

Meeting: IAASB
Meeting Location: New York
Meeting Dates: December 1–5, 2014

Agenda Item 6

Group Audit–Letterbox Audit Considerations

Objective of Agenda Item

1. The objectives of this agenda items are to:
 - Outline concerns expressed about the application of ISA 600¹ to Letterbox Audits² and describe the IAASB's previous consideration of such audits during the revision of ISA 600 as part of the IAASB's Clarity project;³
 - To consider views in respect of the applicability of ISA 600 to letterbox audits in a group; and
 - To consider possible responses to address concerns on this topic.

ISA 600 Working Group

2. The ISA 600 Working Group (the WG) is comprised of the following members:
 - Megan Zietsman, IAASB Member and chair of the Working Group
 - Brendan Murtagh, IAASB Member
 - Wolf Böhm, IAASB Technical Advisor
 - Josephine Jackson, IAASB Technical Advisor
 - Len Jui, IAASB Technical Advisor
 - Robert Dohrer, IAASB Member (Commences January 2015)
 - Derek Broadley, National Standards Setters (Hong Kong) representative
 - Sara Ashton, IAASB Staff
 - Beverley Bahlmann, IAASB Staff

¹ ISA 600, *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)*

² In a "letterbox audit", an entity incorporated in a particular jurisdiction is required to have an audit performed in accordance with ISAs, but may have no operations in that specific jurisdiction. In such engagements, it is common for the engagement partner (or partner who signs the audit report) to be based in the jurisdiction in which the entity is legally registered, rather than where management or the operations of the entity are based (and consequently where the audit work will need to be performed). Such entities may also often hold investments in multiple subsidiaries that operate in other jurisdictions. A letterbox structure may be part of a group or may comprise only of a single component. See Appendix 1 of Agenda item 6-A for examples of letterbox structures.

³ The IAASB's Clarity project was completed in March 2009. As part of that project ISA 600 was revised and redrafted in the clarity format.

3. The WG will be undertaking information gathering activities relating to the IAASB's new initiative on Group Audits (ISA 600), initially in relation to the application of ISA 600 matters to letterbox audits. The WG will also be considering other matters relating to the application of ISA 600, including, but not necessarily limited to: the practical implications of application in particular circumstances, for example when a significant component is an equity investment, a joint venture or in a fund of funds situation; the extent of the group auditor's involvement in the work of the component auditor, the extent of that component auditor's work and communications between the group auditor and component auditor; the application of the concept of component materiality; and identifying components in complex situations.⁴

Activities of the Working Group

4. During 2014, Staff commenced information gathering activities on this aspect of the issues related to Group Audits, and an initial discussion with the IAASB Steering Committee was held in December 2013 and March 2014 to obtain preliminary views.
5. The WG commenced its activities subsequent to the approval of the IAASB's *Work Plan for 2015–2016*⁵ and further research activities have been undertaken to understand the nature of letterbox audits and the issues with the application of ISA 600 that are specific to those audits.
6. Research activities to date have included a review of the consideration of letterbox audits, if any, under the prior Audit of Group Financial Statements project and discussions with some regulators, on the issues identified with the audits of letterbox companies.
7. The WG has held two teleconferences in October and November 2014 to initiate the WG, discuss its activities going forward, and to discuss the results of the research into letterbox audits with a view to recommending an approach to moving forward on letterbox audits.
8. The WG also plans to obtain further input from regulators and firms on the application of ISA 600 to letterbox audits and the specific application issues.

Preparation of the Materials

9. Agenda Item 6-A focuses on the application of ISA 600 to letterbox audits within a group situation.⁶ However, many letterbox audits are performed when the company structure may not be that of a group, i.e. the company has a registered office in one jurisdiction and its operations are conducted in a single component in another jurisdiction.
10. Initial discussions, and the preliminary view of the WG is that ISA 600 would not apply in single component situations, however, the principles in ISA 600 build upon those of ISA 200,⁷ which would

⁴ These areas were highlighted as key and important themes from the IAASB's ISA Implementation Monitoring project, completed in July 2013.

⁵ The finalization of the IAASB's Work Plan for 2015–2016 is subject to confirmation of due process by the Public Interest Oversight Board (expected in December 2014).

⁶ ISA 600, paragraph 1 states that ISA 600 applies to group audits. Under the definitions in ISA 600: a "Group Audit" is the "audit of group financial statements," (paragraph 9(f)) and "Group Financial Statements" ... "include the financial information of more than one component" (paragraph 9(j)).

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

clearly be relevant to the audit of single component letterbox companies. In addition, ISA 600 notes that an auditor may find ISA 600, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements.⁸ The application of this paragraph in the context of single component letterbox audit has yet to be explored.

11. The WG has also begun to explore the practical challenges of application of ISA 600 that make it difficult for auditors both to appropriately apply ISA 600 and to demonstrate appropriate application to letterbox situations. Although the WG needs to perform more research in this area, it would appear however, that many of the practical implication issues are similar to those that would be experienced in a more traditional group audit situation.

Action Requested

12. The IAASB is asked to consider the views of the WG presented in **Agenda Item 6-A** and provide views on the Matters for Consideration therein.

Material Presented

Agenda Item 6-A	Discussion–Letterbox Audit Considerations
Agenda Item 6-B	Accountancy Article – Legal Letterbox (for information only)

⁸ ISA 600, paragraph 2