



Organización Internacional de Comisiones de Valores  
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Organização Internacional das Comissões de Valores

October 11, 2006

Mr. Jim Sylph  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

Re: Proposed International Standard on Auditing 600 (Revised), "The Audit of Group Financial Statements"

Dear Mr. Sylph:

IOSCO Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft of a proposed auditing standard, "The Audit of Group Financial Statements." (ED).

SC 1 members are committed to encouraging the development of high quality international auditing standards. The comments we provide in this letter are a product of many reviews and discussions among the members of SC 1. The views expressed reflect our considered, consensus opinions and perspectives as securities regulators. As consensus comments, they do not necessarily include all comments that might be provided by individual members on behalf of their respective jurisdictions.

We would also refer you to our SC 1 comment letter on the IAASB's proposed Clarity format dated February 25, 2006, and underscore the points we have made therein. The comments and concerns we expressed in our earlier letter continue to be the context for all points we now make in commenting on this ED. We will generally not repeat comments we have previously made.

### **Progress on this ISA and further improvements needed**

We have followed the progress of work on group audits as the project has evolved from the original Exposure Draft of a proposed ISA 600 with an accompanying IAPS in 2004,

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a next revised ED in 2005, and now the current ED that contains both substantive revisions from the earlier ED and is redrafted in the Board's proposed Clarity project format. We can see that it is a challenging task to develop clear guidance on two such important subjects as (1) using the work of other auditors, and (2) auditing group entities, in a single comprehensive standard. We wonder if some benefit to the Board's work could be achieved by separating the coverage of these two different subjects at some points within the standard. We will leave this to the Board's consideration as it finalizes the standard.

We appreciate that the Board is making continuing efforts to develop a high quality standard to guide the audits of group entities and the use of other auditors. While we can see that significant progress is being made, there still are several areas in the proposed standard where we believe that further improvements are important.

In particular, the following key areas or aspects of the proposed ISA 600 standard need further improvement in order to produce a high quality international auditing standard:

1. We believe that further work is needed on the objective for this ISA and in some cases the requirements should be strengthened.
2. The occasional use of imprecise, subjective, and/or overly-qualified language that still appears in this ED detracts from the standard's ability to guide consistent practice and be enforceable – for example, phrases such as “the auditor shall be satisfied that ...” or the use of the term “where considered necessary” preceding a list of actions at least some of which would always be needed in an audit. We have noted other examples later in this letter.
3. The linkage of relevant requirements in other standards to the requirements in this standard is insufficient to provide adequate direction to the auditor in group audits – for example, the requirements in ISAs 300, 315 and 330 are very relevant to addressing the special risks that arise in group entities and the consolidation process, and to developing an appropriate strategy and group audit plan. However, ISA 315 receives only passing mention in the requirements section of this proposed ISA 600. Furthermore, the specific content about risk assessment in group audits appears only in the application material section, where it is preceded by “may” rather than “shall” statements and therefore loses its status as a requirement, the way it appears in ISA 315. We are concerned that ISAs 300 and 330 are not mentioned at all. We understand that the Board has been seeking to reduce repetition in ISAs, but some coverage of these actions and decisions is needed in the ISA 600 requirements in order to have a complete and high quality standard on group audits.
4. While the terms “related” and “unrelated” auditors have been removed from the standard, it is still unclear as to what actions the group auditor should perform to ascertain the competence, capabilities, and independence of other

auditors in the group auditor's firm or in network firms. Please see our detailed comment further in this letter regarding the impact of the definition "under the direct supervision of" and the need to clarify what is intended by the standard.

5. Somewhere in the standard, the principle should be stated that when a group auditor has concerns regarding the qualifications or performance of other auditors, he or she should react to those concerns with greater involvement in the work of those other auditors or by directly performing the necessary audit work, depending upon the degree and nature of the concerns.
6. There is a need for greater clarity regarding the fact that communications with, and supervision of, other auditors need to occur throughout the audit process, not just toward the end of the audit, and that the group auditor must evaluate the other auditor's report(s) of work performed to determine if sufficient audit evidence has been obtained.
7. There is a need for greater recognition in this standard that the consolidation process in group entities is a high risk area that needs special attention by the auditor.

