

# Agenda Item

## 9-C.1

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
It was proposed that paragraph 4 clarifies that, although the group auditor alone is responsible for the group audit opinion, the other auditor remains responsible for his or her opinion on the component's financial information. That is, the fact that the group auditor is responsible for the group audit opinion does not translate into the other auditor not being responsible for his or her opinion.	See proposed change to paragraph 4.
<b>SCOPE OF THE ISA</b>	
The Task Force was asked to clarify the meaning of the word "additional" in the first sentence of paragraph 1... It was debated whether the following guidance in paragraph 1 should be retained: "The requirements, adapted as necessary in the circumstances, also apply where other auditors are involved in the audit of the financial statements of a single entity. For example, an auditor may plan to use the work of other auditors who observed the inventory count or inspected physical fixed assets at remote locations." It was agreed that the reference should be retained; however, the Task Force was asked to consider whether the example could be deleted.	See proposed change to paragraph 1.
<b>RISK –BASED FOCUS</b>	
An IAASB member was of the view that a focus on obtaining sufficient appropriate audit evidence on which to base the group audit opinion is in line with the approach followed in other ISAs.	See proposed changes to paragraphs 2 and 3.
<b>DEFINITIONS</b>	
Mr. Hansen suggested that, based on comments received from CAG Representatives, the definition of other auditor be revised as follows: "An auditor – other than the group auditor engagement partner and not a member of the engagement team under the direct supervision of the engagement partner – who performs work on the financial information of one or more components for the group audit."	See proposed changes to paragraphs 7(c), 7(g) and 7(h).
The Task Force was asked to:	
<ul style="list-style-type: none"> <li>Clarify the meaning of "direct supervision" by reference to ISA 220, "Quality Control for Audits of Historical Financial Information."</li> </ul>	See proposed new definition at paragraph 7(g).
<ul style="list-style-type: none"> <li>Consider the definition of group auditor in the context of the definition of auditor in the Glossary of Terms, and how it affects the use of the term in the other ISAs. This should include considering the effect of moving from a definition that focuses on the responsibility for the engagement and its</li> </ul>	See proposed changes to paragraphs 7(c), 7(g) and 7(h).

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
performance to a definition that focuses on the responsibility for signing the auditor’s report.	
<ul style="list-style-type: none"> <li>Consider including the definitions of group audit and group audit opinion, which are reflected elsewhere in the proposed ISA, in the Definitions section.</li> </ul>	They have not been included in the definitions because they are not really definitions. They are abbreviations for phrases that are long and cumbersome to use repeatedly in the proposed ISA. That is, “group audit” instead of “audit of group financial statements” and “group audit opinion” instead of “audit opinion on the group financial statements.”
... Mr. Hansen proposed that the term “consolidation” be replaced with “consolidation process.” An IAASB member was concerned that this may imply that the group auditor’s work is restricted to controls over the consolidation process, while the group auditor is also concerned about the numbers. The Task Force was asked to consider this matter.	See proposed change to paragraph 8. Conforming changes have been processed.
<b>ACCEPTANCE AND CONTINUANCE AS GROUP AUDITOR</b>	
The Task Force was asked to:	
<ul style="list-style-type: none"> <li>Reconsider the PricewaterhouseCoopers comment letter. Although in agreement with the Task Force’s recommendations, Mr. Kellas was of the view that more could have been drawn from the letter.</li> </ul>	The Task Force is of the view that to accept a group audit engagement, the group engagement partner has to have a reasonable expectation of obtaining sufficient appropriate audit evidence (see paragraph 9). Such audit evidence is obtained by the group auditor performing the work on the consolidation process; and either performing the work on the financial information of <i>significant</i> components, or being involved in the work that other auditors perform on the financial information of <i>significant</i> components (see paragraph 9). The Task Force is of the view that, if the group auditor is unable to be involved in the work that other auditors perform on the financial information of <i>significant</i> components, it is unlikely that the group auditor will be able to obtain sufficient appropriate audit evidence (see paragraph 11). The section on Acceptance and Continuance as Group Auditor has been redrafted to reflect this view. Paragraph A8 acknowledges that there may be circumstances where the group auditor will be able to obtain sufficient appropriate audit evidence in relation to the financial information of a component, even though access is restricted. These circumstances, however, are likely to be limited to the financial information of components that are not individually significant.
<ul style="list-style-type: none"> <li>Redraft paragraph 11, which deals with restrictions on access to information, to reflect a more positive tone. That is, by explaining that (1) the fundamental question is whether the group auditor will be able to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level,</li> </ul>	See proposed changes to paragraphs 9-13, and note above.

