and the other auditor. IDW noted that the proposed treatment of related and unrelated auditors discriminates not only against those networks that have invested heavily in common audit tools, methodologies and quality control to reduce the risk of using related auditors within those networks, but also against those unrelated auditors that have been auditing components of groups successfully over the long run. This is particularly the case when the group auditor and unrelated auditor are within the same or a similar jurisdiction and culture, have been subject to the same or similar education, training, professional standards, and external quality assurance and have had years of experience working together. Furthermore, unjustifiable favorable treatment is provided to component auditors only loosely related to the group auditor by means of common monitoring policies and procedures alone, even when the group and related auditor are in completely different jurisdictions or cultures, have been subject to completely different education, training, professional standards, and external quality assurance, and have had no previous experience working together.
- This view was supported by other respondents as follows:
 - AICPA was of the view that a related auditor must be an auditor from the group auditor's firm or a network firm. Beyond that, there is a continuum of similarity, in monitoring policies and procedures and in audit methodologies, which the group auditor must assess in determining the nature, timing and extent of his or her involvement in the work of the other auditor, even if that other auditor is related. The AICPA recommended that the IAASB consider which is more helpful to the group auditor in determining his or her involvement in the work of another auditor: the distinction between related and unrelated auditor, or the concept of a continuum of similarity that must be assessed.
 - CICA noted that a firm may be one firm across several jurisdictions or separate related firms with varying degrees of integration and autonomy. The ED does not distinguish the work effort based on these different firm organizational structures, but rather classifies all as "related auditors." The ED does indicate that the related auditor must "operate under, and comply with,

common monitoring policies and procedures;” however, there could be varying degrees of this.

- GAO noted that in practice there can be a high degree of variation in quality control amongst the firms of related auditors and, therefore, the assumption that the group auditor can ordinarily rely on the quality control policies and procedures of a related auditor may not be valid. The group auditor should determine the level of oversight and involvement with other auditors based on audit risk and his or her experience and knowledge of the other auditors.
 - PWC noted that some readers of the ED failed to see how it follows a risk-based approach whereby the group auditor adjusts the nature, timing and extent of audit procedures for a component based on not only the size of that component and the risks identified, but also on the group auditor’s assessment of the qualifications of the other auditor.
16. One respondent (DI) recommended an approach whereby auditors apply for ISQC 1-certification or become members of the Forum of Firms. The final revised ISA could then distinguish between ISQC 1-certified auditors (or members of the Forum of Firms) and uncertified auditors. An audit in accordance with ISAs by any certified auditor should have an equal standing for the group auditor.
17. The EC recommended that a higher reliance on the quality of the audit by other auditors located outside the jurisdiction of the group auditor be based on the existence of public oversight systems. It noted that the proposed Eight Directive on Statutory Audit introduces the requirement for Member States to implement public oversight and external audit quality assurance systems, and to ensure a proper working environment through monitored professional qualifications, independence rules, etc. In addition, the proposed Directive fosters the “home country control” principle by which audit firms are only regulated by the competent authorities of the Member State where they are established. Based on this home country control principle, a cooperative approach between regulatory authorities of Member States will take place. The cooperative approach is mandatory between Member States and is encouraged, under certain conditions, between a Member State and third countries with systems offering an equivalent working environment. The EC was of the view that the final revised standard should take account of such (future) cooperative agreements. The standard should relieve the group auditor from the duty of specifically examining the professional qualifications, independence, professional competence, etc. of another auditor when there are mutual recognition agreements between the jurisdiction in which the group auditor is established and the jurisdiction where the other auditor is established. In such a case, the group auditor should simply obtain the evidence that the other auditor is regularly approved or registered in his or her home country.

Group Auditor’s Involvement in Work Performed by Other Auditors

18. Several respondents (AUASB, E&Y, CEBS, HKICPA, ICAEW, ICAI, PAAB, PWC) requested further clarification (earlier in the final revised standard) of the nature of the

group auditor's involvement,⁴ and the factors that influence the group auditor's judgment on the nature, timing and extent of involvement that is necessary.

Review of Audit Documentation

19. Some respondents (see below) commented on the proposed requirements and guidance on the group auditor's review of the audit documentation of the other auditors. Their comments included the following:
- ICAEW was of the view that the review of the other auditor's memorandum (ED-ISA 600.86-87⁵) should happen first and the results of this review used to determine the level of additional procedures. ED-ISA 600.80⁶ implies that, in the case of significant components, there should always be a review of the relevant parts of the other auditor's audit documentation. This might not be considered essential in all situations.
 - FEE and IDW were of the view that the group auditor should use professional judgment and be allowed flexibility to determine to what degree of detail he or she should review the other auditor's audit documentation, if at all. This will depend on the degree of reliance on the other auditor. From a practical point of view, the group auditor is required to review the work of other auditors at various points in the ED. These general requirements for "review" need to differentiate the depth and extent of such reviews, and it should be made clearer that the extent of the review procedures will directly depend on the audit objectives to be achieved. In practice, the group auditor will seek to address specific issues only, and may do so by means of discussion with the other auditor, review of reports prepared by the other auditor and, where these measures are not sufficient, by review of the relevant detailed working papers. A general requirement to "review" does not, therefore, appear to be appropriate in all cases. The group auditor determines the nature and extent of review to be undertaken, bearing in mind that the audit documentation will have

⁴ ED-ISA 600.59: Involvement in the work performed by another auditor ordinarily includes the group auditor undertaking some or all of the following actions:

- Meeting with component management to obtain an understanding of the component and its environment.
- Performing risk assessment procedures and participating in the assessment of risks of material misstatement. These may be performed with the other auditor, or by the group auditor.
- Determining and performing further audit procedures. These may be performed with the other auditor, or by the group auditor.
- Participating in the closing and other key meetings between the other auditor and component management.
- Reviewing relevant parts of the other auditor's audit documentation.