### **Sole Responsibility**

All the members of SC 1 support the concept of sole responsibility as the guiding principle in which the group auditor, i.e., the engagement partner responsible for the conduct of the audit, and the firm in which he or she works, is wholly and fully responsible for the group audit opinion.

We believe that the obligations of the group auditor under the sole responsibility principle need to be specified very clearly. We are concerned that paragraph 4 in the ISA, which states that the group auditor alone is responsible for the audit opinion on the group financial statements, appears only in the Introduction section. Sole responsibility, and the audit obligations that this entails for the group auditor, should be central to the objectives and requirements of the standard.

One jurisdiction member of SC 1 wishes to note that while this member fully supports the principle of sole responsibility whereby the group auditor is wholly responsible for the totality of the group audit and for the group audit opinion, it has no plans at this time to discontinue the disclosures that are sometimes made in this jurisdiction when the group auditor has utilized other auditors for significant portions of an audit. In cases where the group auditor has decided that he or she is able to rely on the audit reports of those other auditors as part of the audit evidence, this SC 1 member believes that such disclosures add to the transparency of an audit.

### **Both the firm and the engagement partner have the responsibility for the group audit opinion**

Further on the subject of sole responsibility, we believe the ISA should recognize that the firm of the group auditor is responsible for audit performance and the audit opinion along with the engagement partner. The engagement partner in a group audit should have the support and services of his or her audit firm in assuring compliance with ISA 220 and ISQC 1 regarding quality control in audits. We think that reliance on the qualifications of other auditors without the engagement partner's direct knowledge of the individuals involved and without explicit checking of individuals can only be justified if the group auditor is part of an audit firm that has an *effective* quality control and independence tracking system, and the engagement partner is therefore able to rely on the results of that firm-wide system. An effective quality control system should provide results to engagement partners in sufficient detail to support decisions that the partners must make about the competence, capabilities, and independence of personnel used in group audits. It is important that good use is made of the information developed in internal and external audit quality reviews.

### **Planning, supervision, and involvement in the work of other auditors during risk assessment and performance of the audit**

We expect the group auditor to take full responsibility for the risk analysis, planning and supervision of the audit throughout the audit - in the beginning, during the audit while the audit work is being done, and at the conclusion of the audit. In the proposed ISA 600, much of the discussion seems to focus on supervising and evaluating the work of the other auditor only toward the end of the audit, when the other auditor has prepared an audit memorandum of work done. We think it should be clarified and emphasized that communications and involvement of the group auditor with the work of other auditors must occur throughout the audit, not just toward the end, and that the group auditor must evaluate the other auditor's report of work performed before finalizing the audit opinion.

### **Due process issues**

As we discuss in the comments in the appendices to this letter, we believe it is very important that the full Board be involved in developing and evaluating a complete set of objectives for all ISAs, and that this should occur earlier rather than later in the clarity project. Discussions of objectives in ISAs should include descriptions of the outcomes that are to be achieved as well as responsibilities to be undertaken, and the objectives thus developed should both guide the auditor and serve the public interest.

We urge the Board not to delay work on a full set of objectives until the latter stages of the clarity project. We also encourage the Board to consider whether useful information as to the completeness of such a set of objectives might be achieved through exposure of a full set of objectives for ISAs.

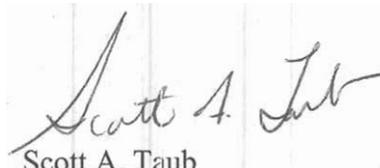
On another process issue, we are concerned that requirements that already exist in the present set of ISAs should not be reduced in the clarity project without a clear and substantive reason for omitting an existing requirement and a determination by the Board that omission would not impair the quality of audits. Otherwise removing a requirement would not be in the public interest. We note that in Appendix 1 of the Explanatory Memorandum, the explanations given for discontinuance of the two requirements discussed in items 98 and 102 do not give a sufficient and substantive explanation for the omission of the requirements. We are unable to understand why the other auditor should not confirm that the he or she has received and understood the group auditor's communication of the items noted. We are also unable to understand why the group auditor should not request timely communication of material weaknesses in controls that come to the attention of the other auditor.

