

## ISA 600 EXPOSURE DRAFT – “THE AUDIT OF GROUP FINANCIAL STATEMENT”

### RESPONSE FROM INTOSAI WORKING GROUP ON FINANCIAL AUDIT GUIDELINES

#### Introduction

1. This document sets out the comments of the INTOSAI Working Group on Financial Audit Guidelines to the Exposure Draft of the revised ISA 600 “The Audit of Group Financial Statement”.
2. The response is structured around the specific questions posed by IFAC in the ED. Additionally, an annex is attached with detailed comments related to specific paragraphs within the ISA. Whilst we also make comment specifically with relation to the Public Sector Perspective as drafted, it should be noted that INTOSAI's preferred means for reflecting considerations of particular relevance to the public sector is within the body of the ISA. This is the approach to be taken in relation to the ongoing revision of ISAs where INTOSAI members are participants in Task Forces.

#### Specific questions

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

3. The previous draft of ISA 600 permitted the group auditor to divide responsibility for the audit opinion on the group financial statements with another auditor if national standards permitted this. There was wide divergence of view on this issue and the re-exposure makes no reference to divided responsibility, referring to the issue instead in the explanatory memorandum.
4. It is the view of the majority of the members of the INTOSAI Working Group on Financial Audit Guidelines that the removal of reference to divided responsibility is a positive move. This provides clarity as to the core responsibility of the group auditor to gather sufficient, appropriate evidence in support of the audit opinion on the group accounts, and to refer explicitly where appropriate to a limitation on the scope of their opinion (rather than referring to the work of another auditor).
5. Concerns were expressed, however, by one member of the Working Group at the practical implications of eliminating divided responsibilities, based on the structure of government audits in the United States. The Government Accountability Office of the United States of America will be commenting separately to the IAASB setting out its views on this matter.

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

6. We believe that the revised standards on accepting or continuing an engagement to audit financial statements are appropriate. They refer only in passing, however, (see paragraph 24 non-bold type) to the situation in the public sector where the audit appointment may be enshrined in legislation and therefore either non-acceptance or resignation is not an option. We consider that these circumstances should be recognised more explicitly in the ISA, and have made detailed comments in the attached annex to reflect this.

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

7. We do not anticipate that the revised standards and guidance themselves will pose problems in terms of access to information for INTOSAI auditors. They may, however, present practical difficulties in the audit of global companies operating a diverse set of individually significant component bodies across the world. We support, however, the underlying theme that appropriate assurances are required for financially significant components.
8. We do have concerns, however, at the way in which the ISA seeks to provide guidance on how the auditor will make his/her assessment of what constitutes a financially significant component. Paragraph 16 of the ED gives a guideline percentage of “20% or more of group assets, liabilities, cash flows, profit or turnover”. This is subject to the caveat that “the nature and circumstances of the group, however, may make a lower percentage appropriate”. We consider that, in providing an actual percentage figure, this will encourage 20% to be viewed as a firm rule or threshold. We are not in favour, more generally, of prescribing specific amounts in this way, since it is a discouragement to the auditor to exercise their own judgement. A similar issue arises in respect of paragraph 54 which introduces the percentage of 5% in respect of assessing components which are not significant in aggregate.
9. Our strong preference is that the auditor be left to make their own judgement on such matters. Alternatively, a range of suggested measures may be put forward. At the very least, if the ISA is to go forward with this degree, in practice, of prescription, we consider that the contextual content stressing that ultimately this is a matter for auditor judgement and circumstances may dictate that different levels could be appropriate, should be strengthened.

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

10. We fully support the move to bring the guidance together in this way. Doing so avoids the risk inherent in the previous approach of providing confusing messages to auditors. We consider that the revised ISA, subject to our comments here and in the detailed annex, is pitched at the correct level to provide clear guidance to auditors in their audit of group financial statements.

***Use of Appendices***

11. The draft ISA contains substantial additional material in the six appendices. Whilst the appendices provide useful practical guidance to auditors on application of particular aspects of the ISA, we have a more general concern that the use of detailed appendices in this way could confuse auditors in terms of what the ISA requires of them. This may be an issue of more broader application to be considered as part of the IAASB's current clarity project.

