



By e-mail < EDComments@ifac.org > and by fax (0062 1 212 286 9570)

28 July 2006

Our Ref.: C/AASC

Technical Director,
International Auditing and Assurance Standards Board,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York,
New York 10017,
USA.

Dear Sir,

[IAASB Exposure Draft of proposed ISA 600 \(Revised and Redrafted\) on the Audit of Group Financial Statements](#)

The Hong Kong Institute of Certified Public Accountants is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. We welcome the opportunity to provide you with our comments on the captioned IAASB Exposure Draft.

We support the revision and redrafting of the proposed revised ISA 600, in particular the basis of the ISA that a group auditor takes sole responsibility for the audit opinion on the group financial statements. This requires that the group auditor obtain sufficient appropriate evidence on which to base such an opinion. In addition, we consider that the separation of the requirements and application guidance following the Clarity drafting conventions has greatly improved the understandability of the requirements of group auditors and the key principles underlying them. However, we have some concerns in the following areas that we would recommend the IAASB to address before finalizing the ISA:

- Greater credit to be given to the value of effective internal controls within network firms;
- The practicality of requiring “direct supervision” by the engagement partner;
- The responsibilities of Other Auditors; and
- The requirement to determine the identity of the components in each particular engagement

We set out in the attachment our specific comments on each of the above points for your consideration.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact the undersigned at patricia@hkiipa.org.hk.

Yours faithfully,

Patricia McBride
Director, Standard Setting

PM/SO/jc
Encl.



HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS
ON THE IAASB EXPOSURE DRAFT
OF ISA 600 (REVISED AND REDRAFTED) ON THE AUDIT OF GROUP
FINANCIAL STATEMENTS

A. GENERAL COMMENTS

1. Greater credit to be given to the value of effective internal controls within network firms

We note that as a result of the removal of the distinction between related and unrelated auditors, paragraph 14 includes requirements to obtain an understanding of the other auditors. Group auditors are now required to perform procedures, on each audit engagement in relation to other auditors within their network, when they should be able to rely on their firm and network quality control policies and procedures to provide the necessary assurance.

In the proposed draft, insufficient recognition has been given to the value of robust internal controls that exist in strong global network firms. As a result, group auditors in such firms will need to perform procedures simply to be able to demonstrate compliance with the ISA without any demonstrable impact on audit quality.

We are of the view that where firms within a network have a common methodology, audit tools and training, and operate under common quality control policies and procedures, including the monitoring procedures described in ISQC 1, engagement partners in that network should be able to take more comfort on the effectiveness of those internal controls than the proposed exposure draft allows. As ISQC 1 says, where firms operate as part of a network and have implemented some or all of their monitoring procedures on a network basis, engagement partners in that network are entitled to rely on the results of the monitoring process implemented unless the firms or the network advises otherwise. Testing the effectiveness of the internal controls in that network is, in a sense, performed on a firm basis and therefore need not be replicated on each individual audit engagement.

We recommend that guidance should be provided that, when the other auditor operates under common monitoring policies and procedures designed to comply with ISQC 1, the group auditor is entitled to place reliance on the other auditor.

2. The practicality of requiring “direct supervision” by the engagement partner

Direct supervision is used in definitions such as “group auditor” and “members of the engagement team under the direct supervision of the group engagement partner”.

The term “direct supervision” implies that the engagement partner is required to have direct involvement at the time that procedures and judgments are being



carried out by another auditor and/or the engagement team, and be present at each and every component audit. ISA 220 requires the engagement partner to take responsibility for supervision in an engagement but does not suggest that it is the engagement partner who must perform all aspects of the supervision “directly”. It does not make an allowance for situations where a group entity has a complex structure with subsidiaries and other components that have diverse activities in multiple locations. In those situations, it would be impracticable or impossible for the group engagement partner to undertake direct supervision at every location and on every matter. In addition, it is not practical to have every key member of the engagement team being directly supervised by the engagement partner.