In the case of an unrelated auditor, the group auditor may request a related auditor to undertake the actions on behalf of the group auditor.

⁵ ED-ISA 600.86: **The group auditor should consider the effect of the other auditor's memorandum or report of work performed ... on the auditor's report on the group financial statements.**

ED-ISA 600.87: the group auditor may consider it appropriate to discuss significant matters arising from the other auditor's memorandum or report of work performed with the other auditor, component management or group management. The group auditor may also conclude that additional audit procedures are necessary. Depending on the circumstances, such additional audit procedures are performed by the other auditor or by the group auditor.

⁶ ED-ISA 600.80: **When another auditor performed the work on the financial information of a significant component, the group auditor should review relevant parts of the other auditor's audit documentation. ...**

been subject to a review at partner-level by the other auditor. It is therefore not always appropriate for the group auditor, or related auditor on his behalf, to perform a detailed review in such depth.

- Given the overarching concepts in ISQC 1 and ISA 220, “Quality Control for Audits of Historical Financial Information,” KPMG questioned why it is necessary for the group auditor to review the working papers of a related auditor when the related auditor performed the work on a significant component and is part of a network operating under common monitoring policies and procedures. In these circumstances the group auditor should be able to rely on the firm’s systems and on the results of the monitoring process implemented within the network. KPMG recommended that the ED be modified to enable the group auditor to review the documentation (as opposed to relevant parts of the “audit documentation”) of a related auditor who is part of a network operating under common monitoring policies and procedures. In this regard, the final revised standard should clarify that such “documentation” may be in the form of a memorandum of the work performed and conclusions reached on a significant component and that it differs from “audit documentation.” CICA, on the other hand, was of the view that it is necessary to clarify that audit documentation refers to documentation prepared by the other auditor to support the work performed, and not to summary communications prepared specifically for the purposes of the group auditor.

Task Force’s Recommendation

20. Based on the comments received, the Task Force recommends that the final revised standard:
 - (a) Focus on the group auditor obtaining sufficient appropriate audit evidence to reduce audit risk for the group financial statements to an acceptably low level. Paragraphs 2-4 of Agenda Item 5-B were added to (i) explain the effect on audit risk of using the work of other auditors, and (ii) clarify the meaning of the term “involvement” early in the standard.
 - (b) Do not distinguish between related and unrelated auditors, but that the nature, timing and extent of the group auditor’s involvement in the work performed by other auditors are affected by factors such as the significance of the components, identified risks of material misstatement of the group financial statements, and the group auditor’s understanding of the other auditors.
 - (c) Indicate that the group auditor’s understanding of the other auditors include (i) the degree to which the group auditor and other auditors perform, or are subject to common policies and procedures, (ii) the commonality of matters such as laws and regulations, professional oversight and discipline, education and training, professional organizations and standards, and language and culture, and (iii) previous experience with or knowledge of the other auditors. See paragraphs 14 and A12-A14 of Agenda Item 5-B.

- (d) Require the group auditor, based on his or her reading of the other auditors' memorandums or reports of work performed, to consider whether it is necessary to review other relevant parts of their audit documentation. See paragraph 47 of Agenda Item 5-B, which should be read with paragraphs 43-46.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendation?

QUESTION 2

Are the revised standards and guidance on accepting or continuing an engagement to audit group financial statements⁷ appropriate?

21. Thirty-three respondents commented on Question 2. Two respondents (CICA, E&Y) explicitly stated that they were of the view that the proposed requirements and guidance on accepting or continuing an engagement to audit group financial statements were not appropriate. CICA noted the need for an overall guiding principle on accepting or continuing an engagement to audit group financial statements that contain both qualitative and quantitative factors for the group auditor to consider in making his or her decision. E&Y did not believe the requirements and related guidance to be appropriate, as they could dictate an entity's new investment decisions, and could result in an entity being unable to engage an independent auditor unless it divests investments.
22. Many respondents (AICPA, AUASB, Basel, CEBS, CIPFA, CNCC, DI, E&Y, FEE, GAO, HKICPA, ICAEW, ICAI, INTOSAI, JICPA, KPMG, LSCA, PAAB, PWC, UK APB), however, opposed the guidance in ED-ISA 600.16, stating that "... a component representing 20% or more of group assets, liabilities, cash flows, profit or turnover is regarded as financial significant." Respondents equally opposed the corresponding guidance in ED-ISA 600.54, stating that "... components that in the aggregate represent less than 5% of group assets, liabilities, cash flows, profit or turnover will ordinarily be regarded as not significant in the aggregate." Basel noted that significant special purpose entities would rarely be identified through application of the proposed benchmarks, and some respondents were of the view that 20% is set too high as a benchmark percentage to identify components that are of individual financial significance to the group.
- Most of these respondents recommended deletion of the proposed guidance. They were of the view that, in the context of principles-based standards, the group auditor should apply professional judgment to identify significant components.

⁷ ED-ISA 600.7: **In deciding whether to accept or continue an engagement to audit group financial statements, the group auditor should also determine whether the group auditor will be able to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements.** Other auditors may perform work on the financial information of one or more components for purposes of the audit of the group financial statements. The group auditor, however, takes responsibility for the audit opinion on the group financial statements ... In order to obtain sufficient appropriate audit evidence, the group auditor performs the work, or is involved in the work to be performed by other auditors, on the financial information of the components.