In setting standards to serve the public interest, we believe that the Board should discuss the rationale for each requirement that is proposed to be eliminated using its stated criteria, and decide whether or how such elimination would contribute to consistency and quality in audits, and then fully explain the decision to eliminate a requirement.

**Detailed comments and responses to questions raised in the ED's Explanatory Memorandum follow**

In the attached appendices to this letter, we provide our answers to the questions raised in the ED and we explain our concerns regarding areas where further improvement is needed in the proposed ISA. If you have any questions regarding any of our comments, please feel free to contact me or Susan Koski-Grafer on 202-551-5300.

Sincerely,

A handwritten signature in cursive script that reads "Scott A. Taub". The signature is written in dark ink on a light-colored background.

Scott A. Taub

Chairman

IOSCO Standing Committee No. 1

## APPENDIX 1

### RESPONSES TO QUESTIONS IN THE EXPLANATORY MEMORANDUM ACCOMPANYING THE EXPOSURE DRAFT

This section of our letter responds to the questions that are posed in paragraph 33 of the Explanatory Memorandum accompanying the ED.

In regard to the proposed definitions of “group auditor”, “member of the engagement team under the direct supervision of the engagement partner” and “other auditor or another auditor” as discussed in paragraph 33 (a) –

*We support the elimination of the distinction between related and unrelated auditors; however, we have some concerns regarding the clarity of the definitions and other statements in this proposed ISA as they might be interpreted to preserve such a distinction, as discussed in Appendix 2.*

In regard to the ED being reasonably specific about the steps to be taken and the work efforts required by the group auditor as discussed in paragraph 33 (b) –

*We think it is essential that the standard be specific about the steps and work efforts required of the group auditor and in some cases we think even more specificity is required, as we have commented elsewhere in this letter and appendices. We also believe additional content should be included that describes the obligations and work of the other auditors, and the group auditor's responsibility to communicate with and evaluate the work of the other auditor.*

In regards to the appropriateness of the objective to be achieved by the auditor and whether the requirements are at a level that promotes consistency in performance and the use of professional judgment by auditors as discussed in paragraph 33 (c) –

*We think that the objective in the proposed ISA 600 addresses the correct elements and areas of special interest in group audits, but the objective should be expressed more in the form of the outcomes to be achieved. Expressing an objective as the outcome to be achieved will provide a stronger basis to specify the appropriate requirements that should appear in this or any other standard. Outcome-based objectives are also important to guide the auditor in the use of judgment and to establish auditor accountability.*

*In regard to requirements, we believe that a number of improvements are still needed to establish clear and adequate requirements and we have provided comments elsewhere in this letter and in Appendix 2.*

In regard to whether the IAASB has followed its own guidelines for determining when a requirement needs to be specified and given sufficient consideration to the elimination of existing requirements as discussed in paragraph 33 (c) -

*We are concerned to see the statements in the Appendix to the Explanatory Memorandum (Mapping Document) regarding the deletion of the requirements discussed in items 98 and 102. The explanations given sound as if these requirements were dropped from the standard due to a general concern about "the number and appropriateness of requirements" rather than for a considered and substantive reason pertaining to the nature of the requirement itself. If there is a more appropriate reason for dropping the confirmation requirement that appeared in the earlier proposed standard, this should be fully explained. The number of requirements in any ISA should not be the issue, but rather that the requirements that exist are those that are appropriate to a high quality audit.*

We have one further comment in regard to scope of comments coming back to the Board on EDs that are redrafted in the Clarity project, as discussed at the beginning of paragraph 33 in the Explanatory Memorandum -

