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Dear Mr. Sylph

Reference: ISA 600 (Revised), "The Audit of Group Financial Statements"

Dear Mr Sylph

The Committee of European Banking Supervisors welcomes the opportunity to comment on the IAASB Exposure Draft: "ISA 600 (Revised) "The Audit of Group Financial Statements" (ISA).

Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model. As banking supervisors, we therefore have an interest in ensuring that auditing standards which are the basis for audit work are of a high quality and are clear and capable of consistent application.

In general we support the approach taken by the ISA to provide more clarification of the role of the group auditor and the procedures to be followed in dealing with other auditors on the group audit. This should provide useful support for the requirement in article 27 of the forthcoming 8th Directive that the group auditor bears full responsibility for the audit report for the consolidated accounts. However, we do have some concerns over the lack of emphasis on the responsibilities of the other auditors, and the expression 'involvement in the work that other auditors perform'.

It would be helpful to make clear, overall, what is the role of the other auditor in the group audit. References to the other auditor are scattered throughout the ISA, and it would be helpful to bring them together to underline the role of the other auditor, their responsibilities and their duty to comply with the provisions of the ISA. Currently this is not stated explicitly.

The phrase 'involvement in the work that other auditors perform' (paragraph 10b) needs greater development. The ISA contains many procedures which group auditors should perform depending on the significance of the issue, the role of other auditors and the group auditor's consideration of the professional qualifications, independence and professional competence of other auditors. It is important that there is also an overarching principle here to inform the procedures. Paragraph 4 provides the overarching principle for the ISA; paragraph 10 then provides some support for this principle by stating two essential requirements within the context of repeating the principle in paragraph 4 (to obtain sufficient appropriate audit evidence). However, the expression 'involvement in the work that other auditors perform' in paragraph 10(b) is not

sufficiently clear or focused as a principle. It is a proposed action without any criteria or objective. We would suggest that the principle here is that the group auditor should be 'involved in the work of the other auditors *to the extent necessary to ensure they can place sufficient reliance on the sufficiency and appropriateness of the other auditor's evidence*'.

Paragraphs 59-68 outline the procedures which underpin the phrase 'involvement in the work that other auditors perform.' At the very least, some thought should also be given to re-ordering or cross-referring in the ISA to ensure that these paragraphs are clearly linked to paragraph 10(b)

In the attached note we provide our more detailed comments on the ISA.

Our comments were coordinated by our Expert Group on Accounting and Auditing (EGAA), and especially by its Sub-Working Group on Auditing which is under the direction of Pat Sucher from the FSA, UK.

If you have any questions regarding our comments, please feel free to contact the chairman of EGAA, Prof Arnold Schilder (+31.20.524.3360), the deputy chairman of EGAA, Arnoud Vossen (+31.20.524.3903) or Miss Pat Sucher (+44.20.7066.5644).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Arnold Schilder', written in a cursive style. The signature is positioned below the text 'Yours sincerely'.

Specific comments on: ISA 600 (revised): The audit of group financial statements (ISA)

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

As we have already noted above, it would assist the clarity of the ISA if there was a specific section addressing the work of the other auditor which also underlines the roles and responsibilities of the other auditors and their duty to comply with the provisions of the standard as this is, at present, not stated explicitly in the ISA

Though the group auditor has responsibility for the overall audit of the financial statements, it would be helpful if there were some accountability of the group auditor to the other auditor. For example it could be appropriate to state that the group auditor should explain to the other auditor(s) of (a) significant component(s) how he/she arrived at conclusions on a group level, and how the group auditor took (or did not take) into account any comments made and actions recommended by the other auditor. This could be achieved by adding some wording in paragraph 62 or by introducing additional wording in the section *Communications with another auditor* – paragraphs 95-104.

Another check and balance is to strengthen the responsibilities of the group auditor versus those charged with governance. It is advisable that the group auditor communicates to those charged with governance any matters brought to the attention of the group auditor by other auditors that the latter judge to be significant to the responsibilities of those charged with governance of the group. This approach would imply a modification of paragraphs 93 and 94. Alternatively, this could be addressed through a cross reference to ISA 260, paragraph 16.

In addition, under *Communications with another auditor* (paragraphs 95-104), we believe the group auditor should be made aware of potential restrictions imposed on another auditor that would constitute a limitation of scope with respect to the audit of the component. This situation should become evident from the group auditor's review of the other auditor's terms of engagement and we recommend an adjustment to this section of the ISA. It may also be necessary to amend paragraphs 25 and 26 of the ISA to reflect this change.

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

Generally, the standards and guidance are appropriate. However, we believe there should be more emphasis on the group's attitude and policy towards auditing. Group's management should be able to identify significant components and should also be able to explain why certain components, in particular the significant ones, are not audited by the group auditor or related auditors. Therefore, we suggest paragraph 11 should be modified to take this into account, for example:

'For purposes of determining whether to accept or continue an engagement to audit group financial statements, the group auditor should obtain an understanding of the group, its components, their environments, and of the group's auditing policy, including who audits the various components and how this choice is justified. The auditor should also be able to identify components that are likely to be significant.'

Paragraph 13 would also benefit from some elaboration on the issue of how the group decides on its audit policy.

As already noted in our covering letter, we believe that paragraph 10 needs some further development and cross referencing to paragraphs 59-68. It is also a key paragraph, and we would suggest that it could usefully follow from paragraph 4.