- KPMG recommended that the proposed guidance be modified to state that the group auditor may determine a range of possible percentages to be applied to a chosen benchmark based on the nature and circumstances of the group.
 - E&Y, FEE, and UK APB recommended expansion of the proposed guidance, possibly with more examples. FEE recommended that such guidance be included in an appendix. (This was supported by CNCC.) The guidance should focus on the use of different percentages, depending on the circumstances. Examples should not only consider quantitative but also qualitative and contextual aspects of the financial statements and component under audit. In addition, the auditor should not have to justify in writing why the percentages referred to in the guidance have not been used to determine the financial significance of a component. It should be sufficient for the auditor to document the level actually used in determining the financial significance of a component, as well as the basis on which the chosen level was determined.
23. Two respondents (E&Y, NIVRA) referred to the 50%-acceptance/continuance proposal in the original exposure draft. They noted that they found the guideline that the group auditor should only in unusual circumstances accept an engagement when the group auditor performs less than 50% of total work extremely helpful. NIVRA recommended that the requirement be reinstated, amended in a way that, if the group auditor finds himself or herself in those unusual circumstances, the group auditor should document it properly and indicate how to solve the situation in the near future.

Task Force's Recommendation

24. The Task Force is of the view that the principles underlying the proposed requirements for acceptance and continuance as group auditor remain appropriate. See paragraphs 9-10 and A1-A6 of Agenda Item 5-B.
25. However, the Task Force recommends that the requirements and related guidance be amended to clarify that the group auditor accepts or continues an engagement to audit group financial statements only if the group engagement partner has reasonable expectation of obtaining sufficient appropriate audit evidence in relation to the financial information of components and the consolidation to reduce audit risk for the group financial statements to an acceptably low level. To determine whether the engagement partner can reasonably expect to obtain such audit evidence, the group auditor identifies components that are likely to include significant risks of material misstatement of the group financial statements due to the nature of and circumstances specific to that component. A component may also be likely to include significant risks of material misstatement of the group financial statements due to its individual financial significance. See paragraphs A4-A5 of Agenda Item 5-B.
26. The Task Force is of the view that the guidance on benchmarks and percentages will enhance the consistent application of the requirements. The Task Force recommends that an example be provided of how to identify components that are likely to include significant risks due to their individual financial significance to the group. This example should be 10% to be applied to a chosen benchmark. See paragraph A5 of Agenda Item 5-B.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendations?

QUESTION 3

Do the revised standards and guidance on access to information,⁸ given various laws of jurisdictions, give rise to any unnecessary foreseeable difficulty?

27. Thirty-three respondents commented on Question 3. Fourteen respondents (AICPA, FEE, GAO, HKICPA, ICAEW, ICAI, ICAP, ICAS, ICPAK, INTOSAI, KPMG, LSCA, PAAB, UK APB) explicitly stated that they were of the view that the proposed requirements and guidance give rise to practical difficulty.
28. Respondents were concerned about the fact that the inability to access a component's financial information, management, those charged with governance or auditor (including relevant parts of his or her audit documentation) will render it impossible to accept a group audit engagement or, in the case of a continuing engagement, result in a modified group audit opinion or resignation. They noted that jurisdictions exist where, due to legal or regulatory impediments, the group auditor may not have the required access, or may be prohibited by law or regulation to resign from an engagement. They believed that there should be further guidance on what the group auditor should do if there are restrictions on access.
29. Other specific comments included the following:
 - UK APB was concerned that the ED does not distinguish between restrictions imposed by management and restrictions that are outside the control of management. It agreed that a potential group auditor should not accept an engagement where restrictions will be imposed by management that are likely to result in a disclaimer of opinion on the group financial statements. It did not, however, believe that a potential group auditor should always be prohibited from accepting an engagement where such restrictions are outside the control of management.
 - ICANZ suggest that the final revised standard require the group auditor to request group management to arrange access to component management and information to the extent necessary to perform the group audit, where such access is not prohibited by law or regulation. If the group auditor's request is declined on grounds other than

⁸ ED-ISA 600.18: The group auditor should not accept an engagement to audit group financial statements if: (a) The group auditor's access to component information, those charged with governance of components, component management, or other auditors (including relevant parts of their audit documentation) will be restricted; and (b) The possible effect of the group auditor's inability to obtain sufficient appropriate audit evidence is material and pervasive to the group financial statements, such that the group auditor is likely to disclaim an opinion on the group financial statements.

ED-ISA 600.24: If restrictions on access occur after accepting an engagement and these restrictions cannot be overcome by group management, or by the group auditor obtaining sufficient appropriate audit evidence by other means, the group auditor should consider the possible effect of this inability to obtain sufficient appropriate audit evidence on the group financial statements. When the possible effect of this inability is material and pervasive to the group financial statements, the group auditor considers resigning from the engagement. Where law or regulation does not permit resignation, the group auditor expresses a disclaimer of opinion on the group financial statements.

legal or regulatory impediments, this would likely have wider implications for the engagement.