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
and (2) this could be achieved through involvement in the work of the other auditors, or by other means.	
<ul style="list-style-type: none"> <li>Consider emphasizing in the application material management's responsibility to consent to access to information.</li> </ul>	Already dealt with in paragraph A11 – first sub-bullet under fifth bullet.
<ul style="list-style-type: none"> <li>Align paragraphs 12 and 13. Paragraph 12 requires the group auditor to inform group management that he or she is not able to accept the engagement if the possible effect of the group auditor's inability to obtain sufficient appropriate audit evidence is material and pervasive to the group audit opinion. Paragraph 13 requires the group auditor to resign from the engagement if the restrictions to access occurred after accepting the engagement.</li> </ul>	See proposed changes to paragraphs 12-13.
<ul style="list-style-type: none"> <li>Replace the references to group auditor with group engagement partner in paragraphs 12 and 13. In addition, align paragraphs 12 and 13 with similar text in other proposed ISAs. That is, the law or regulation may prohibit the group auditor not to accept or to resign from an engagement.</li> </ul>	See proposed changes to paragraphs 12-13.
<ul style="list-style-type: none"> <li>Expand the relevant bullet in paragraph A2 to indicate that the auditor obtains an understanding of group management's rationale for appointing more than one auditor. Paragraph A2 lists matters about which the group auditor obtains an understanding.</li> </ul>	See proposed change to paragraph A2.
... It was noted that the approach should be similar to that for the examples of percentages to be applied to chosen benchmarks in proposed ISA 320, "Materiality in Planning and Performing an Audit." The Task Force was asked to reconsider the appropriateness of its recommendation in light of the comments received, in particular whether the percentage should be changed from 20% to 10% as recommended.	See proposed change to paragraph A5.
<b>OBTAINING AN UNDERSTANDING OF THE OTHER AUDITORS</b>	
The Task Force was asked to:	
<ul style="list-style-type: none"> <li>Consider revising paragraph 14 to explain that a reason for obtaining an understanding of the other auditors is to determine the extent of work the group auditor needs to perform on the components' financial information and in relation to the other auditors' work. That is, the assessment of the other auditor has an effect on the work effort of the group auditor.</li> </ul>	See proposed change to paragraph 14.
<ul style="list-style-type: none"> <li>Consider deleting the reference to ISA 220, "Quality Control for Audits of Historical Financial Information," in paragraph 14. The terms group auditor and other auditor are defined – it</li> </ul>	The Task Force is of the view that the reference should be retained in the light of the definition of "member of the engagement team under the direct supervision of the

