

**ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST: A FOCUS ON PROFESSIONAL SKEPTICISM,
QUALITY CONTROL AND GROUP AUDITS**

TEMPLATE FOR RESPONSES—OVERVIEW

The following template is intended to facilitate responses to the IAASB’s Overview of the Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. The questions set out below are replicated from the questions in the Overview on pages 30-31. Question numbers are coded to the consultation topics as follows:

- G = General Question
- PS = Professional Skepticism
- QC = Quality Control
- GA = Group Audits

RESPONDENT’S INFORMATION

<p>Name: <i>(Please also fill in name in header for ease of reference)</i></p>	<p>INSTITUTO NACIONAL DE CONTADORES PUBLICOS / INCP</p>
<p>Description of the capacity in which you are responding (e.g., preparer, audit committee member, investor, IFAC member body, audit oversight body, firm, SMP, individual, etc.)</p>	<p>IFAC Member Body</p>
<p>Name of contact person at organization (if applicable):</p>	<p>Alexandra Penuela Juan Miguel Vasquez</p>
<p>E-mail address:</p>	<p>alexandra.penuela@incp.org.co juan.vasquez@incp.org.co</p>

INSTITUTO NACIONAL DE CONTADORES PUBLICOS - INCP

G1. Table 1 describes what we believe are the most relevant public interest issues that should be addressed in the context of our projects on professional skepticism, quality control, and group audits. In that context:

- (a) Are these public interest issues relevant to our work on these topics?
- (b) Are there other public interest issues relevant to these topics? If so, please describe them and how, in your view, they relate to the specific issues identified.
- (c) Are there actions you think others need to take, in addition to those by the IAASB, to address the public interest issues identified in your previous answers? If so, what are they and please identify who you think should act.

G1(a)	Yes, they are. All of them are fundamental topics of the audit work. The quality of them enhance the credibility of the work that Auditors do over those financial statements reported by the Entities.
G1(b)	Auditor’s capabilities. It is true that quality control refers to this subject but it seems to be a general concept of what the capabilities should be for Auditors. The capabilities (knowledge, expertise) of the audit team or auditor play a big role in the audit work and therefore should be more specific guidance about this.
G1(c)	IAESB and IESBA

G2. To assist with the development of future work plans, are there other actions (not specific to the topics of professional skepticism, quality control, and group audits) that you believe should be taken into account? If yes, what are they and how should they be prioritized?

G2	Auditor’s capabilities as described in G1(b)
----	--

G3. Are you aware of any published, planned or ongoing academic research studies that may be relevant to the three topics discussed in this consultation? If so, please provide us with relevant details.

G3	Comments of the Auditing Standards Committee of the Auditing Section of the American Accounting Association on PCAOB Concept Release on Audit Quality Indicators, No. 2015-005, July 1, 2015. Current Issues in Auditing 10:1, C11-C27.	http://aaapubs.org/doi/pdf/10.2308/ciia-51316
	The Association between Audit-Partner Quality and Engagement Quality: Evidence from Financial Report Misstatements. AUDITING: A Journal of Practice & Theory 34:3, 81-111. Online publication date: 1-Oct-	http://aaapubs.org/doi/abs/10.2308/ajpt-50954

INSTITUTO NACIONAL DE CONTADORES PUBLICOS - INCP

	<p>2014.</p>	
	<p>A Model and Literature Review of Professional Skepticism in Auditing</p> <p>Mark W. Nelson, Professor.</p> <p>Mark W. Nelson (2009) A Model and Literature Review of Professional Skepticism in Auditing. <i>AUDITING: A Journal of Practice & Theory</i>: November 2009, Vol. 28, No. 2, pp. 1-34.</p>	<p>http://aaapubs.org/doi/abs/10.2308/aud.2009.28.2.1</p>
	<p>Kendall O. Bowlin, Jessen L. Hobson and M. David Piercey. (2015) The Effects of Auditor Rotation, Professional Skepticism, and Interactions with Managers on Audit Quality. <i>The Accounting Review</i> 90:4, 1363-1393.</p> <p>Online publication date: 1-Jan-2015.</p>	<p>http://aaajournals.org/doi/abs/10.2308/accr-51032</p>
	<p>Steven M. Glover and Douglas F. Prawitt. (2014) Enhancing Auditor Professional Skepticism: The Professional Skepticism Continuum. <i>Current Issues in Auditing</i> 8:2, P1-P10.</p> <p>Online publication date: 1-Aug-2014.</p>	<p>http://aaajournals.org/doi/pdf/10.2308/ciia-50895</p>
	<p>AU-C 600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) by AICPA</p>	

PS1. Is your interpretation of the concept of professional skepticism consistent with how it is defined and referred to in the ISAs? If not, how could the concept be better described?

<p>PS1</p>	<p>Profesional Skepticism is defined by ISAs as An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.</p> <p>We agree with the definition.</p>
------------	---

PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments?