***Comment on the Public Sector Perspective***

12. We do not consider that the public sector perspective as currently drafted adds value to the public sector auditor in interpreting the ISA. Our comments included in the draft annex set out instances where we consider that some specific reference to the public sector context would be helpful within the body of the ISA. In putting forward these suggestions it is certainly not our objective to give disproportionate weight to specific public sector concerns. As we have agreed with IFAC, INTOSAI will develop additional guidelines for member SAIs, by way of a Practice Note, to elaborate on particular public sector interpretational issues. It is our preference, though, to include comment from time to time in the body of an ISA where appropriate, and thus to take the opportunity to dispense with the Public Sector Perspective as currently drafted.

## ANNEX – DETAILED COMMENTS ON ISA 600

### Comments each refer to the relevant paragraph within the draft ISA

**Paragraph 16** – see comments in the main body of the letter. We do not favour the use of prescribed percentages in this way;

**Paragraph 17** – this paragraph concludes the section on “Acceptance and Continuance as Group Auditor”. It would be appropriate here to include some additional, brief material which reflects the circumstances in the public sector. We would suggest the following, to run after paragraph 17:

*“There may be circumstances where law or regulations do not permit auditors either to refuse to accept or to resign from an audit assignment. Examples could include audits in the public sector where the audit responsibilities are set down in statute. In these circumstances, auditors should follow the guidance set out in this ISA in assessing the availability of sufficient appropriate evidence on which to base the audit opinion, and in obtaining and understanding of the group and its components, and should then assess the implications of their findings from this work for their audit opinion.”*

**Paragraph 24** – in similar fashion, paragraph 24, which concludes the section dealing with Access to Information and related implications for the audit, does currently include reference to the above circumstances. We would not, therefore, propose any additional content to this paragraph.

**Paragraph 36** – this paragraph sets out a bold type requirement for the group auditor to confirm whether there are any issues noted in recent monitoring reports that are likely to affect significantly the work that the unrelated auditor will perform on the financial information of the component. There may be practical difficulties in applying this requirement in different jurisdictions if, for example, such reports are considered confidential as part of the regime for regulating auditors. This is a general rather than public sector specific concern.

**Paragraph 38** – this paragraph deals with appropriate action to be taken by the group auditor where there are concerns with regard to either the professional qualifications or competence of an unrelated auditor or their independence. There may be circumstances in the public sector where, currently, reliance is placed on work carried out by auditors who are not independent of the organisation under audit. We therefore suggest that where the concern is limited to the independence of the other auditor – consideration may be given to referring to the guidance in ISA 601 “Considering the Work of Internal Audit”. Thus the paragraph could be amended to include the following sentence.

***“Where concerns about the unrelated auditor relate solely to their independence, the group auditor may also wish to consider the guidance contained in ISA 601***

***“Considering the Work of Internal Audit.”***

**Paragraph 59** – this paragraph states that some or all of the steps listed would be those “ordinarily” undertaken by a group auditor. It is our view that meeting with component management and participation in closing and key meetings would not frequently be necessary, though this would depend upon the relationship with the other auditor, as well as the degree of control and oversight carried out by group management. We therefore propose that the opening sentence be amended to read:

***“Involvement in the work performed by another auditor could include ....”***

**Paragraph 80** – this paragraph sets out a bold type requirement to review relevant parts of the work of the other auditor (related or unrelated). It echoes other requirements elsewhere in terms of access to the work of other auditors. We accept that in seeking to meet the requirements in terms of gaining assurance in relation to all significant risks, the group auditor should take necessary steps including review of documentation. We would sound a note of caution, however, in relation to the procedures of audit practitioners which provide for such access. Practical experience suggests that obtaining access to relevant documentation, on which to base important judgements in relation to the group audit, can be time consuming. There may be scope within the ISA, either here or elsewhere, to articulate clearly the crucial responsibilities of the other auditor to provide timely and appropriate access to relevant information for the purposes of discussion or review in support of the group auditor’s responsibilities. (NB: This comment relates to the application of the ISA to all audits, not just those carried out in the public sector).

**Paragraph 93** – this paragraph sets out in bold type various items which the group auditor should communicate to those charged with governance. There are clearly some elements of these which will need to be treated with some sensitivity (e.g. group auditor’s concerns about the competence etc of another auditor, concerns following evaluation of the work of another auditor). The ISA could be developed further to recognise this and to place these requirements in the context of the legislative and regulatory context of the particular jurisdiction within which both the group and component audits are carried out. Again, this comment relates to the application of the ISA to all audits, not just those carried out on the public sector.