



July 31, 2006

Mr. Jim Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate the opportunity to comment on the proposed International Standard on Auditing (ISA) 600 (Revised and Redrafted), *The Audit of Group Financial Statements*, (the “proposed standard”) as developed by the International Auditing and Assurance Standards Board (IAASB). We continue to support strongly the development of further policies and guidance in the area of group audits and we believe the issuance of a revised standard on this subject matter is critical.

Overall, we agree with the changes made to the proposed standard since the draft was exposed for comment in 2005, and believe that the work effort required is appropriate in order for the group auditor to obtain sufficient appropriate evidence on which to base his or her opinion on the group financial statements. However, we do have concerns that certain requirements of the proposed standard are “open-ended” or lack application material or other guidance which would help the auditor to apply these requirements. We are concerned that, without additional guidance, these requirements may be interpreted differently by different parties (e.g. regulators, auditors, other stakeholders), and that the work effort applied by different auditors could vary.

For example, we are concerned with the “open-endedness” of the requirements in paragraphs 14(b) and 14(c) to obtain an understanding of the other auditor’s compliance with ethical requirements and to obtain an understanding of the quality control system of the other auditor’s firm, and its implementation. For example, in regards to paragraph 14(c), we are unsure what depth of understanding is required by the group auditor (e.g., does the group auditor from firm X in country A need to know the educational requirements of the other auditor, who works for firm Y in country B?). We believe that the IAASB needs to include additional guidance on the requirements of paragraph 14 and on the other requirements that we have noted in our response to Question 3 below.

Following our responses to the questions posed by the IAASB in the explanatory memorandum accompanying the proposed standard are our comments by paragraph. Within our recommendations for editorial changes, additions are noted in “bold underline” and deletions in “double strike-through.”

Questions Posed in the Explanatory Memorandum

- 1. The proposal to eliminate the distinction between related and unrelated auditor gave rise to substantial changes to some of the proposed requirements. Respondents are asked to indicate whether they are in agreement with the proposal, and the effect that it has on the procedures that the group auditor performs in relation to the work of other auditors.**

We agree with the elimination of the distinction between related and unrelated auditor.

- 2. Respondents are asked also to consider the proposed definitions of “group auditor,” “member of the engagement team under the direct supervision of the group engagement partner,” and “other auditor or another auditor.”**

We recommend that the IAASB clarify the applicability of the proposed standard, particularly in regards to individuals or engagement teams who operate in the same firm as the group engagement partner.

We recognize that there are many permutations of engagement teams and engagement team personnel, and therefore the auditor’s professional judgment is needed in determining whether certain individuals or engagement teams are classified as being “under the direct supervision” of the group engagement partner. However, we are concerned that without further guidance there will be inconsistency in practice in terms of whether an engagement team or engagement personnel working in the same firm as the group engagement partner are considered to be subject to the policies and guidance of the proposed standard, or subject to the policies and guidance of ISA 220, *Quality Control for Audits of Historical Financial Information*.

For example, we recommend that the proposed standard provide guidance, through illustrative examples, on situations where the ‘other auditor’ is considered a member of the engagement team (e.g., an engagement team auditing a subsidiary and issuing a separate audit opinion in a different city from, but in the same firm as, that of the group auditor; engagement personnel from the same firm as the group auditor working on the audit of a subsidiary in a different country, etc.).

- 3. The IAASB is of the view that the proposed revised ISA will enhance the quality of group audits. Where a group auditor takes sole responsibility for the audit opinion on the group financial statements, it will require that the group auditor obtains sufficient appropriate audit evidence on which to base such an opinion. The IAASB recognizes, however, that current group audit practices vary. This is one reason why**

the IAASB considers it necessary to be reasonably specific about the steps to be taken, and the work effort required, by the group auditor. Do respondents think that this approach is justified?

We support the level of detail included in the proposed standard and further, we believe that additional guidance is needed in the following areas to clarify certain requirements.

Acceptance and Continuance as Group Auditor

Acceptance and Continuance

We believe that there could be practical difficulties in determining “on day one” of the engagement the extent to which the group auditor will be involved in the work of other auditors, and the relationship of that determination to the acceptance and continuance process. For example, we are unsure whether the group auditor should accept the engagement to audit the group financial statements until he or she can be certain about having access to the other auditor and being able to be involved in the work of the other auditor. We recommend that the proposed standard include further guidance on this topic.

