

## Group Audits – Letterbox Audit Considerations

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Group Chair

IAASB Meeting

December, 2014

# Work Plan for 2015–2016

## ISA 600 (Group Audits) – Issues that May Be Addressed

- Application in particular circumstances
  - “Letterbox” audits
  - Practical implications of applying ISA 600 (e.g., restricted access to information)
  - Applicability to Shared Service Centers and Offshoring
- Auditor performance
  - Extent of group auditor’s involvement in component auditor’s work
  - Communication between group and component auditors
  - Application of component materiality
  - Identifying a component in complex situations
  - Work effort of component auditors

# Work Plan for 2015–2016

## ISA 600 (Group Audits) – Possible Outputs, Preliminary Approach and Timing

- Possible outputs
  - Amendments to ISA 600, conforming amendments to other ISAs
  - Staff or other non-authoritative guidance
- Approach
  - Initial focus on letterbox audits and Staff survey on firm's outsourcing activities
  - Information gathering (e.g., discussion paper, roundtables, etc.) on other areas of concern and issues identified
- Timing
  - Initial discussion on approach to addressing letterbox audits; further Board discussion in 2015 including Staff outsourcing survey (Discussion Paper late 2015?)

# ISA 600 Working Group Members and Staff

- Megan Zietsman (Chair)
  - Assisted by Dora Burzenski
- Wolf Böhm
- Derek Broadley, HKICPA
- Bob Dohrer
- Josephine Jackson
- Len Jui
- Brendan Murtagh
- IAASB Staff
  - Sara Ashton
  - Bev Bahlmann

# Letterbox Audits: Key Topics For Discussion

- Characteristics
- Background and Calls for Action
- Application of the ISAs to Letterbox Audits
- Practical Application Issues

# Letterbox Audits - Characteristics

- Company has no business activity in the jurisdiction in which it is registered
- All operations take place in another jurisdiction (one branch or division or multiple branches or divisions, including intermediate holding companies)
  - See illustrative examples in Appendix 1
- Generally 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

# Letter Box Audits - Background and Calls for Action

- Issue identified through the ISA Implementation Monitoring Findings and by regulators
  - Consistency of interpretation and application of ISA 600 to letterbox audits
  - Over reliance on reports from component auditor
- Calls for IAASB to address the concerns regarding the application of the ISAs, including ISA 600, to letterbox audits

# Letter Box Audits - Background and Calls for Action

## Input from EAIG Meeting – November 2014

### **Specific findings in the audit of so called “letterbox company”**

Previous feedback from the EAIG included the following

- Signing auditor has little participation in the conduct of the audit
- Reliance on clearance/inter-office reports/memoranda from countries with limited or no involvement of group auditor
- Audit work done in the jurisdictions where operations and accounting records are based
- Internal/global firm guidance promotes an non ISA600 compliant approach of little involvement from engagement partner
- ‘Letterbox’ engagement partner does not entail the responsibility for direction, supervision, performance and review of the audit
- Consolidation process delegated to component auditor, group auditor not sufficiently involved in substantive consolidation



# Application of the ISAs to Letterbox Audits

- Review of Audit of Group Financial Statement Project (Extant ISA 600)
  - Letterbox audits were contemplated as part of the project but were not explicitly referenced in the standard
  - Letterbox audits were not specifically excluded from the scope of ISA 600
  - No substantive debates on the topic by the IAASB Board during the development of extant ISA 600

# Application of the ISAs to Letterbox Audits

- Other relevant information in ISA 600
  - Paragraph 2 allows for the adaption of the principles of ISA 600 to “non-group” audits
  - Paragraph 5 clarifies the relationship between ISA 220 and ISA 600
    - The application of ISA 600 is “layered on top of” ISA 220
  - Paragraph 9 includes definitions of
    - Group
    - Component
    - Group engagement partner

# Application of the ISAs to Letterbox Audits

- Preliminary views of Working Group
  - ISA 600 applies to letterbox audits in a group situation
  - ISA 600 does not apply to letterbox audits that are a single component
    - However, ISA 220 applies (as do the other ISAs)

# Application of the ISAs to Letterbox Audits

## Matters for IAASB Consideration

- The IAASB's is asked whether it agrees with the WG's preliminary view that ISA 600 would apply to letterbox audits in situations where there is more than one component
- The IAASB is asked for its views about addressing single component letterbox audits, including whether and if so how, the principles of ISA 600 should be applied

# Practical Challenges to Application of the ISAs

- Licensing issues
- Access issues and data privacy
- Fee structures
- Regulatory issues
- Language and cultural issues

# Practical Challenges to Application of the ISAs

## Matters for IAASB Consideration

- The IAASB is asked whether
  - It agrees with the practical challenges of applying ISA 600 to letterbox audits identified by the WG on a preliminary basis, and as set out in paragraph 24, and whether there are additional perspectives or views relating to these challenges
  - There are other practical applications not identified in paragraph 24 that the WG should be considering

# Approach to Addressing Letterbox Issues Matters for IAASB Consideration

- The IAASB for its views on the approach to addressing letterbox issues, including whether
  - The issues can be, or should be addressed in isolation or it would be more appropriate to address the issues as part of the larger ISA 600 project
  - Additional guidance is needed to outline and suggest approaches to addressing the practical challenges, and if so, do members have suggestions about how best to approach the development of this guidance
  - Is there a short term action that could and should be undertaken, with the acknowledgement that the underlying issues would continue to be investigated and addressed either separately or as part of the larger ISA 600 project



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