- E&Y and NIVRA recommended that the final revised standard provide guidance to the auditor of a component, which is not a subsidiary, as to what steps he or she might take when asked for assistance by the group auditor.
 - PWC and HKICPA were of the view that it is the inability to obtain the evidence the group auditor believes is necessary in the circumstances that should determine whether or not there is a scope limitation. PWC noted that, whilst the ED provides some flexibility in this regard (e.g., ED-ISA 600.21),⁹ the tone of that guidance suggests that this is only possible if the component is a very small component that is inconsequential in the context of the overall audit. This guidance is unduly restrictive. Instead, the guidance should focus on the need for the group auditor to consider a broad range of inputs when determining whether or not a restriction on access has impeded the group auditor's ability to obtain sufficient appropriate audit evidence in the circumstances. The inputs would include, for example, the group auditor's relationship with the other auditor (whether it is a related or unrelated auditor), the other auditor's professional qualifications and competence, the nature and quality of the communications between the group auditor and the other auditor throughout the audit, the design and effectiveness of the entity's group-wide controls, as well as other evidence that may be available regarding the component. ICAS and KPMG supported this view. Both NIVRA and PWC were of the view that the group auditor could focus his or her review on a memorandum prepared by the other auditor, summarizing the work performed and the results. The group auditor could obtain assurance regarding the memorandum through consideration of "inputs" such as those referred to above.
30. Four respondents (AICPA, GAO, GT, PWC) were of the view that, due to legal or regulatory restrictions in certain jurisdictions, a scope limitation may not be a viable option. Dividing responsibility in the auditor's report may be the only practical way of communicating the limitations in such circumstances. (Also see paragraphs 7-12 of this paper.) PWC was of the view that, although this is not consistent with the concepts underlying the sole responsibility approach advocated in the ED, it may be the only practical way of dealing with such impediments, at least until legal and regulatory solutions that remove the impediments can be found. GT encouraged the IAASB to work with legislators, regulators and the profession to develop a solution with regard the impediments that place certain countries at a commercial disadvantage by preventing the group auditor from having the necessary access to accept and perform the engagement.

⁹ ED-ISA 600.21: Where restrictions on access cannot be overcome by group management or it is impractical for the group auditor to be involved in the work of another auditor, the group auditor considers whether sufficient appropriate audit evidence can be obtained by other means. For example, the group auditor may not have access to those charged with governance, the management, or auditor (including relevant parts of the auditor's audit documentation) of a component that is accounted for by the equity method. The group auditor, however, may have a complete set of financial statements of the component, including the auditor's report thereon, and information retained by group management in relation to that component. The group auditor may conclude that, based on the insignificance of the component, this limited information constitutes sufficient appropriate audit evidence. If the group auditor concludes that it does not constitute sufficient appropriate audit evidence, the group auditor considers the possible effect on the group financial statements and the group audit opinion. ...

FEE noted that, if the EC's proposed Eight Directive on Statutory Audit is approved, issues related to access to information will no longer occur in the European Union.

31. One respondent (JICPA) recommended that the IAASB arrange broader research regarding legal restriction on access to component information and evaluate the effect of such restriction.

Task Force's Recommendation

32. The Task Force is of the view that the principles underlying the proposed requirements for access to information remain appropriate. However, the Task Force decided to include more guidance on how the group auditor may be able to obtain sufficient appropriate audit evidence by other means. See paragraphs 11-13 and A7-A10 of Agenda Item 5-B.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force that the principles underlying the proposed requirements for access to information remain appropriate? If not, how should the requirements or guidance be amended?

QUESTION 4

Is the proposal to move the guidance originally contained in the proposed IAPS to the proposed ISA appropriate?

33. Thirty-one respondents commented on Question 4. The majority of these respondents supported the proposal to move the guidance originally contained in the proposed IAPS to the proposed revised standard. They noted that combining the requirements and guidance avoids confusion, minimizes inconsistencies, eliminates repetition and leads to a shorter document. It provides for a user-friendly standard, improves clarity and understandability, and will promote consistency in application. It also appropriately elevates material which once resided in the proposed IAPS.
34. Five respondents (E&Y, JICPA, NIVRA, PAAB, SAAJ) explicitly stated that they were of the view that the proposal to move the guidance originally contained in the proposed IAPS to the proposed revised standard is not appropriate.
- E&Y was of the view that the consolidation of the guidance has resulted in a proposed revised standard that is overly long and duplicative of some of the requirements in other ISAs. Furthermore, the length of the ED suggests that it includes all the required guidance related to group audits, which is not necessarily the case. E&Y preferred reverting back to an ISA containing the requirements and essential guidance and an IAPS providing detailed guidance on how ISAs are to be applied in the context of a group audit. This view was supported by the JICPA.
 - NIVRA preferred including all necessary items with a rules-based character in an IAPS.

- The PAAB was of the view that the proposed revised standard has become lengthy and cumbersome. As such, it has lost its logical flow and, consequently, some of its clarity.
 - SAAJ was of the view that the proposed revised standard is too lengthy and hard to digest for non-auditing professionals. Technical details should be transferred to an IAPS, and the ISA should delineate only the major principles in clear language.
35. Two respondents (FEE, ICAEW) were concerned about the large number of cross-references and the general lack of flow through the document. One respondent (PWC) noted that some readers of the ED found it difficult to identify the key principles that drive the audit approach in a group audit because there was simply too much material to wade through to find it. They interpreted the ED as being more rules oriented because the interrelationship between certain elements got lost in the volume of “useful guidance” on other aspects of the group audit. PWC noted that it might be useful to provide an overview at the beginning of the ISA of the key decisions that need to be made in a group audit. It was of the view that, given the length of the ISA, a road map would significantly assist readers in understanding the key concepts and the interrelationship between them.
36. Several respondents (FEE, ICAEW, ICAI, IDW, PWC, UK APB) recommended that issues relating to length, structure, positioning of guidance (ISA vs. IAPS), etc. be considered when the proposed revised standard is redrafted as part of the Clarity Project. One respondent (UK APB) was of the view that much of the proposed guidance actually relates to the application of other ISAs, such as those addressing audit risk and materiality. It recommended that, as part of the Clarity Project, the IAASB give careful consideration, wherever possible, to incorporating the application guidance in the relevant underlying ISAs.
37. One respondent (PWC) urged the IAASB, in finalizing the proposed revised standard, to challenge itself on whether all of the guidance is truly necessary. Consideration should be given to deleting the guidance if comparable guidance exists elsewhere in the ISAs, or if the guidance is more detailed than necessary. In particular, PWC questioned the need for much of the material in the appendices. It is more detailed than is necessary to explain the concepts and requirements. PWC noted that, for this reason, it would be particularly concerned if, as part of the Clarity project, it is proposed that all of the guidance in the appendices be incorporated in the body of the proposed revised ISA as part of the application guidance.

