

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

RESPONSE FROM INTOSAI FINANCIAL AUDIT GUIDELINES SUBCOMMITTEE

Introduction

1. This document sets out the comments of the INTOSAI Financial Audit Guidelines Subcommittee to the March 2006 Revised and Redrafted Exposure Draft on ISA 600 “The Audit of Group Financial Statements”.
2. The response is structured around the specific questions posed by IFAC in the exposure draft. Additionally, an annex is attached with two specific comments related to specific paragraphs within the ISA.

Specific questions

Are we in agreement with the proposal to eliminate the distinction between related and unrelated auditors?

3. We are in agreement with this change. We find that this has significantly simplified and clarified the guidance being provided. The guidance has been improved by leaving the amount of work to be done based on the judgment of the group auditor considering their knowledge of the other auditors.

Do we agree with the level of specificity of the steps to be taken and the work effort required?

4. We are comfortable with the level of specificity of the direction in the exposure draft. However, we have some suggestions regarding improved clarity of some items – which we include in the annex to this letter.

Is the objective to be achieved by the auditor stated in paragraph 6 of the proposed ISA appropriate?

5. We are of the view that the objective as set out in paragraph 6 is appropriate.

Have the guidelines identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently?

6. While we have not exhaustively reviewed the exposure draft with a view to ensuring complete consistency in the application of the guidelines, our review of the exposure draft has revealed no inconsistencies.

Additional Comment

7. While we note that the IAASB requested that that comments previously made not be repeated, we should note that the removal of reference to divided responsibility remains a source of contention within the INTOSAI Financial Audit Guidelines Subcommittee. While it remains the view of the majority of the members of the subcommittee that the elimination of divided responsibility is a positive move, concerns continue to be expressed by one member of the Subcommittee at the practical implications of eliminating divided responsibilities. We anticipate that the Government Accountability Office of the United States of America will ,once more, be commenting separately to the IAASB setting out its views on this matter.

ANNEX – DETAILED COMMENTS ON ISA 600

Comments each refer to the relevant paragraph within the draft ISA

Paragraph 27 – In this paragraph the guidance indicates that the group auditor shall discuss risk assessment with the other auditor. It is our preference that this be reworded to permit communication rather than discussion with the other auditor. It is our view that verbal discussions need not be required – as written communication can address these issues adequately in many circumstances.

Paragraph 36 – As written it can be read that the requirement to request other auditors to report to the group auditor on subsequent events which require an adjustment to or disclosure in the group financial statements applies to all “non-significant” components, rather than simply those where additional work is carried out under the aegis of paragraph 24 of the ED.

If this is the requirement, we are concerned that this may prove quite administratively onerous, in circumstances where a group continues hundreds of extremely small entities (such as Government Boards and tribunals). Beyond the issue of effort, this would not appear to be consistent with the rest of the exposure draft, which allows the group auditor to determine how much effort would be required based on the group auditor’s assessment of risks. However, if this is the intent, the paragraph needs to be clarified to indicate why this differs from the requirements set out in paragraphs 24 and 25.

If, on the other hand, the paragraph is intended to refer only to those components set out in paragraphs 24, this too should be made explicit. We do support such a requirement.