We also believe that the proposed standard should include guidance on communicating with the other auditor (e.g., does the group auditor who works in country A for firm X directly contact the other auditor who works in country B for firm Y?)

Identifying Significant Components and Benchmarking (Paragraphs 10 and A5)

We support the inclusion in the proposed standard of benchmarks for identifying significant components as we believe it is helpful guidance for the group auditor. However, we recognize that there are practical differences between a component that is an equity-accounted investment and a component that is a subsidiary, in terms of access and influence of group management. Those differences are not reflected in the guidance of the standard, and in terms of identifying significant components, could impact the group auditor’s ability to express an opinion on the group financial statements (e.g. if one component of a group was an equity-accounted investment, and was considered significant because it was above the chosen benchmark of 15%, the group auditor may need to modify the opinion on the group financial statements if he or she is not able to be sufficiently involved in the work of the other auditor for that one component).

We suggest that the IAASB add guidance that discusses the impact of the type of component on the performance of the group audit. For example, if the group auditor has access to the reporting package, books and signed financial statements of a significant component, but the other auditor of that component refuses to provide any information related to the system of quality control of the other auditor’s firm, must the group auditor modify their opinion on the group financial statements?

Obtaining an Understanding of the Other Auditors

Quality Control (Paragraphs 14 (a) – 14 (c))

Paragraphs 14 (a), (b) and (c) state that the understanding of the other auditors shall include various matters relating to professional qualifications, compliance with ethical

standards, and the other auditors' firm's implementation of International Standard on Quality Control (ISQC) 1.

We believe that the group auditor will be able to satisfy these requirements when both the group auditor and the other auditor are members of the same global network of firms. However, there is a spectrum of difficulty in satisfying this requirement based on the size and nature of the group auditor and the size and nature of other auditor (i.e., at one end of the spectrum, there may be some difficulty in satisfying the requirement when the group auditor and the other auditor are part of two different global networks of firms while at the other end of the spectrum, the difficulty may be substantial when the group auditor and other auditor are both local firms operating in different jurisdictions and are not part of any network.). We believe the standard needs to address these differences.

Paragraph A16 indicates possible sources of information to support the understanding of the other auditor; however these are general in nature. In fact, it seems unlikely that anything short of a "peer review", or access to a third party inspection report, would provide much comfort on these matters with respect to an unrelated auditor.

If, for practical reasons, the default procedure becomes obtaining a "bland" confirmation of these items from the other auditor (as indicated in the 2nd bullet of Paragraph A16), without challenging the substance behind such representations, the question becomes one of sufficiency. It is difficult to determine whether such a confirmation would mean that the entire firm was in compliance with ISQC1, or solely the relevant engagement or local office. The position taken by audit regulators will be important here.

We recommend that additional guidance, including illustrative examples, be provided on this topic. For example, what does it actually mean to be "in compliance" with ISQC1? Are there "key" elements of ISQC1 that the group auditor should focus on in his or her understanding of the other auditor's implementation of quality control standards? Further, what is the impact of non-compliance with ISQC1 on the group auditor's assessment of, and involvement in, the other auditor's work?

Related to this topic, we believe that the notion of the auditor's professional judgment in assessing the other auditors should be included in the guidance.

Materiality (Paragraphs 18 – 19)

How to determine materiality in a group audit context is often a complicated task and practices probably vary significantly. As currently written, people may read and interpret the requirements in these paragraphs in different ways. Therefore, we recommend that the proposed standard include additional guidance relating to the calculation of the three different materiality amounts described in the requirements and the relationship that the materiality amounts have to each other.

Responding to Assessed Risks

Components That Are Not Individually Significant (Paragraph 25)

We believe additional guidance is needed related to the performance of analytical procedures at the group level on components that are not selected for the period under audit. For example, we are unsure what materiality amount would be used for these procedures. If the intention is for the auditor to perform “high-level” analytical procedures at the group materiality level, we suggest rewording the paragraph to clarify the nature and purpose of the procedures, such as:

“The group auditor shall perform analytical procedures, using group materiality, in order to be able to identify any material misstatements in the group financial statements resulting from misstatements in the financial information of components not selected for the period under audit.”