Task Force’s Recommendation

38. The Task Force is of the view that many of the respondents’ concerns could be addressed by applying the clarity drafting conventions to the ED. Agenda Item 5-B therefore contains a first draft of the proposed revised standard after applying the clarity drafting conventions. The Task Force acknowledges that this draft may need further refinement.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendation to address respondents' concerns by applying the clarity drafting conventions to the proposed revised ISA? The IAASB is invited to comment on the application of the clarity drafting conventions during the detailed review of Agenda Item 5-B.

Other Significant Comments

39. Other significant comments related to the following matters:

- (a) Definition of group auditor
- (b) Materiality
- (c) Distinction between components that are not significant in the aggregate and the remaining components
- (d) Responsibilities of other auditors

DEFINITION OF GROUP AUDITOR¹⁰

40. Some respondents (GT, ICAS, IOSCO, KPMG) noted concerns about the definition of group auditor. Comments included the following:

- GT was of the view that an auditor from the group auditor's firm (such as from another office of the group auditor's firm) is not a related auditor, but part of the group auditor's assurance team. The related auditor distinction relates more to a network firm. If this is not the case, additional guidance should be provided with regard to the differences between using a network firm and an auditor from the group auditor's firm. GT believed that there are three separate levels of comfort when using the work of another auditor: (a) an auditor from the group auditor's firm, such as from another office, (b) a network firm, which is subject to the same quality control policies, and (c) an unrelated auditor, including correspondent firms. GT also referred to the definitions of network firm and office in the IFAC *Code of Ethics for Professional Accountants*.¹¹

¹⁰ ED-ISA 600.5(e): "Group auditor" means the auditor who signs the auditor's report on the group financial statements.

Where the audit of the group financial statements is conducted by joint auditors, the joint auditors collectively constitute the group auditor.
...

The Glossary of Terms (December 2004) defines auditor as follows: ... The term "auditor" is used to describe either the engagement partner or the audit firm. Where it applies to the engagement partner, it describes the obligations or responsibilities of the engagement partner. Such obligations or responsibilities may be fulfilled by either the engagement partner or a member of the audit team. Where it is expressly intended that the obligation or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. ...

¹¹ Revised IFAC Code of Ethics for Professional Accountants definitions:

Firm: (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; and (c) An entity control by such parties.

Network firm: An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.

Office: A distinct sub-group, whether organized on geographical or practice lines.

- IOSCO noted that it was not clear whether the term “group auditor” was intended to be only the engagement partner and his or her engagement office team, or the audit firm in the country where the group audit engagement is being led. The latter would include the engagement partner and personnel in the engagement partner’s office plus personnel in another office of that same audit firm in the same country. Different interpretations of who is the group auditor arise from reading different portions of the ED and could give rise to inconsistent application of audit procedures.
- KPMG noted that the use of the term “group auditor” as opposed to “engagement partner” in the proposed revised standard means that the relevant obligation or responsibility may be fulfilled by either the engagement partner, a member of the audit team or the audit firm. Such a broad definition of “auditor” creates ambiguity and will lead to inconsistent application. For example, ED-ISA 600.77 requires the group auditor to evaluate the adequacy of the work of another auditor for the group auditor’s purposes. If the definition of “auditor” for the purposes of applying this requirement is interpreted to mean the audit firm as opposed to the engagement partner or a member of the engagement team, then it is possible to conclude that a group auditor would not be required to evaluate the adequacy of the work of a partner from another office within the same firm operating in a specific country. KPMG did not believe that this was an appropriate interpretation. (ICAS had a similar concern.) On the other hand, if the definition of “auditor” is interpreted to mean only the “engagement partner,” then it would be very difficult for one person alone to meet the requirements of this paragraph. To avoid such wide ranging interpretations, KPMG recommended that the IAASB consider revising the definition of group auditor so that it more narrowly focuses on the responsibilities of the engagement partner and the engagement team. There may also be merit to narrowing the definition of engagement team to members under the direct supervision of the engagement partner. This can be achieved by defining the term “auditor” for the purposes of this ISA as follows: “The term ‘auditor’ is used to describe the obligations and responsibilities of the engagement partner. Such obligations or responsibilities may be fulfilled by either the engagement partner or another member of the engagement team under the direct supervision of the engagement partner. Where it is expressly intended that the obligation or responsibility be fulfilled by the engagement partner, the term ‘engagement partner’ rather than ‘auditor’ is used.”

Proposed revised definition for network firm (ED: Independence – Assurance Engagements, Proposed Revised Section 290, issued June 2005, comment period closed September 30, 2005):

Network firm: (a) A firm that is part of a larger structure and that: (i) Uses a name in its firm name that is common to the larger structure; or (ii) Shares significant professional resources with other firms in the larger structure; or (iii) Shares profits or costs with other firms within the larger structure; or (b) An entity that controls, is controlled by, or is under common control with the firm through ownership, management or other means.