*We would encourage the Board not to try to restrict the scope of comments coming back in response to EDs that are issued in the redrafted format. The purpose of the clarity project is to enhance the understanding of ISAs. We understand the Board's rationale that it would not be practicable to revisit all aspects of all previously deliberated ISAs in the clarity project; however, where the greater clarity reveals weaknesses and deficiencies in the standards that cause the quality to be questionable, the IAASB should expect that commentators will point these out and the IAASB should consider and act upon these comments.*

## APPENDIX 2

### **SPECIFIC COMMENTS ON OBJECTIVES, REQUIREMENTS AND APPLICATION GUIDANCE IN THE PROPOSED STANDARD**

#### **Paragraph 4 regarding obligations of the group auditor under sole responsibility**

We believe that the obligations of the group auditor and the group auditor's firm under the sole responsibility principle need to be specified very clearly in both the objectives and requirements of the group audits ISA. We note that the statement in paragraph 4 in the ISA that the group auditor alone is responsible for the audit opinion on the group financial statements appears only in the "Introduction" section. We believe that this statement should be further expanded in both the objectives and requirements section of the standard. Sole responsibility for the group audit opinion, and the execution of the audit obligations that sole responsibility entails, should be central to the objectives and requirements of the standard.

#### **Paragraph 6 Objective to be Achieved**

We find it helpful that the discussion of the objective to be achieved in the ED addresses the correct elements and many essential aspects of a group audit; however, we do not think it is helpful or useful to the auditor to have the statement of the objective focus on the inward-facing or secondary goal of "reducing audit risk to an acceptably low level". We believe that statements of objectives should focus on the primary outcomes to be achieved during an audit in support of the overall objectives of obtaining sufficient appropriate audit evidence and providing the audit opinion.

Because the objective is now written in such a way that it describes the carrying out of certain procedures rather than the outcomes to be achieved, one could conceivably argue that if an auditor performs ANY work that could constitute the procedures described, the objective of the ISA has been achieved. This could be argued regardless of whether sufficient appropriate audit evidence has been obtained. We therefore do not think an objective that principally describes procedures will be sufficient to drive appropriate actions and judgments on the part of an auditor.

#### **Work is needed to specify adequate objectives for all the ISAs earlier rather than later in the clarity project**

Further on the subject of objectives in this ISA and in the clarity project, we would like to emphasize our concern that the objectives for all ISAs need to be identified and evaluated in an early stage of the Clarity project, as a basis for determining whether the objectives in individual ISAs are appropriate and adequate to support the overall objectives of the audit.

We are aware that some preliminary work on a complete set of objectives has been done; however, we are concerned that there has not been more discussion and more full Board

involvement on developing and reviewing a complete list of objectives for all ISAs. We believe that work on ensuring adequate objectives for all ISAs is a very critical activity.

Because of the importance of the objectives in driving the establishment of appropriate requirements in each standard, as well as guiding the use of auditor judgment, we believe that work on the complete set of objectives should be performed at least concurrently with work on individual ISAs, rather than deferred until the later stages of the clarity project. It is difficult to evaluate the adequacy of one individual objective without consideration of other objectives in other ISAs, and we are concerned that deferring all or most of the work on a complete set of objectives until 2008 will not produce objectives and ISAs of sufficient quality in the Clarity project.

### **Paragraph 7 Definitions**

In an earlier letter, we expressed a view that the best location for all definitions needed in ISAs would be in the central Glossary for the ISAs. As we have continued to review EDs of redrafted ISAs, we have come to see the benefit in defining a term in an ISA when the term is first introduced, as was originally proposed by the Board. We therefore support having a Definition section in each ISA, but want to again emphasize our view that each definition should also appear in the central Glossary and that the Glossary should be continuously updated. We believe that all definitions should be consistent between ISAs and the Glossary. With respect to particular definitions in this ISA, we have the following comments:

(a) Component - as we read this definition, our impression is that the vast majority of public listed companies will now be characterized as "group entities." as most companies of any size would have two or more branches or divisions or other components as defined. There will be relatively few single entity audits. If this is not the intent of this definition, further clarification is needed.

