


**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

535 Fifth Avenue, 26th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: +1 (212) 286-9344
Fax: +1 (212) 856-9420

Agenda Item
9

Committee: IAASB

Meeting Location: Miami

Meeting Date: December 8-13, 2002

Revision of ISA 600 “Using the Work of Another Auditor”
Objectives of Agenda Item

1. To review the proposed revised ISA 600 “Group Audits – Considering the Work of Other Auditors.”
2. To consider matters highlighted in the Explanatory Memorandum.

Background and Activities Since Last IAASB Discussions

The Group Audits Task Force presented an Issues Paper to the IAASB at its September 2002 meeting. The Task Force met on November 9-10, 2002 to review a draft of the proposed revised ISA 600. The Task Force is meeting again in January 2003 to discuss a draft of the new IAPS.

The table below lists the issues covered in the September 2002 Issues Paper, indicating the IAASB’s related resolutions at the time and any further discussions by the Task Force.

Issue	IAASB Resolution	Task Force Discussion
1. ISA vs. IAPS and the revision of ISA 600	The IAASB concluded that new Standards and guidance relating to using the work of another auditor should be covered in a revised ISA 600. In addition, it was agreed that a new IAPS, dealing with the application of ISAs to the audit of group financial statements, should be prepared. The IAASB also concluded that it was not necessary to change the title of ISA 600 to emphasize its focus on group financial statements that include financial information of components audited by other auditors.	A first draft of the proposed revised ISA 600 is to be discussed at the December 2002 IAASB meeting. A first draft of the new IAPS is to be discussed at the March 2002 IAASB meeting. After debating the issue relating to the proposed revised ISA 600’s title at the November 2002 meeting, the Task Force agreed to ask the IAASB to reconsider the conclusion reached at the September 2002 IAASB meeting (refer Explanatory Memorandum – Agenda Item 9-A).
2. Joint audits	The IAASB accepted the Task Force’s proposal that joint audits should be addressed as a separate project.	IAASB staff has prepared a first draft of the project proposal, which has not yet been reviewed by the Task Force, as the Task Force has agreed to focus its time and effort on revising ISA 600

Revision of ISA 600 "Using the Work of Another Auditor"

Issue	IAASB Resolution	Task Force Discussion
<p>3. Structure, format and content of proposed pronouncements: Is the project designed to deal with multi-location audits and/or the use of the work of other auditors? What is a group and how should its components be defined? Do different Standards and guidance apply to investments in associated companies? Should the concept of "business empires" (e.g., horizontal groups, economic dependency) be addressed?</p>	<p>The IAASB concluded that matters relating to multi-location audits should be dealt with in the new IAPS and that those relating to using the work of another auditor should be covered in the proposed revised ISA 600.</p> <p>The IAASB proposed that the new IAPS follow the proposed Audit Risk Model and that the risk assessment procedures are performed at the broadest level, including identifying risks relating to the existence of business empires/related parties and components (see definition of "components" below).</p> <p>As the concept of "business empires" is considered a related parties issue, the new IAPS <i>inter alia</i> is to provide guidance on the application of ISA 550 "Related Parties" to related party relationships/transactions identified as part of the risk assessment procedures.</p> <p>It was considered more appropriate to refer to financial statements of a principal entity that include financial information of one or more component(s). (The term "components" is defined as a division, branch, subsidiary, joint venture, associate or other entity whose financial information is included in a principal entity's financial statements, i.e., in accordance with the financial reporting framework applicable to the principal entity.)</p> <p>As an associated company is a component (as defined above), the new IAPS is to deal with investments in associated companies, providing guidance on difficulties relating to the principal auditor's access to financial information in those companies.</p>	<p>and developing the new IAPS.</p> <p>At the November 2002 Task Force meeting it was noted that the US ASB was monitoring the project, as the report of the US Panel on Audit Effectiveness recommended that guidance on multi-location audits should be developed. The Task Force will consider guidance on multi-location audits when it meets again in January 2003 to discuss the latest draft of the new IAPS.</p> <p>The latest draft of the new IAPS follows the Audit Risk Model and <i>inter alia</i> provides guidance on the completeness of components included in the group financial statements, related parties and related party transactions.</p> <p>After debating the issue at the November 2002 meeting, the Task Force agreed to define the following terms to be used in the proposed revised ISA 600 and the new IAPS: "group auditor"; "other auditor"; "network firm"; "group" and "component".</p> <p>"Group" is defined as a parent company and its components.</p> <p>The definition of "components" remained unchanged.</p> <p>The proposed revised ISA 600 (and the new IAPS) refers to "group financial statements."</p> <p>The Task Force members agreed to use these terms, as they considered it unnecessary and undesirable to develop unfamiliar terms and they were of the opinion that these terms assisted in simplifying the pronouncements and making it easier to read.</p>
<p>4. Ethical requirements and the audit of group financial statements in accordance with</p>	<p>As the proposed Standards and guidance are provided in the context of international Standards and guidance, the IAASB concluded that the financial statements of a principal entity that include financial information of component should be audited in accordance with ISAs.</p>	<p>The proposed revised ISA 600 and the new IAPS contain references to compliance with ISAs and the IFAC Code.</p>

Issue	IAASB Resolution	Task Force Discussion
ISAs/national auditing standards	Other auditors, whose work is to be used by the principal auditor, should be instructed to conduct their work in accordance with ISAs. <i>The IFAC Code of Ethics for Professional Accountants</i> should be applied by the principal auditor and other auditors, where the principal auditor is to use the work of those auditors.	
5. Materiality	The IAASB did not discuss the issue in detail, but requested that the new IAPS provide guidance on the application of the Standards relating to materiality to the financial statements of a principal entity that include financial information of components. It was agreed that the guidance should be prepared by the Group Audits Task Force in consultation with the Materiality Task Force.	This matter was further discussed at the November 2002 Task Force meeting and is covered in the Explanatory Memorandum (Agenda Item 9-A).
6. Division of responsibility	As a result of the legal frameworks of certain countries, e.g., the US and South America, the IAASB requested that the division of responsibility provision in the existing ISA 600.18 is retained, and further discussed when the first draft of the proposed pronouncements are considered by the IAASB in December 2002 and March 2003.	Division of responsibility is provided for in the proposed revised ISA 600. Also refer to the Explanatory Memorandum (Agenda Item 9-A) in this regard. At present, the latest draft of the new IAPS indicates that the guidance provided in the IAPS does not apply to a division of responsibility environment. The Task Force will be debating this at its January 2003 meeting.

Material Presented

Agenda Paper 9-A
(Pages 805 – 810)

Explanatory Memorandum

Agenda Paper 9-B
(Pages 811 – 818)

Proposed Revised ISA 600 “Group Audits – Considering the Work of Other Auditors”

Agenda Paper 9-C
(Pages 819 – 822)

Comparison of bold type black lettering in ISA 600 to those contained in the proposed revised ISA 600

Action Requested

1. The IAASB is asked to review the proposed revised ISA 600.
2. IAASB is asked to discuss matters highlighted in the Explanatory Memorandum and to provide guidance to the Task Force and/or confirm agreement with the Task Force’s proposals.

[Blank page]