Task Force's Recommendation

41. To clarify the meaning of the term “group auditor,” the Task Force recommends that it is defined as follows: “The engagement partner who signs the auditor’s report on the group financial statements. The obligations or responsibilities of the group auditor may be fulfilled by either the engagement partner or another member of the engagement team under the direct supervision of the engagement partner. Where it is expressly intended that the obligation or responsibility be fulfilled by the engagement partner, the term ‘group engagement partner’ rather than ‘group auditor’ is used.” “Other auditor” is defined as “an auditor other than the group auditor who performs work on the financial information of one or more components for the group audit.” See paragraph 7(c) and (g) of Agenda Item 5-B.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the proposed revised definition for “group auditor?”

MATERIALITY (SEE ED-ISA 600.45-49)

42. Several respondents (E&Y, FAR, FEE, FSR, GAO, ICAEW, IDW, KPMG, PWC) commented on the proposed requirements and guidance on materiality. Specific comments included the following:
- E&Y noted that the ED states that component materiality levels are lower than group materiality levels, but that it does not provide any guidance to assist the group auditor in determining those lower levels. It recommended that the IAASB develop guidance on the factors to consider when determining materiality levels for individual components. It also requested guidance on (a) the relationship between the absolute levels of group materiality and component materiality, and (b) the relative materiality levels between components.
 - E&Y also noted that the ED requires the group auditor to determine the materiality level(s) to be used by other auditors in performing the work on the financial information of the components for purposes of the group audit. In some cases, however, the other auditor may need to set the component materiality, for example, when there is a need for a statutory audit to be carried out. E&Y recommended that the proposed guidance recognize this situation. The other auditor could communicate the materiality level he or she has used to the group auditor for confirmation that it is an appropriate level for group audit purposes.
 - KPMG was concerned that the terms “group materiality level,” “component materiality level,” and “tolerable error” are not clear and may be interpreted as requiring auditors to set progressively lower materiality levels for components as they descend down the organizational hierarchy. It found this concept counter intuitive as this would have the effect of increasing the work effort as the significance of the component to the group financial statements decreases. It recommended that the IAASB modify the proposed guidance to clarify:

- That the concept of “component materiality levels” refers to levels of precision at which work at the assertion level may be performed to allow for aggregation of identified misstatements and possible undetected misstatements.
 - That such precision levels are often set by reference to materiality required for local statutory or other reporting purposes in the jurisdictions in which the respective components operate. (Also see second comment of E&Y above.)
 - That the auditor may set different levels of precision for different assertions or components to address identified risks or when such levels are required to obtain sufficient appropriate audit evidence to support the group opinion.
 - The meaning of tolerable error and its relationship to the above concepts.
 - That the intention of the proposed revised standard is not to set progressively lower materiality levels for components as they descend further down the organizational hierarchy.
- IDW referred to ED-ISA 600.48,¹² stating that this paragraph effectively claims that the size of the group auditor’s tolerable error for individual components decreases as the number of components increases. It was not convinced that this is statistically valid. PWC noted that the proposed revised ISA needs to explain why it is likely that the greater the number of components that are of similar financial significance, the lower the materiality level(s) for those components needs to be.
 - Referring to ED-ISA 600.49,¹³ FEE noted that the proposed revised standard would benefit from further clarification as to how the level of tolerable error should be assessed in the group, which factors are to be taken into account and which information the group auditor should communicate to the other auditors in this respect.

Task Force’s Recommendation

43. The Task Force is of the view that the principles underlying the proposed requirements for materiality remain appropriate and that the requirements and their level of detail are in line with proposed ISA 320, “Materiality in Planning and Performing an Audit.” See paragraphs 21-22 of Agenda Item 5-B.

¹² ED-ISA 600.48: the structure of the group may affect the group auditor’s determination of materiality level(s) for individual components. For example, it is likely that the greater the number of components that are of similar financial significance, the lower the materiality level(s) for components will be.

¹³ ED-ISA 600.49: When planning the work to be performed on the financial information of a component for purposes of the audit of the group financial statements, the auditor responsible for performing that work ordinarily establishes one or more levels of tolerable error lower than the materiality level(s) referred to in paragraph 47. this will allow for the possibility that some misstatements of lesser amounts than the materiality level(s) for the component could be material in the aggregate.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the proposed requirements and guidance in paragraphs 21-22 of Agenda Item 5-B?

DISTINCTION BETWEEN COMPONENTS THAT ARE NOT SIGNIFICANT IN THE AGGREGATE AND THE REMAINING COMPONENTS (SEE ED-ISA 600.54-55)

44. Some members of IOSCO and other respondents found it difficult to understand the distinction between components that are not significant in the aggregate and the remaining components. IOSCO urged that the final revised standard do not convey the impression that the group auditor may presumptively decide not to audit anything in components that are not significant in the aggregate by limiting procedures to analytical procedures performed at the group level. Even with components that are relatively small financially, the group auditor should consider all factors both quantitative and qualitative in deciding not to audit any specific portion of an entity.

Task Force's Recommendation

45. The Task Force is of the view that the proposed requirements for the group auditor to determine the work to be performed on the financial information of components, and to be involved in the work performed by other auditors, will be more easily understood if no distinction is made between components that are not significant and the remaining components. The combined category is now referred to as “components that are not individually significant.” The Task Force has revised the proposed requirements and guidance accordingly. See paragraphs 27 and A29-A30 of Agenda Item 5-B.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendation not to distinguish between components that are not significant in the aggregate and the remaining components? Does the IAASB agree with the proposed revised requirements and guidance in paragraphs 27 and A29-A30 of Agenda Item 5-B?