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
is thus not necessary to state that the requirement does not apply to the engagement team.	group engagement partner” (see paragraph 7(g)).
<ul style="list-style-type: none"> <li>Consider indicating in the application material to paragraph 14 that it may not be necessary for the group auditor to obtain an understanding of other auditors from network firms.</li> </ul>	The proposed revised ISA does not distinguish between other auditors from network firms and other auditors that are not from network firms. However, the fact that the other auditor is from a network firm will affect the group auditor’s effort in obtaining the understanding required by paragraph 14. No change has been processed.
<ul style="list-style-type: none"> <li>Move paragraph 17, which deals with confirmations from other auditors about external quality control reviews, to the application material. The application material could be linked to paragraph 14(d), which requires the group auditor to obtain an understanding of factors other than those listed in paragraph 14(a)-(c) that may affect the ability of the group auditor to use the work of the other auditors.</li> </ul>	Paragraph 17 has been deleted.
<ul style="list-style-type: none"> <li>Consider revising paragraph A14, which lists factors that may affect the group auditor’s ability to use the work of the other auditors, to indicate that the listed factors interact and are not mutually exclusive. It may also be helpful to include an example.</li> </ul>	See proposed change to paragraph A14. The Task Force did not consider it necessary to develop an example. It was of the view that an example will state the obvious.
... Mr. Hansen noted that a CAG Representative noted that the term “commonality” is not a commonly-used term and may be difficult to translate. The Task Force will consider this comment.	See proposed change to paragraph A14.
<b>OBTAINING AN UNDERSTANDING OF THE GROUP, ITS COMPONENTS, AND THEIR ENVIRONMENTS, AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT OF THE GROUP FINANCIAL STATEMENTS</b>	
The Task Force was asked to re-insert the references to “at the group level.” That is, clarifying that the risk assessment is performed at the group level.	See proposed changes to paragraphs 19 and A25.
... the Task Force was asked to change the last bullet under paragraph A27 to focus on the risks arising from frequent changes in other auditors rather than the risks arising from the fact that more than one auditor is engaged to audit the financial statements of components. Paragraph A27 provides examples of risk factors.	See proposed change to last bullet of Appendix 3.
<b>MATERIALITY</b>	
... The proposed ISA will be aligned with proposed ISA 320.	See proposed changes to paragraphs 19-20.
... The Task Force was asked to consider explaining that:	
<ul style="list-style-type: none"> <li>The requirement in paragraph 22 relates to cases where the other auditor is requested to perform a full scope audit... It was also debated whether the proposed ISA should provide</li> </ul>	The Task Force has revised paragraphs 19-20 to require the group auditor to determine group materiality, component materiality, and a lower amount for purposes

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
guidance on materiality in the case of non-full scope audits. Mr. Hansen was concerned that proposed ISA 320 would not provide a basis for such guidance.)	of assessing risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level. The Task Force is of the view that this section now applies to all types of work performed on the financial information of components.
<ul style="list-style-type: none"> <li>Although component materiality may be communicated by the group auditor, the other auditor still has to apply the requirements and guidance in proposed ISA 320. That is, the other auditor has to determine an amount lower than component materiality for purposes of performing risk assessment and further audit procedures.</li> </ul>	See proposed change to paragraph 20 and note above.
<b>DETERMINING THE WORK TO BE PERFORMED ON THE FINANCIAL INFORMATION OF COMPONENTS – COMPONENTS THAT ARE NOT INDIVIDUALLY SIGNIFICANT</b>	
Mr. Hansen reported that a CAG Representative suggested that the requirement be revised to state that the group auditor rotates components in this category.	Although the concept is described in ISA 330, “The Auditor’s Procedures in Response to Assessed Risks,” the term “rotation” is not used. The Task Force followed a similar approach in the proposed ISA.
<b>INVOLVEMENT IN THE WORK PERFORMED BY THE OTHER AUDITORS</b>	
An IAASB member noted that paragraph 29, which describes what the group auditor’s involvement in the work of another auditor entails, is not written in the format of a requirement and should be moved to the application material. Another IAASB member noted that the work effort implied in paragraph 29 does not align with the requirements in paragraph 30 (involvement in the case of significant components) and paragraph 31 (involvement in the case of identified significant risks of material misstatement). The Task Force was asked to develop a requirement for the group auditor to determine his or her involvement based on the significance of the component, identified risks of material misstatement of the group financial statements, and the group auditor’s understanding of the other auditor.	See proposed changes to paragraphs 21-22 and 27.
<b>COMPONENTS SUBJECT TO AUDIT BY STATUTE, REGULATION OR OTHER REASON</b>	
The Task Force was asked to clarify that the requirements in paragraphs 30-31, which deal with the group auditor’s involvement in the work of the other auditor in the case of a significant component or identified significant risks of material misstatement, also apply where the component is subject to audit by statute, regulation, or other reason (paragraph 32). The Task Force was also asked to consider the positioning of paragraph 32.	See proposed change to paragraphs 30-31.
<b>COMMUNICATIONS WITH THE OTHER AUDITORS</b>	
Mr. Hansen noted that CAG Representatives asked whether the	See proposed new paragraph 14(d), which requires the