(d) Group auditor - We are pleased that the distinction between related and unrelated auditors have been removed. We agree that "group auditor" should be the person responsible for the audit engagement; however, the extension of the term to cover the group auditor's immediate reporting staff in the firm of the engagement reduces clarity and we do not see why this extension is necessary or appropriate.

(h) and (i) We have noted the need for greater clarity in the definition of "under the direct supervision of" elsewhere in this letter - please see our comment regarding paragraph 14.

### **Requirements - Acceptance and Continuance as Group Auditor**

**Paragraph 9** – The wording in the first sentence "The group engagement partner shall be satisfied..." is weak as it is only a vague statement of a general state of mind that could communicate too low a level of obligation if an auditor is too easily satisfied. For clear direction and enforceability, we would recommend wording in the requirement that

implies a definite action such as “The group engagement partner shall determine that ...” or “...shall perform specific and appropriate procedures to determine that...” or some other wording that implies an action and a clear decision, rather than merely a general state of mind.

There is also a question as to what "appropriate procedures" are regarding acceptance and continuance as a group auditor, as the only guidance in this ISA is in the Application Material section. At a minimum, there should be a cross reference to paragraphs A1 - A10 in paragraph 9 as well as the later paragraphs. We also think that the Board should consider whether some of the material in those paragraphs in the Application section should be moved forward to become part of the requirement, so that there is some essential explanation regarding the auditor's acceptance and continuance of the engagement.

Further to our concern regarding vague language appearing in the requirements of ISAs, we note that the wording of the requirement in the first part of paragraph 14 is also quite vague, i.e., "the auditor shall obtain an understanding of the matters set out below". For content to appear in the Requirements section of a standard, it would be more appropriate to say "the auditor shall evaluate" as this conveys a clear and more specific obligation.

**Paragraph 14, regarding what type of actions must be taken to be assured that other auditors are competent and independent and the meaning of “under the direct supervision of”**

We do not believe that the proposed ISA makes a clear enough distinction between those directly supervised and others on the audit team, particularly with respect to the exception to the requirements for Obtaining an Understanding of the Other Auditors in Paragraph 14 for "members of the engagement team under the direct supervision of the engagement partner."

Paragraph 7 defines "Members of the engagement team under the direct supervision of the group engagement partner" as “personnel of the group engagement partner’s firm, including any experts contracted by the group engagement partner’s firm in connection with the group audit engagement, who are directed and supervised by the group engagement partner to the same extent that members of an engagement team responsible for the audit of the financial statements of a single entity are and supervised by the engagement partner.” (Emphasis added.) In light of this definition, we interpret the number of people to which the exception in paragraph 14 could apply to be a small number of individuals in any given audit; however, we are concerned that this phrase may be interpreted inconsistently in practice.

In order for the group engagement partner to feel secure and satisfied that he or she has obtained a proper understanding of the competency, capabilities, and independence of all members of the audit team covered by ISA 220, the group audit firm has to have in place robust and effective monitoring, quality control, and feedback systems and sufficient information from both internal and external quality control reviews must be available to

each engagement partner. Therefore it would seem that the exception in paragraph 14 regarding Obtaining an Understanding of the Other Auditors is intended to be allowed only when (1) the engagement partner knows and has direct contact with the firm's employees elsewhere in the firm who will be used in the engagement, or (2) when the firm has established an *effective* monitoring and quality control system such that the audit engagement partner is able to use and rely on the system. Making a clear statement to this effect would directly address our concerns.

**Paragraphs 16 & 17 regarding obtaining an understanding of the group, its components, and their environments, and assessing the risks of material misstatement of the group financial statements**

Requirements paragraphs 16 and 17 contain the vague phrases "the auditor shall enhance the understanding of" and "the group auditor's understanding shall be sufficient to confirm the initial identification of". There is insufficient discussion of risk factors unique and specific to group audits and what the auditors' response should be to those risk factors, which would be more substantial than "enhance the auditor's understanding". There is also insufficient mention or cross reference to the general risk assessment requirements of ISA 315, which are critical in every audit. These insufficiencies exist in both the Requirements and Application sections of the standard.

