

22.7/7/1

27 June 2006

International Auditing and Assurance Standards
Board
Attn: Technical Director
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA
E-mail: Edcomments@ifac.org

Dear Sir,

RE: EXPOSURE DRAFT - PROPOSED ISA 600 (REVISED) THE AUDIT OF GROUP FINANCIAL STATEMENTS

UNICE is pleased to comment on the above exposure draft. UNICE is the voice of European business, representing more than 20 million small, medium and large companies. Our members are central industrial and employers' federations from 33 countries.

First of all, UNICE is pleased to see that the distinction between a related and an unrelated auditor is removed. Further, UNICE acknowledges the great effort put into the exposure draft. Below, UNICE has commented on some specific issues as well as the questions raised by IAASB.

Division of Responsibility

UNICE agrees with IAASB in the sense that issuing an audit opinion carries a responsibility in itself. UNICE also respects that an audit opinion on a component does not relieve the responsibility of the group auditor as such. However, UNICE proposes that the issue regarding components accounted for by the equity method and audited by other auditors is readdressed enabling the group auditor to rely on an audited set of financial statements. This should be the starting point when using the equity method. Thus, the division of responsibility is achieved by referring to another auditor's opinion on a component.

A clear line of division could be achieved by linking the division of responsibility with a criterion of public availability of the audited financial statements in question. If the financial statements of the component are public available (for instance on the website) then a division of the responsibility should be possible. This approach would ensure transparency when dividing the responsibility. UNICE accepts that a divided responsibility could be expressed in the audit opinion, and that some supplementary audit procedures might be necessary, especially if the audit opinion is qualified.

Having said this, UNICE acknowledges that an unqualified audit opinion on the financial statements of a component does not rule out the need for other reporting

requirements in connection with a group audit. The important issue is whether the same accounts have to be audited twice. The increasing level of public oversight in regard of the audit profession only supports this. The exposure draft already considers this. Paragraph 29 for instance acknowledges that the group auditor **may** decide to use an audit to provide audit evidence for the group audit. Thus, the exposure draft already supports the notion that audit opinions issued by other auditors carry some sort of responsibility. The difference is that the exposure draft only recognises this to the extent that it reduces audit risk. This is also noted in the application guidance, especially paragraphs A8 and A14.

Level of Significance

UNICE has noted the remarks put forward in the explanatory memorandum paragraphs 15 - 18. UNICE acknowledges and appreciates the less prescriptive approach taken. However, the paragraphs in question do not give any reason to the lowering of the level of significance from 20 % to 15 % when deciding whether a given component is financially significant or not. UNICE is of the opinion that the proposed level of 20 % was appropriate when looking at the different benchmarks.

Q1: The proposal to eliminate the distinction between related and unrelated auditor gave rise to substantial changes to some of the proposed requirements.

Q1a: Respondents are asked to indicate whether they are in agreement with the proposal, and the effect that it has on the procedures that the group auditor perform in relation to the work of other auditors.

UNICE in general supports the procedures proposed in this exposure draft.

UNICE has especially noted that the other auditor's memorandum or report of work performed now forms the basis of the group auditor's decision as to the procedures to be performed in relation to the other auditor's work. It is also noteworthy that paragraph 29 takes into consideration that statutory audits may be performed on a local basis, and that the results may be part of audit evidence on group level. As mentioned above, the group auditor should be able to rely on an audit opinion performed by a certified auditor. Therefore, this audit evidence should be part of the audit evidence on group level.

Further, UNICE is of the opinion that the reporting on weaknesses in the internal control regarding group wide controls, including financial statements preparation, should be communicated in a timely manner. UNICE therefore proposes to move this requirement (former paragraph 102) to the requirements section. UNICE could propose to add the requirement to paragraph 39.

Q1b: Respondents are asked also to consider the proposed definitions of “group auditor”, “member of the engagement team under the direct supervision of the group engagement partner” and “other auditor or another auditor”.

UNICE finds the proposed definitions acceptable.

Q2: The IAASB is of the view that the proposed revised ISA will enhance the quality of group audits. Where a group auditor takes sole responsibility for the

audit opinion on the group financial statements, it will require that the group auditor obtains sufficient appropriate audit evidence on which to base such an opinion. The IAASB recognizes, however, that current group audit practices vary. This is one reason why the IAASB considers it necessary to be reasonably specific about the steps to be taken, and the work effort required, by the group auditor. Do respondents think that this approach is justified?

Yes, the approach is justified.

UNICE would, however, like to refer to the comments made above as to the division of responsibility. The audit procedures accepts a reduced audit risk if the component is audited by an "other auditor". UNICE supports this, but in our view this also transfers some of the responsibility.

Q3: The IAASB is aware that, at this stage of the Project to Improve the Clarity of IAASB Standards, there are those who think that further exposure drafts should not be issued until the clarity drafting conventions are finalized. However, the IAASB considers that to avoid further delay in this project it is appropriate, given the changes from the previous exposure draft, to seek views on the proposed revised ISA at this stage. The effect of finalizing the clarity proposals will be taken into account in finalizing the resulting ISA. With regard to the application of the proposed clarity drafting conventions, respondents are asked to respond in particular to the following questions:

Q3a: Is the objective to be achieved by the auditor, stated in paragraph 6 of the Proposed ISAs, appropriate?

UNICE recognises the requirements stated in the objective, paragraph 6. However, UNICE believes that the objective at present is a listing of requirements. It should not be an objective to establish appropriate communication with other auditors or to determine the involvement of the group auditor in the work performed by the other auditors. This is to be required in order to fulfil the objective, and therefore UNICE proposes to incorporate the present wording of the objective into the requirements section. UNICE accordingly proposes to reconsider the objective making it clearly principle based. The objective should focus on the result of the group audit.

As mentioned in previous comment letters, UNICE is of the opinion that the objectives of all the ISAs should be discussed jointly before moving forward with the clarity project. In line with previous comment letters, UNICE could propose the below wording of the objective, subject to our overall concern:

"In relation to this ISA, the objective of the auditor is to obtain sufficient appropriate audit evidence regarding the work performed by other auditors or alternatively design and perform necessary audit procedures in accordance with other ISAs to reduce the audit risk for the (group) financial statements audited to an acceptable low level in accordance with the group audit plan."

The proposed wording of the objective takes into account the work already designed and performed under higher ranking ISAs. Thus, there should already be an audit plan in place, the overall risks have already been assessed, etc. With the changed wording,

the auditor is required to address the quality of the reporting received from other auditors and to design and perform the necessary audit procedures to compensate for any shortcomings.

The elements in the current objective should be part of the requirements, as they should not be seen as an objective but as a tool.

Q3b Have the guidelines identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements are at a level that promotes consistency in performance and the use of professional judgment by auditors?

Yes. UNICE would like to point out that the approach taken in paragraph 50 is very good, as the extra documentation requirements are limited to only those not covered by other ISAs. UNICE fully agrees with this approach.

If you have any questions to the above, please do not hesitate to contact me (jpc@unice.be) or my colleague Kristian Koktvedgaard from the Confederation of Danish Industries (kko@di.dk).

Yours sincerely,



Jérôme P. Chauvin
Director, Legal Affairs Department