Additionally, we believe guidance is needed on how to effectively perform analytical procedures on a component where the group auditor is less familiar with the business or industry environment of the component (e.g., how does a group auditor based in New York effectively perform analytical procedures on an Australian component and under what circumstances could these procedures be delegated to a local Australian auditor?)

Involvement in the Work Performed by the Other Auditors (Paragraph 26)

We are confused about the timing and application of the requirements imposed by paragraph 26. From a timing perspective, bullet (b) lists reviewing the other auditor’s overall audit strategy and audit plan as part of the evaluation of the other auditor’s memorandum or report of work performed. If the group auditor did not review the other auditor’s plan until after the other auditor had completed his or her work, the review would not be of any practical use.

In terms of application, it is unclear that paragraph 26 applies to **all** components where the group auditor requests work to be performed by another auditor. The confusion occurs in part because while the procedures in bullet (c) of paragraph 26 are guidance, similar procedures in paragraph 27 are included as requirements for significant components.

The paragraph also appears “open-ended”, insofar as it imposes procedures “where considered necessary” while no guidance is provided with regard to such circumstances. In addition, the use of the expression “one or more” is ambiguous. Auditors may feel they have no choice but to perform all of these procedures to reduce their risk in the event of litigation, which could represent a significant amount of work.

We recommend that the IAASB clarify the requirement in paragraph 26, including the addition of guidance related to the circumstances in which the group auditor should undertake the procedures listed in the paragraph. One way of clarifying the requirement would be to make the following editorial change:

“The group auditor shall evaluate the other auditor’s memorandum or report of work performed and, where considered necessary **as a result of that evaluation**, undertake one or more of the following actions:”

We also recommend that the proposed standard incorporate guidance on the need for continuous communication throughout the audit between the group auditor and the other auditor.

4. With regard to the application of the proposed clarity drafting conventions, respondents are asked to respond in particular to the following questions:

i. Is the objective to be achieved by the auditor, stated in paragraph 6 of the proposed ISAs, appropriate?

We believe that the objective is appropriate. However, we are aware that the IAASB has discussed a similar, but shorter, objective at its May meeting, and that the objective will be amended based on overall decisions made with regard to clarity conventions.

ii. Have the guidelines identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements are at a level that promotes consistency in performance and the use of professional judgment by auditors?

We believe that the guidelines have been applied appropriately and consistently.

Comments by Paragraph

• **Paragraph 4**

This paragraph contains the first reference in the proposed standard to other auditors' "memoranda or reports of work performed." This summary document is mentioned in several places within the proposed standard as it relates to the group auditor's involvement and review of the other auditor's work.

The ISAs currently do not require the auditor to draft an actual "summary memorandum" or other single document containing a summary of work performed. We are unsure whether the requirements of the proposed standard implicitly create a requirement for the other auditor (or for auditors in general circumstances) to prepare a report of work performed. If the requirement to prepare a report of work performed relates only to group audits, we recommend replacing the first sentence of paragraph 39 with the following language:

"Where another auditor is requested to perform work in accordance with paragraphs 22 – 24, the group auditor shall request the other auditor to prepare a report or memorandum of work performed. Such report or memorandum shall contain matters relevant to the group auditor's conclusion with regard to the group audit."

• **Paragraph 7(d)**

We suggest that the footnote in 7(d) related to group audits conducted by joint auditors be included in the text of the standard. It is the only footnote in the proposed standard,

whereas the specificities of certain other jurisdictions are addressed as normal text for other matters (e.g. laws or regulations prohibiting an auditor from resigning).

- **Paragraph 7(j)**

We believe that the definition of “significant component” needs to be clarified to indicate that a component that is of individual financial significance to the group is always considered to be a “significant component” and therefore subject to the requirement of paragraph 23 of the proposed standard. We recommend the following change to the definition:

(j) Significant component - A component identified by the group auditor **as individually financially significant to the group, or that**, due to ~~its~~ **its** the nature of or circumstances ~~specific to, that component or the individual financial significance of that component to the group, has been identified~~ as likely to include significant risks of material misstatement of the group financial statements (i.e., significant risks that require special audit consideration - see ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement").

- **Paragraph 13**

When read in isolation, this paragraph could be interpreted to mean that a disclaimer of opinion should be expressed whenever law or regulation prohibits an auditor from refusing or resigning from an engagement. We recommend that the final sentence of paragraph 12 is deleted, and that paragraph 13 is included at the end of paragraph 12.