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
<p>proposed ISA should cover the other auditors' obligation to provide the group auditor with access to their audit documentation where it is not prohibited by law or regulation. The Task Force is of the view that the matter is dealt with in paragraph 41(d), which requires the other auditor to acknowledge that the group auditor may consider it necessary to be involved in his or her work. Mr. Hansen suggested that, in addition, the group auditor be required to obtain from other auditors confirmation that the group auditor will have the necessary access to them and to relevant parts of their audit documentation. Mr. Kellas, however, was of the view that the requirements should be explicit about the other auditors' cooperation with the group auditor.</p>	<p>group auditor to obtain an understanding of the following: If not prohibited by law or regulation, whether the other auditor will provide the group auditor with the necessary access to relevant audit documentation.</p> <p>The Task Force did not consider it appropriate to include a requirement for the other auditor in an ISA that addresses the group auditor. It did also not consider a requirement for the other to cooperate with the group auditor to be particularly helpful.</p>
<p>Mr. Kellas asked whether it is necessary in all circumstances for the other auditor's memorandum or report to contain all the information referred to in paragraph 43. He noted that, in the case of a significant component where the group auditor may decide to review relevant parts of the other auditor's audit documentation, it may not be necessary to include all the information in the other auditor's memorandum or report. He also asked how the work performed by the other auditor should be described in the memorandum or report (paragraph 43(e)). Other IAASB members shared Mr. Kellas' concern. Mr. Hansen and other Task Force members were concerned that a less specific requirement may give rise to inconsistent application. Mr. Kellas asked the Task Force to reconsider whether all the information in the list was necessary in all circumstances.</p>	<p>The Task Force has reviewed paragraphs 41-43 of the December 2005 draft. See paragraphs 40-41 of the March 2006 draft.</p> <p>The Task Force has deleted paragraph 41 of the December 2005 draft, which required the group auditor to obtain confirmations from the other auditor. The confirmations are now dealt with in paragraph A12 of the March 2006 draft.</p> <p>The Task Force has also deleted (e) of paragraph 42 of the December 2005 draft (see paragraph 40 of the March 2006 draft). The text was moved to Appendix 6.</p> <p>The Task Force has clarified (e) of paragraph 43 of the December 2005 draft (see paragraph 41(e) of the March 2006 draft), but was not able to reduce the list for the following reason:</p> <p>ED-ISA 600 required the group auditor to review the other auditors' audit documentation under certain circumstances. Respondents to the ED were of the view that the other auditors' memoranda or reports should form the basis of the group auditor's decision to review their audit documentation. The text was changed accordingly.</p> <p>The Task Force is of the view that, at a minimum, it will always be necessary for the group auditor to obtain the information listed in paragraph 41 of the March 2006 draft. This information forms the basis of the group auditor's evaluation as to whether sufficient appropriate audit evidence in relation to the financial information of the components has been obtained (and assists in meeting the audit documentation requirements). Based on this information, the group auditor decides whether to perform additional procedures (including the review of other auditors' audit documentation).</p>

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB DISCUSSION – GROUP AUDITS</b>	
<b>OBTAINING AND READING THE OTHER AUDITORS’ MEMORANDA OR REPORTS OF WORK PERFORMED</b>	
The Task Force was asked to revise paragraph 44 to require the group auditor to evaluate the other auditors’ memoranda or reports to determine whether matters reported have implications for the group audit opinion.	The Task Force has decided to delete the paragraph. See proposed change to paragraph 42 of the March 2006 draft.
<b>PUBLIC SECTOR PERSPECTIVE</b>	
Mr. Hansen noted that IAASB Staff will liaise with the Focus Group of the Financial Audit Guidelines Sub-committee of the INTOSAI Professional Standards Committee in finalizing the Public Sector Perspective.	See paragraph A10. The Task Force is liaising with the relevant INTOSAI committee in this regard.
<b>APPENDIX 1 – EXAMPLE OF MODIFIED OPINION</b>	
The Task Force was asked to revise the Basis for Modified Opinion paragraph to indicate that the associated company’s financial statements were audited, but that the auditor did not have access to information necessary to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Consideration should be given to specifying the information	See proposed change to the Basis for Quality Opinion in the example report in Appendix 1.
<b>APPLICATION OF THE CLARITY DRAFTING CONVENTIONS</b>	
Some IAASB members were concerned about the long lists of items, factors, examples, etc. in the application material and, to a limited extent, in the requirements section. Such lists could be regarded as audit programs. They were of the view that some of the lists could be summarized. It was noted that, although application material and appendices have the same authority, including some of the lists in appendices may aid presentation. The Task Force was asked to reconsider the extent of application material and how to present the requirements and application material more effectively.	Requirements and application material paragraphs have been deleted or changed and text has been moved to appendices in an attempt to respond to this comment.
<b>WAY FORWARD</b>	
It was agreed that the Task Force should submit a revised proposed ISA for approval to be issued as a re-exposure draft at the next IAASB meeting. It was acknowledged that a trail from the previous exposure draft to the re-exposure draft would not be possible. The Task Force was asked to prepare a Basis for Conclusions, reflecting the IAASB’s response to significant comments. In addition, it should highlight previous present tense obligations that are now “shall” requirements. This should accompany the re-exposure draft. When approving the re-exposure draft, the IAASB should consider whether to permit comments on matters other than the application of the clarity drafting conventions.	See material presented for consideration at the March 2006 IAASB meeting.