For example, the only mention of actual risk identification and assessment requirements in the proposed group audit standard is a passing mention of ISA 315 in the Application Material section, in paragraph A17 -- and this mention is identified only as "matters the auditor may consider". In ISA 315 these matters are requirements communicated with "shall" statements to show that they are specific obligations. We believe that paragraphs 16 and 17 should be referenced to relevant paragraphs in the revised ISA 315 where specific requirements exist, to convey and underscore that these requirements should be applied in the group audit situation.

**Paragraph 19 coverage of materiality is unclear**

Paragraph 19 is difficult to follow as it is written and needs to be clarified. We believe that the establishment of audit materiality should not solely be based on a quantitative, hierarchical approach as seems to be described in this paragraph. We would expect there to be some more guidance for a group audit on how materiality should be allocated to components, given the particular risks in a group audit, and the qualitative aspects of materiality. Such guidance could be in the application material.

**Paragraphs 20 to 27 Responding to Assessed Risks – *Determining the Work to be Performed on the Financial Information of Components – Significant Components***

In paragraphs 20 and 21, there is insufficient discussion on how the group auditor determines the work to be performed on the financial information of components. We believe this section should be expanded by referencing to the requirements section of the

revised ISA 330 and should further discuss dealing with responses to assessed risks in a group audit situation.

Paragraph 22 should contain a specific requirement for the group auditor to supervise the work of another auditor and discuss what such supervision should entail.

Paragraph 24 is confusing, as the first part of the first sentence is six lines long and hard to follow. We also believe that there is important guidance in the application section on factors that should be evaluated in making selections among components that are not individually significant, and that the Board discuss whether some of the guidance in application paragraph A28 constitutes "essential explanation" that should be included with the requirement.

Paragraph 25 should be strengthened to ensure that the standard calls for all non-significant components to be subject to more than analytical review procedures at some point. Perhaps the addition of the last sentence of application paragraph A28 could be brought forward to this requirement.

Paragraphs 26 contains content that is very critical to the quality of a group audit and really is discussing two subjects – one, determining the extent of the group auditor's involvement in the work of the other auditor based on three factors, and two, evaluating the work performed by the other auditor. We believe that the actions listed in (a) through (d) should be linked to the first point, and actions (e) and (f) should be linked to the second point. Perhaps paragraph 26 would be clearer if split into two paragraphs.

Also on paragraph 26, the phrase "where considered necessary" negates the requirement statement in which it appears – in all audits it would be necessary for the auditor to take one or more of the actions listed. The use of the phrase "where considered necessary" is an over-qualification of the requirement.

We ask the Board to consider if paragraphs 26 and 27 can be made more prominent and/or moved earlier into the sequence of the requirements and discussions in the standard. We think these paragraphs should also discuss how the three factors – significance of the component, the identified significant risks, and the group auditor's understanding of the other auditors - interact with one another and the impact that should have on the auditor's judgment as to the actions required. Also, we note that important information regarding the requirements contained in paragraphs 26 and 27 now appears only in the application section in paragraphs 12 -22. We request that the Board consider whether some degree of additional explanation should appear in the requirements, or at least add appropriate cross references

Notwithstanding the above comments regarding improvements needed, we would like to acknowledge that we recognize that substantial progress has been made in this area of the proposed standard, starting from the content that was first exposed two EDs ago.

### **Paragraphs 30 -34 regarding the Consolidation Process**

The consolidation process is one of the complexities of group entity audits and should always be considered an area of high risk of fraud and misstatement. We find it insufficient that the possibility of fraud is mentioned only in passing in Requirements paragraph 31, in the phrase "consider whether any fraud risk factors or indicators of management bias exist." We think additional specific coverage of the risk of fraud in group entities should be provided, both in the requirements section and in paragraph A32 in the Application Material section.