RESPONSIBILITIES OF OTHER AUDITORS

46. Several respondents (Basel, CEBS, CIPFA, GT, ICAEW, INTOSAI, KPMG, LSCA, UK APB) noted that it would be helpful to clarify the role of the other auditor in the group audit. Basel, for example, noted that what is expected of the other auditor is an implied corollary to the group auditor's expectations. This approach may not be altogether helpful for related and unrelated auditors who wish to understand their roles and responsibilities clearly and may be looking for material addressed directly to them. A more effective approach might be to assemble a complete list of such expectations in a separate section of (or appendix to) the final revised standard and to give these references greater prominence. Other recommendations included the following:
- EC recommended that the final revised standard state that (a) another auditor shall ensure and confirm to the group auditor that he or she accepts to have his work

reviewed by the group auditor, and that he or she will provide upon request a copy of his or her working papers to the group auditor for his purpose and for the purpose of completing group audit documentation; and (b) the group auditor shall confirm to the other auditor that he or she will communicate to the other auditor information relevant to his or her work.

- GT recommended that the final revised standard address the fact that the other auditor should cooperate with the group auditor. INTOSAI recommended that the other auditor be required to provide the group auditor with the necessary access to his or her audit documentation. CIPFA, ICAEW and UK APB supported these recommendations. In addition, ICAEW and UK APB recommended that the other auditor be required, where necessary, to obtain the consent of component management to disclose information to the group auditor. The group auditor should recognize that, whilst the other auditor may impose conditions on such access as to the responsibility or liability they owe to the group auditor, this has no effect on the group auditor's judgment regarding the extent to which reliance is placed on the working papers.
- KPMG recommended that the final revised standard include requirements and guidance that clarify that the other auditor has responsibilities which include responding on a timely basis to confirmation requests from the group auditor, and bringing to the group auditor's attention on a timely basis any matters that may be of significance to the group financial statements and the group auditor's opinion thereon.
- E&Y recommended that the final revised standard provide guidance on the contractual issues facing the other auditor, duty of care to the group auditor and/or parent entity, management representations, and closing and archiving the files relating to the work on the group audit.

Task Force's Recommendation

47. The Task Force continues to be of the view that the proposed revised ISA contains requirements for the group auditor, and that it would not be appropriate to expand the requirements to also deal with other auditors. The Task Force, however, recommends that the confirmation to be obtained from the other auditor be expanded to acknowledge that the group auditor may consider it necessary to be involved in or evaluate the other auditor's work. See paragraph 41(d)-(e) of Agenda Item 5-B.
48. In addition, the Task Force recommends that the IAASB consider whether it is necessary to amend ISA 210, "Terms of Audit Engagements" to provide for the other auditor to address matters relating to co-operation with the group auditor in the terms of engagement that the other auditor agrees with component management. In addition, co-operation between group and other auditors may be a matter for the IFAC *Code of Ethics for Professional Accountants*.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force's recommendation not to deal with the responsibilities of other auditors in the proposed revised ISA?

Special Considerations

AUDITS OF SMALL ENTITIES

49. The majority of respondents (ACAG, AGNZ, AUASB, GT, ICPAK) that commented on the application of the proposed requirements in audits of small entities were of the view that (a) they could be applied in such audits, or (b) it is appropriate not to develop small entity audit considerations because the proposed requirements will mostly apply to audits of larger entities.
50. One respondent (ICAEW) was of the view that (a) it will be particularly difficult to implement the proposed requirements on audits of smaller groups, and (b) a significant risk exists that smaller firms will not be able to carry out audits of companies that are part of a group. The following were given as reasons:
- The proposed requirements for access to working papers, both at planning/risk assessment stage and completion stage, may make it harder to use non-network firms as they may be reluctant to grant such access to a non-affiliated auditor.
 - The proposed requirements on quality control may cause practical difficulties. For example, it may be difficult for smaller firms to provide satisfactory evidence of compliance with ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements." Smaller firms will likely not be subject to the degree of external inspection that larger firms will experience.
 - The proposed requirements relating to the portion of a group audited, whilst not mandating a certain percentage, make it harder for a geographically disparate group to use several small firms.
 - Overall, there will be a considerably larger impact on fees for small groups as the issues above, as well as increased communication requirements, are an "overhead" that does not vary directly with the size of the group.
51. Another respondent (ICAS) commented that the additional resource and cost implications of the proposed requirements will effect small entity audits and small and medium practitioners, who are more likely to be unrelated auditors.
52. One respondent (DI) was of the view that the work performed in the case of small groups should reflect the lesser risk it represents. Small groups are typically without public accountability. Therefore, the IAASB should reconsider whether all the proposed requirements are appropriate for auditors of small groups.

53. One respondent (FEE) was concerned that the proposed revised standard has become complex and lengthy for all practitioners, but in particular for small and medium practitioners. This respondent was of the view that principles-based standards are essential for small and medium practitioners since this will help reduce the size and complexity of standards, and the burden of implementing them. Clear standards, which avoid being over prescriptive, enhance understanding.

Task Force's Recommendation

54. The Task Force is of the view that most of the comments have been addressed by the recommendations noted earlier in this paper.