<b>ACTION POINTS ARISING FROM DECEMBER 2005 IAASB CAG DISCUSSION – GROUP AUDITS</b>	
Representatives commented as follows:	
<ul style="list-style-type: none"> <li>Ms. Sucher was of the view that the summary of significant comments did not clearly explain the reasons for the Task Force’s recommendations.</li> </ul>	Noted
<ul style="list-style-type: none"> <li>Some Representatives were of the view that it was not clear whether the term “group auditor” refers to an individual and/or the audit firm, or who would be regarded as members of the engagement team and as other auditors.</li> </ul>	See proposed changes to paragraphs 7(c), 7(g) and 7(h).
<ul style="list-style-type: none"> <li>Mr. Roussey was concerned that the proposed ISA uses accounting terms differently from their use in the International Financial Reporting Standards (IFRSs). For example, the term “consolidation” in the proposed ISA includes accounting for associated companies by the equity method. This is not the case in IFRSs.</li> </ul>	See proposed change to paragraph 8. Conforming changes have been processed.
<ul style="list-style-type: none"> <li>Mr. Rabin noted that the term “commonality” used in the context of the group auditor’s understanding of other auditors, is not a commonly-used term and may be difficult to translate – “equivalence” might be better.</li> </ul>	See proposed change to paragraph A14.
<ul style="list-style-type: none"> <li>Referring to the identification of significant components based on their individual financial significance to the group, Mr. Popham suggested that the example in the application material, which contained what was in his view a rather low percentage applied to a chosen benchmark, be deleted.</li> </ul>	See proposed change to paragraph A5, and December 2005 IAASB comment.
<ul style="list-style-type: none"> <li>Some Representatives were of the view that the requirements and guidance on access to information did not provide sufficient guidance on the “other means” by which the group auditor could obtain the necessary audit evidence. However, they did agree that, should the group auditor not be able to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level, he or she should not accept/continue the engagement or consider the effect on the auditor’s report, as required by the proposed ISA.</li> </ul>	See proposed changes to paragraphs 9-13, and December 2005 IAASB comment.
<ul style="list-style-type: none"> <li>Some Representatives suggested that the proposed ISA require the other auditor to provide the group auditor with access to relevant parts of his or her audit documentation if not prohibited by law or regulation.</li> </ul>	See response to December 2005 IAASB comment.
<ul style="list-style-type: none"> <li>Mr. Roussey suggested that the proposed ISA provide for rotation of the audit of components that are not significant.</li> </ul>	Although the concept is described in ISA 330, “The Auditor’s Procedures in Response to Assessed Risks,” the term “rotation” is not used. The Task Force followed a similar approach in revising the proposed ISA.



<ul style="list-style-type: none"> <li>Mr. Popham asked whether the matters required to be included in the other auditor's memorandum or report of work performed are not too onerous in the case where a statutory audit is performed on the financial statements of a component.</li> </ul>	<p>See response to December 2005 IAASB comment.</p>
<ul style="list-style-type: none"> <li>Mr. Roussey suggested that the guidance be expanded to refer to the use of work performed by internal auditors, or that – at a minimum – a cross reference to ISA 610, “Considering the Work of Internal Audit” be included.</li> </ul>	<p>Already dealt with in paragraph 2 of Appendix 2.</p>

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