It would also focus the requirement in paragraph 4 if there were a greater emphasis on the group auditor taking responsibility for the audit opinion on the group financial statements (as currently laid out in paragraph 7). In addition, we believe it should be a bold text should requirement that the group auditor performs the work on the consolidation. This is currently a grey letter present tense requirement in paragraph 7. In sum, we believe that paragraph 4 could be better stated as follows:

The group auditor takes responsibility for the audit opinion on the group financial statements. Therefore the group auditor should obtain sufficient appropriate audit evidence on which to base the group audit opinion. To obtain such audit evidence, the group auditor should determine (a) the audit procedures to be performed on the consolidation, and (b) the type of work to be performed by the group auditors or other auditors on the financial information of the components. The group auditor should perform the work on the consolidation.

Paragraph 16 includes a reference to a specific figure of 20% as indicating a 'significant' component. We do not believe this is a helpful in a principles based standard. The issue is more the particular component in the particular group and its significance. It is the auditor's responsibility to assess what is significant and 20% may be too low or too high in the particular circumstances.

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

We support the approach laid out in paragraph 18 and its application for continuing engagements as laid out in paragraph 24. However, we believe there needs to be further helpful examples of what to do if there are restrictions on access. In practice this could be a significant issue and the greater the guidance given concerning possible alternative procedures, the better.

In addition, in line with our comments on ISAs 705 & 706, we would welcome greater definition of the term 'pervasive' as included in paragraph 24 of this ISA.

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

We consider it is appropriate.

5. Other comments

Assessment of the independence of the other auditor

Paragraph 27 requires the group auditor to consider the independence of the other auditor. This requirement is then carried through in paragraph 29 where it is stated that the group auditor's consideration of the independence of the other auditor 'will affect the nature, timing and extent of the group auditor's involvement in the other auditor's work.' However, there is no reference to independence in paragraphs 60 and 66 where the involvement in the work of other auditors is considered. This implies it is of lesser importance than the professional qualifications and competence of the other auditors. We would suggest that auditor independence is just as important and therefore should be included in paragraphs 60 and 66.

Paragraph 28 - We welcome the inclusion of the statement that the group auditor considers whether the other auditor:

'Operates in a regulatory environment that actively monitors the professional qualifications, independence, and professional competence of auditors and the quality control systems of their firms.'

However, we would suggest that consideration be given to making this a requirement in the ISA, rather than a suggested example. Effective public oversight of auditors, as laid out in article 31 of the proposed 8th Directive, is a very important element in ensuring high quality audits and should always be considered by the group auditor in assessing the other auditors.

Determining the work to be performed on the financial information of components

We query whether it is appropriate to qualify the verb 'performs' with the word 'ordinarily' in paragraphs 52 and 53, as we are unclear what else the group auditor would do. Use of the word 'ordinarily' in these contexts may undermine consistent application of the ISA.

There is some ambiguity in the linkage between the last sentence in paragraph 58 and the requirements in paragraphs 59-68. The last sentence in paragraph 58 states, 'To meet the requirements described in paragraphs 59-68, the group auditor reviews the risk assessment procedures and further audit procedures already performed, and determines the additional audit procedures to be performed.' Paragraphs 59 and 60 concern general statements about 'involvement in the work of other auditors' and in particular, paragraph 59 covers five different actions that constitute 'involvement in the work of other auditors'. The ambiguity arises because the actions contained in the last sentence of paragraph 58 could be seen to override the suggested actions in paragraph 59. At a minimum, we would therefore suggest the forward reference in paragraph 58 needs to be changed to 'paragraphs 61-68.' We would also suggest that paragraphs 59 and 60 are moved to another part of the ISA. For example, with some modification, they could be placed after paragraph 10(b). This would also help address the issue we raise in our covering letter.

Evaluating the adequacy of another auditor's work

It may seem more appropriate to move paragraphs 84 and 85 forward to follow paragraph 77 in order to provide some general introductory paragraphs in the section. This would also emphasise the need to obtain sufficient appropriate audit evidence. Indeed we wonder if this section could usefully be reorganised to cover the evaluation of the evidence on significant components before the consideration of other work performed by another auditor. In particular, we note the use of the present tense in paragraph 84, and would suggest that it is more appropriate as a 'should' statement as it is such a key requirement.

We are unclear about the ordering of paragraphs 79-86. Paragraph 79 suggests that the group auditor reads the other "auditors' reports or memorandums of work performed". Paragraph 80 then states that the group auditor should review relevant parts of the other auditor's audit documentation. Paragraph 86 then states the group auditor should consider the effect of the other auditor's memorandum or report of work performed. We would have thought the group auditor should review the other auditor's memorandum first and then assess what further action might be appropriate.

Audit documentation

We would not suggest that the ISA should necessarily follow exactly the requirements of the proposed revised 8th Directive on the Statutory Audit of Annual accounts and consolidated accounts (Directive). However, article 27 of the Directive does cover the

documentation requirements for the group auditor's review of the work of other auditors, and it might be helpful to compare the requirements of the article with this ISA to ease the implementation of the ISA in the European Union.

Article 27 states that the 'group auditor carries out a review and maintains documentation of his/her review of the audit work performed by 3rd country auditors.....for the purpose of the group audit. The documentation retained by the group auditor shall be adequate for the relevant competent authority to properly review the work of the group auditor.'

Paragraph 107(b) of the ISA states that the group auditor should document various matters about other auditors including, 'the nature, timing and extent of the group auditor's or related auditor's involvement in the work performed by other auditors.'

We are not sure that paragraph 107(b) would provide enough documentation to support article 27. We would encourage the IAASB to ascertain whether the documentation requirements of the ISA are adequate for the Directive.