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Dear Mr Sylph

**Proposed International Standard on Auditing 600 (revised and redrafted)
The Audit of Group Financial Statements**

The Committee of European Banking Supervisors welcomes the opportunity to comment on the *Proposed International Standard on Auditing 600 (revised and redrafted) 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 and contribute to enhancing the capital adequacy of credit institutions and the financial stability of the market. 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 changes to auditing group financial statements as set out in the ISA. In particular we support the emphasis on the group auditor taking sole responsibility for the audit opinion, the elimination of the distinction between related and unrelated auditors and the greater precision with the new definition of group auditor. We also believe that, overall, the ISA strikes an appropriate balance between specifying procedures and maintaining the exercise of auditor judgement. We welcome the greater explanation in the explanatory memorandum concerning how the ISA addresses particular issues. However, we believe the objective for the ISA needs some further development in order to focus on the outcome of the auditor's work.

In the attached appendix we provide answers to the specific questions raised in paragraph 33, guide for respondents.

Our comments were coordinated by our Expert Group on Financial Information (EGFI), 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 EGFI, 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 'DN' or similar initials, written in a cursive style.

Danièle Nouy
Chair, Committee of European Banking Supervisors

Appendix – Comments on Proposed International Standard on Auditing 600 (Revised and Redrafted) - The Audit of Group Financial Statements (ISA)

The elimination of the distinction between related and unrelated auditors

We support the elimination of the distinction between related and unrelated auditors.

Proposed definitions of 'group auditor', 'member of the engagement team under the direct supervision of the group engagement partner' and 'other auditor'.

The definition of group auditor in the ISA seems appropriate and practical as it encompasses the group engagement partner and other members of the engagement team under his/her direct supervision. However, we note that it is not the same as that included in the 8th directive on the Statutory Audit of annual accounts and consolidated accounts (Directive 2006/43/EC).

Under this directive, which has to be implemented in member states within the next two years, 'group auditor' means the 'statutory auditor(s) or audit firm(s) carrying out the statutory audit of consolidated accounts' (Article 2(6)).

We would encourage the IAASB to consider the implications of the different definitions of group auditor.

We have no comments on the other definitions.

Increased specificity of requirements with the emphasis on the group auditor taking sole responsibility

We strongly support the emphasis on the group auditor taking sole responsibility. However, the increased emphasis on the role of the group auditor should not lead to a lack of expectation for the other auditors. The ISA could contain an explicit statement that the other auditor shall co-operate with the group auditor. However, we also appreciate that there may be other ways of stipulating such a professional obligation, for example in the IFAC Code of Ethics, rather than including it in the ISA, and would also encourage the IAASB to consider what other options are available.

Our comments about other aspects of the ISA are noted below against the different headings in the ISA

Acceptance and Continuance as Group Auditor (Paragraphs 9-13 and A1-A11)

Paragraph 12 states that if an auditor is unable to obtain sufficient appropriate audit evidence, he should resign. We would suggest that the auditor decision on whether to resign or not may be different depending on the circumstances.

In one situation, the auditor may encounter situations beyond his control which prevent him from obtaining sufficient appropriate audit evidence, for example if the group has a subsidiary in a country where it is not possible to obtain access. This would lead to a disclaimer of opinion, but he would not necessarily need to resign.

In the other situation management may prevent the auditor from obtaining sufficient appropriate audit evidence. This would then be a situation when an auditor should then resign from the engagement, unless law or regulation prohibits an auditor from refusing or resigning from an engagement.

Responding to Assessed Risks (Paragraphs 20-29 and A27-A31)

Paragraph 25 states that, for components that are not individually significant and not selected for the period under audit, the group auditor should perform analytical procedures. We would be concerned if some components were only ever subject to analytical procedures. All components should be subject to audit at some point. What may seem to be an insignificant component may, in fact, in a particular year become a significant component to the group and if it was never subject to audit, this might not come to light.