For example, there is a scenario which is commonly seen in Hong Kong and China. When the size of a Group is very large, the parent and subsidiaries are audited by separate engagement teams led by different engagement partners within the same firm. For instance, the parent company would be audited by the audit team in Beijing led by an engagement partner in Beijing office, while a subsidiary would be audited by another audit team in Shanghai led by an engagement partner in Shanghai office, and both the Beijing and Shanghai offices belong to the same firm.

Under the current definitions provided in the Exposure Draft, it is unclear as to whether the engagement teams auditing the subsidiaries led by another engagement partner would be considered as “other auditor” or not. As a result, there is no clear guidance on how audit evidence could be shared between the engagement teams within one firm and to what extent the Group Auditor has to understand, and be involved in, the audit performed by engagement teams of the subsidiaries.

3. The responsibilities of Other Auditors

Paragraph 15 of extant ISA 600 requires the other auditor, knowing the context in which the group auditor will use the other auditor’s work, to cooperate with the group auditor. This requirement was not included in the Exposure Draft as the IAASB did not consider it appropriate to include a requirement for another auditor in an ISA that primarily contains requirements and guidance for a group auditor. However, we would like to highlight that we consider that the previous requirement for the other auditor to cooperate is helpful from a practical perspective. It would help to ensure that appropriate cooperation is forthcoming and for both the group and other auditors to explain to clients why such cooperation is necessary and appropriate.

In this regard, we recommend that a similar requirement be inserted in the proposed Standard as it would be helpful to clarify the responsibilities of the other auditor to ensure a smooth working relationship between group auditor and other auditor.

4. The requirement to determine the identity of the components in each particular engagement

We found the wording of the term “component” to be unclear as to whether all of these types of segments referenced in the definition should always be considered components or whether the list is for illustrative purposes only. It is therefore



unclear how the group auditor would apply this definition in complying with the requirements in the Exposure Draft.

We consider that the entity's financial reporting and control structure should determine and influence the design and approach of the group audit. The final ISA should therefore clarify that when establishing the group audit strategy and audit plan, the group auditor needs to gain an understanding of how the entity's internal financial reporting processes are designed, including how management determines its reportable segments. The auditor then applies professional judgment to this information to determine the "components" that will form the basis for the design and approach of the group audit. This will ensure that appropriate attention is devoted to important areas of the audit and avoid imposing an approach to the group audit that will not be applicable and effective in all circumstances.

B. Responses to the request for specific comments

5. Proposal to eliminate the distinction between related and unrelated auditor and definitions of "group auditor", "member of the engagement team under the direct supervision of the group engagement partner," and "other auditor or another auditor" (paragraph 33(a) of Explanatory memorandum)

We support the decision of the IAASB to eliminate the distinction between the related and unrelated auditors. However, as explained in (1) above, greater credit should be given to the value of effective internal controls within network firms.

In addition, we set out in (2) above some concerns about the practicability of requiring "direct supervision" by the engagement partner.

6. Specific steps to be taken and the work effort required by the group auditor taking sole responsibility for the audit opinion on the group financial statements (paragraph 33(b) of Explanatory memorandum)

We are supportive of the approach taken by the IAASB except for our comments in (4) above on the requirement to determine the identity of the components in each particular engagement.

7. Comments on clarity drafting conventions

We are comfortable with the objective to be achieved by the auditor, as stated in paragraph 6. However, as mentioned in our submission dated 28 March 2006 (<http://www.hkicpa.org.hk/professionaltechnical/assurance/submission/docs/ed-Submission-Mar06.pdf>) on the IAASB Exposure Draft of Improving the Clarity of IAASB Standards, we reiterate that the adequacy of the objectives of all of the present ISAs should be evaluated prior to the release of any ISA in the revised format. This is to ensure that all objectives are complete, consistent and contribute to meeting the overarching objective of an audit. If standards are released prior to the final review of all objectives, we recommend that all objectives be reviewed towards the end of the Clarity Project for completeness.

~ END ~