AUDITS OF PUBLIC SECTOR ENTITIES

55. The majority of respondents (AUASB, ICAS, ICPAK, AGNZ, GT) that commented on the application of the proposed requirements in audits of public sector entities were of the view that they could be applied in such audits.
56. One respondent (CIPFA) noted that, in a public sector context, the appointment of the auditor may be enshrined in legislation and, therefore, non-acceptance or resignation is not an option. This respondent recommended that this be recognized explicitly in the proposed revised standard.
57. One respondent (INTOSAI) noted a preference for incorporating public sector entity audit considerations in the body of the proposed revised standard. This respondent was also of the view that the proposed Public Sector Perspective did not add value to the public sector auditor in interpreting the ISA.

Task Force's Recommendation

58. The Task Force will liaise with the IFAC International Public Sector Accounting Standards Board and with an appropriate sub-group of the INTOSAI Professional Standards Committee to revise the public sector perspective based on comments received. The revised perspective will be incorporated in the body of the ISA.

DEVELOPING NATIONS

59. Two respondents (ICAS, ICPAK) commented on the application of the proposed requirements in audits in developing nations. They were of the view that the proposed requirements were appropriate.

TRANSLATIONS

60. One respondent (FEE) was of the view that the language used in the proposed revised standard at times lacks clarity and thoroughness, and could be enhanced to facilitate the translation of the standard into the twenty-one languages of the European Union. For example, throughout the proposed revised standard, the terms “material” and “significant” are used. Although the term “material” is primarily used in relation to misstatements and weaknesses and the term “significant” in relation to components and

risks, the use of both terms is intermingled in other areas, for instance to describe matters taken in the aggregate, or when used as a stand-alone word. This respondent recommended further clarification of the difference between the terms “material” and “significant” to avoid the currently existing confusion.

Task Force’s Recommendation

61. The Task Force will bring concerns raised by respondents to the attention of the “plain English” reviewer before finalizing the proposed revised standard.

Matter(s) for Consideration by the IAASB:

Does the IAASB agree with the Task Force’s proposed recommendations in relation to small entities, public sector entities, and translations?

Appendix

List of Respondents

| Organization | Organization | Type | Total |
|---------------------|--|-------------------------|-------|
| AICPA | American Institute of Certified Public Accountants | MB | 1 |
| Auditor-General, NZ | Office of the Auditor-General of New Zealand | Government Organization | 2 |
| APB | Auditing Practices Board (United Kingdom) | Other | 3 |
| AUASB | Australian Government Auditing and Assurance Standards Board | Other | 4 |
| ACAG | Australasian Council of Auditors-General | Government Organization | 5 |
| Basel | Basel Committee on Banking Supervision | Regulator | 6 |
| CICA | The Canadian Institute of Chartered Accountants | MB | 7 |
| CIPFA | Chartered Institute of Public Finance and Accountancy | MB | 8 |
| CEBS | Committee of European Banking Supervisors | Regulator | 9 |
| CNCC-CSOEC | Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l'Ordre des Experts-Comptables | MB | 10 |
| DI | Dansk Industri (Confederation of Danish Industries) | Other | 11 |
| DTT | Deloitte Touche Tohmatsu | Firm | 12 |
| DFCG | Association Nationale des Directeurs Financiers et de Contrôle de Gestion | Other | 13 |
| E&Y | Ernst & Young Global | Firm | 14 |
| EC | European Commission | Regulator | 15 |
| FEE | Federation des Experts Comptables Européens | Other | 16 |
| FICPA | Florida Institute of Certified Public Accountants | Other | 17 |
| FAR | Foreningen Auktoriserede Revisorer (Sweden) | MB | 18 |
| FSR | Foreningen af Statsautoriserede Revisorer | MB | 19 |
| GAO | United States Government Accountability Office | Government Organization | 20 |
| GT | Grant Thornton International | Firm | 21 |
| HKICPA | Hong Kong Institute of Certified Public Accountants | MB | 22 |
| IDW | Institut der Wirtschaftsprüfer | MB | 23 |
| IWP | Institut Österreichischer Wirtschaftsprüfer | Other | 24 |
| ICPAK | Institute of Certified Public Accountants of Kenya | MB | 25 |
| ICPAS | Institute of Certified Public Accountants of Singapore | MB | 26 |

| Organization | Organization | Type | Total |
|---------------------|---|-------------------------|--------------|
| ICABC | Institute of Chartered Accountants of British Columbia | Other | 27 |
| ICAEW | The Institute of Chartered Accountants in England and Wales | MB | 28 |
| ICAI | The Institute of Chartered Accountants in Ireland | MB | 29 |
| ICAP | Institute of Chartered Accountants of Pakistan | MB | 30 |
| ICAS | The Institute of Chartered Accountants of Scotland | MB | 31 |
| ICAZ | The Institute of Chartered Accountants of Zimbabwe | MB | 32 |
| IEC | World network of auditors, accountants and tax consultants | Firm | 33 |
| IOSCO | International Organization of Securities Commissions | Regulator | 34 |
| INTOSAI | International Organization of Supreme Audit Institutions | Government Organization | 35 |
| JICPA | The Japanese Institute of Certified Public Accountants | MB | 36 |
| KPMG | KPMG | Firm | 37 |
| LSCA | London Society of Chartered Accountants | Other | 38 |
| NIVRA | Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA) | MB | 39 |
| NZICA | New Zealand Institute of Chartered Accountants | MB | 40 |
| PwC | PricewaterhouseCoopers | Firm | 41 |
| PAAB | Public Accountants' and Auditors' Board | Other | 42 |
| SAAJ | The Security Analysts Association of Japan | Other | 43 |
| Vasudevan | S. Vasudevan, IAAS, BCOM, FICWA, CS | Other | 44 |