Paragraph 26 covers the extent to which the group auditor should involve himself in the work of the other auditor. However, this paragraph does not make clear that this reflects work being performed *during* the audit and an evaluation *during* the audit of what is necessary. As currently written, its contents are very similar to paragraph 41, which covers the evaluation of audit evidence at the *end* of the audit. Some wording should be added to paragraph 26 to reflect to a greater extent that the proposed actions will take place during the audit.

Communication with the Other Auditors (Paragraphs 37-40 and A33)

Paragraph 38(c) covers the requirement for the group auditor to request the other auditor to communicate any identified non-compliance with laws and regulations that could materially affect the group financial statements. There could also be non-compliance with laws and regulations at the group level that might affect the component's financial statements. Therefore the communication between the group auditor and the other auditor should also cover information concerning non-compliance of laws and regulations at the group level.

Paragraph 39 covers what the other auditor's memorandum should contain in relation to the group audit. We would suggest that non-compliance with laws and regulations should be included in the auditor's memorandum. It could have a material affect on the group accounts.

Communication with group management and those charged with governance of the group (Paragraphs 46-49 and A36-37).

Paragraph 47 covers the requirement to communicate to those charged with governance of the group any suspected fraud involving group or component management. This requirement should be brought into line with ISA 240, *The auditor's responsibility to consider fraud in an audit of financial statements*. The requirement to communicate to those charged with governance of the group should be extended to include fraud involving 'employees who have significant roles in internal controls and others where the fraud results in a material misstatement in the financial statements.' (ISA 240.95)

Documentation (Paragraph 50)

ISA 230, *Audit Documentation (Revised)* requires an auditor to document the nature, timing, and extent of the audit procedures performed to comply with ISAs; the results of the audit procedures and the audit evidence obtained; and significant matters arising during the audit and the conclusions reached thereon.

In addition to those items already specifically noted in the documentation section of ISA 600, we believe that one aspect, the process of identifying significant components, which is covered in more detail in the application material, should also be documented as it would be significant in understanding how the auditor arrived at his opinion.

Is the objective to be achieved appropriate?

The current objective is a combination of outcome and subsequent requirements. The initial part of the stem of the objective, with its focus on obtaining sufficient appropriate audit evidence, provides a reasonable start to an objective. However, we would like the objective to continue to focus on the outcome of the auditor's work, and therefore we suggest that the objective could be phrased as follows:

'In relation to this ISA, the objective of the auditor is to determine whether the auditor is able to act as the group auditor, and to obtain sufficient appropriate audit evidence to express an opinion on whether the group financial statements are properly prepared in all material respects, in accordance with an applicable financial reporting framework.'

However, we would emphasise that until the whole suite of objectives for the ISAs is exposed, it is difficult to identify what would be an appropriate objective and where it should be placed. Therefore we would encourage the IAASB to expose the whole suite of objectives so that we can comment on them in parallel with any Exposure drafts that are exposed.

Have the guidelines for determining the requirements been applied appropriately and consistently?

We are unclear why paragraph 26 of the March 2005 Exposure Draft is not retained as a requirement in the ISA, as it would seem to apply in virtually all circumstances where it occurred. Therefore we would suggest it should be included as a requirement.

We note two paragraphs, 98 and 102, from the March 2005 Exposure Draft where it is stated that considerations of the number and appropriateness of the requirements has led to their inclusion as application material rather than requirements.

As a matter of due process, these considerations are not one of the guidelines stated by the IAASB for considering what should be a requirement. Therefore it is not appropriate to raise them at this juncture as new guidelines for the non-inclusion of these paragraphs as requirements. These paragraphs also represent requirements that would seem to apply in virtually all engagements (confirmation that other auditors have understood various ethical, financial reporting and auditing standards; timely communication of weaknesses in internal control).

Therefore we would suggest that these paragraphs should be included as requirements. However, given the more procedural nature of paragraphs 98 and 102, they could be included as part of other requirements in the ISA, such as paragraph 39.