### **Paragraphs 37 to 40 regarding communication with the other Auditors**

We have a number of specific comments as noted below:

- First sentence of Para 37: the present tense should be replaced with a "shall" statement to emphasize that this paragraph is communicating a continuous requirement throughout the audit. This paragraph should also contain a cross reference both to paragraph A33 and to Appendix 5 in the application material section. Presently this cross reference appears only in subpart 38 (d), but it is really relevant to all that is discussed in paragraph 37.
- Paragraph 38 does not mention the need for the other auditor to obtain appropriate representations from component management regarding related parties and other matters.
- Mention should be made of the importance and necessity of continuous and two-way communications throughout the audit, ideally in the requirements but at least by adding further guidance in the application material section. Although the Group Auditor may not be able to require that other auditor initiates and maintains communication during the audit, the Group Auditor shall take positive steps on a continuous basis throughout the audit to obtain the necessary information from the other auditor.
- The current discussion of requirements focuses on the audit memo and written communications -- more guidance is needed on oral communication and on arranging on-site, face-to-face contact where possible.

### **Paragraphs 41 to 45, Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained and Considering the work of other auditors**

More emphasis needs to be made that communication with other auditors should be a continuous process during the audit and that the group auditor needs to take positive steps to ensure that sufficient evidence is obtained while the audit is taking place. Paragraphs 41 and 42 give an impression that evaluating the sufficiency of audit evidence and the work of other auditors is done only at the conclusion of the audit, when audit memoranda have been prepared.

In addition, the standard should emphasize that evaluation of the sufficiency of the audit evidence and the other auditor's work, and the resolution of any disagreements, should be completed before the group audit report is finalized,

#### **Paragraphs 44 and 45, regarding use of the phrase "should consider"**

As we mentioned in our Clarity comment letter dated February 27, 2006, our members are concerned that misuse of the term "shall consider" could weaken the auditing standards. Terms like "determine, assess, evaluate" and other terms that imply the performance of specific actions and the forming of specific decisions and conclusions are more useful in guiding auditor performance than the vague term "should consider".

Only in circumstances where the auditor is required merely to "think about something", in a way that is not necessarily decisive, do we believe that the use of "shall consider" is appropriate. In many cases, we would want the auditor to do more than just think about something in a non-decisive way. Therefore we believe that consideration should always be given to using a more concrete and descriptive "decision or action verb" before setting on the term "shall consider". For example, we draw your attention to paragraph 44 and 45 of the ED, in which we believe the term "shall consider" is best replaced with a more specific action-oriented or decision-oriented term such as "evaluate the effect of" or "assess the aggregate impact of".

#### **46 to 49 regarding communication with group management and those charged with governance of the group**

- Paragraph 47 should contain a cross reference to ISA 240

#### **Documentation**

The ISA should contain a documentation requirement for the auditor to explain his/her judgment in determining significant/insignificant components and establishment of materiality and benchmark for testing at component level. It is not clear from the relevant paragraphs 10 and 19 that these would need to be documented.

Also, in item (b) of paragraph 50 or in a separate item in this part of the standard, some mention should be made of the need to retain communications from the other auditors. The other auditor's memorandum or memo of work performed is a key piece of audit evidence from the standpoint of the group auditor providing support for the group audit opinion on the consolidated financial statements.

#### **Application Material section**

## **Obtaining an Understanding of the Other Auditors**

In paragraphs A14 and A15, the point needs to be made that the nature, extent, and timing of the auditor's understanding of and involvement in the work of other auditors is not affected by the mere fact that other auditors are "subject to" common policies and procedures and quality control, but rather can be influenced if there is an *effective* system of quality control. In an effective system of quality control, information that is relevant to the competencies, capabilities, and independence of personnel assisting in the audit should be made available to the engagement partners supervising audits. If such information is not provided by the firm, the engagement partner does not have the necessary assurance that would support assumptions about individual qualifications and should take additional actions to obtain an understanding of the other auditors.