- **Paragraph 14, bullet (d)**

This paragraph discusses the group auditor’s access to the “audit documentation” of the other auditor. We are unsure if the definition of “audit documentation” in the proposed standard is intended to be the same as that in ISA 230, *Audit Documentation*. If so, we recommend a reference to that standard be included in the proposed standard. In addition, we recommend that the nature of “access” be clarified (e.g. “live” location visits versus virtual access to workpapers and access to the whole audit file versus “key” workpapers).

We also recommend that this bullet be moved to the acceptance and continuance section of the requirements, as we believe that the group auditor’s ability to obtain access to the audit documentation impacts the acceptance and continuance process.

- **Paragraph 16**

We recommend the following editorial change to indicate that the auditor’s understanding of the group is enhanced throughout the audit:

“Throughout the audit, the group auditor shall enhance ~~the~~ **his or her** understanding of the group, its components, and their environments obtained during the acceptance or continuance stage...”

- **Paragraph 19**

We recommend that guidance on the timing of the communication referenced in the last sentence of the paragraph be included in the proposed standard, as it may not always be possible for the group auditor to determine whether the amount lower than group materiality for the component as determined by the other auditor is “appropriate” before significant work is performed.

- **Paragraph 24**

This paragraph describes the procedures that can be performed on components that are not individually significant when selected by the group auditor for testing. The procedures listed do not include a review of “the financial statements of the component, including the auditor’s report thereon” which paragraph A8 indicates may represent sufficient audit evidence when the component is relatively insignificant. We recommend that the IAASB clarify whether review of the audited financial statements is an acceptable “testing” procedure for components that are not individually significant, as referenced in paragraph 24.

- **Paragraph 39, bullet (a)**

We recommend that the bullet refer explicitly to compliance with ISQC 1 and ISA 220, not just to the other auditor’s “quality control policies and procedures.”

- **Paragraph 40**

We recommend that the paragraph be clarified as to whether the “significant risks” that should be listed in the memorandum are those that are significant to the component or to the group.

- **Paragraph 50**

We recommend that guidance be added to the standard on documenting the nature, timing and extent of the group auditor’s involvement. We are unsure what level of documentation is required or appropriate, for example, related to the *nature* of the group auditor’s involvement.

- **Paragraph A8**

This paragraph refers to “circumstances” that may cause restriction of access to information. It would be appropriate to refer specifically to national laws relating to confidentiality and data privacy, since these are de facto the principal barriers encountered in practice.

- **Paragraph A11**

We noted that there was no link from this paragraph to the requirements section and recommend that a reference be made in the “Acceptance and Continuance as Group Auditor” section of the requirements. Further, we recommend clarifying that this paragraph relates to the terms of engagement between the group auditor and group management, not to the terms of engagement at the component level.

- **Paragraph A11, 2nd bullet**

We recommend the following additional language, as that is likely to be closer to the actual wording used in practice:

- “The fact that the communication between the group auditor and the other auditors should be unrestricted, **subject to applicable law or regulations.**”

- **Paragraph A11, 3rd and 4th bullets**

We suggest strengthening the language related to the communications covered by these bullets, as the group auditor may otherwise not be made aware of the existence of these types of communications. Rather than their simply being “made available”, we recommend that the language be changed to “should be provided to the group auditor.”

- **Paragraphs A27**

We believe that the order of the steps in the diagram could lead to a misunderstanding of the type of work to be performed on a component that is significant due to its nature **and** size. If read in a linear manner, one could infer from the diagram that if a component is deemed significant due to its likelihood of including significant risks, then regardless of its size, the auditor has the option of performing any of the procedures listed in the first box under “Type of Work Performed.” The diagram should clarify that, if a component is deemed to be significant due to its financial significance, an audit of the component’s financial information should be performed.

- **Paragraph A34**

We recommend either deleting the last sentence or clarifying that it relates to situations involving a related auditor. In a situation involving an unrelated auditor, the extent of internal review by the other auditor’s firm is not relevant to the group auditor’s review.

- **Paragraph A35**

This paragraph has no link to the requirements section. We recommend that a reference be made in paragraph 43 to this application material paragraph.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact P. Nicholas Fraser at + 33 1 55 61 21 87.

Very truly yours,

A handwritten signature in black ink, appearing to read "P. Fraser", is written over a horizontal line. The signature is stylized and cursive.