INSTITUTO NACIONAL DE CONTADORES PUBLICOS - INCP

PS2	Some of impediments are listed below (the list is not intended to be exhaustive):	
	Impediments	Suggestions to enhance
	Regulations that are not aligned with relevant audit risks and that can cause less attention to areas that present audit risk.	Inspection risks are important but not the only ones relevant to the audit work. Work audit planning must consider all risks related to the audit for the specific client.
	Amount of individuals in the audit engagement	To plan an audit with an appropriate level of individuals segregating their duties.
	Deadline pressure	Effective planning including enough time to perform the engagement.
	Cultural background	Continuing education requirements, performance evaluations, training on ethics, professional judgment, professional scepticism.
	Lack of knowledge and expertise	Training in the application of good judgement for a proper professional scepticism. Licencing exams for exercising audit engagements.
	Not to know about the sector where the client develops its business	Training, best practice frames, data bases with issues and most common cases in the sector.
	Involvement of engagement managers & partners	Planning considering enough involvement of managers and partners
	Assuming personal technical positions	Stablishing standard frameworks where the engagement team can refer to in specific positions that can compromise the professional scepticism.
Familiarity with the client for some years	Rotation of the team requirements	
Independence threats	Clear independence requirements for accepting the client and participating as part of the engagement team.	

PS3. What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the International Accounting Education Standards Board, the International Ethics Board for Accountants, other international or national standards setters, those charged with governance (including audit committee members), firms, or professional accountancy organizations)?

INSTITUTO NACIONAL DE CONTADORES PUBLICOS - INCP

PS3	<p>IAESB must emphasize that professional scepticism should be addressed in accounting programs and how that competence can be demonstrated and achieved by professionals. There should be a clear guidance about this subject otherwise everyone can understand professional scepticism in different ways.</p> <p>IESBA also must emphasize the importance of professional scepticism in auditors and the consequences for auditors for not exercising a good professional scepticism.</p> <p>Professional accountancy firms must consider: a) a good guidance on how to exercise professional scepticism and how sceptical judgment translates into sceptical actions, b) regular training about this subject, c) adapting working programs depending of the countries where the services are rendered, d) incentivising audit quality and, e) developing and following an audit judgement process and ensuring that auditors follow that process.</p>
-----	--

QC1. We support a broader revision of ISQC 1 to include the use of a **quality management approach (QMA)** as described in paragraphs 51-66.

- (a) Would use of a QMA help to improve audit quality? If so why, and if not, why? What challenges might there be in restructuring ISQC 1 to facilitate this approach?
- (b) If ISQC 1 is restructured to require the firm’s use of a QMA, in light of the objective of a QMA and the possible elements described in paragraph 65, are there other elements that should be included? If so, what are they?
- (c) In your view, how might a change to restructure ISQC 1 impact the ISAs, including those addressing quality control at the engagement level?

QC1(a)	<p>Yes, it would. An effective QMA would ensure audit quality at the professional accountancy firm level and giving the responsibility of the firms ‘leaders.</p> <p>It is crucial to provide guidance to audit firms on how to do a better job in corporate governance principles in order to support audit quality.</p>
QC1(b)	No, there are not that we can add.
QC1(c)	<p>ISAs might be adapted to QMA. ISA 220 and ISQC 1 must clarify the responsibilities and role of the audit partner.</p> <p>It would be appropriate that the engagement partner must sign the audit report (not the firm as an entity). The engagement partner is responsible for the overall quality of the audit engagement and the audit firm has made sure of their capabilities for performing the audit work assigned.</p>

QC2. We are also thinking about revising our quality control standards to respond to specific issues about audit quality (see paragraphs 67-83).

- (a) Would the actions described in paragraphs 68-83 improve audit quality at the firm and engagement level? If not, why?
- (b) Should we take other actions in the public interest to address the issues in paragraphs 67-83?

INSTITUTO NACIONAL DE CONTADORES PUBLICOS - INCP

(c) Should we take action now to tackle other issues? If yes, please describe the actions, why they need priority attention, and the action we should take.

QC2(a)	Yes, they would. We agree that the active involvement of the engagement partner in risk assessment, planning, supervision and review of the work performed is a key attribute of audit quality.
QC2(b)	No, you should not. The actions contemplate a reasonable structure of revising quality control standards at firms and engagement partner levels.
QC2(c)	No, which we can refer to now.

GA1. We plan to revise ISA 600 (and other standards as appropriate) to respond to issues with group audits.

- (a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 84-97)? If not, please explain why. What else could we do to address the issues set out in this consultation?
- (b) Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?
- (c) Should we further explore making reference to another auditor in an auditor’s report? If yes, how does this impact the auditor’s work effort?
- (d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

GA1(a)	<p>Yes, you should. We agree:</p> <ul style="list-style-type: none"> - ISA 220 should provide further clarity on the definitions of: performance, direction, supervision, and review by the engagement partner either by strengthening the requirements or enhancing the application material that discusses the responsibilities of the engagement partner in relation to these matters. - Adding the concepts in the AQ Framework (active involvement of the engagement partner along the whole audit process, either as requirements or application guidance. - Identifying the risks to audit quality at engagement level and work in the responses to address group audit risks (ISA 600). - Strengthening the requirements or enhancing the application material that discuss the responsibilities of the firm and the engagement partner in relation to decisions regarding acceptance and continuance of client relationships and specific engagements. - Clarifying that, as part of their responsibilities, engagement partners should be appropriately involved at all stages of the audit. - Adding an appendix to ISA 220 that indicates where the responsibilities of the engagement partner are articulated within the requirements and application material in the ISAs.
--------	--

INSTITUTO NACIONAL DE CONTADORES PUBLICOS - INCP

	<ul style="list-style-type: none"> - Considering the need to develop requirements or application material to specifically address situations where an engagement partner is not located where the majority of the audit work is performed. - Consideration could also be given to clarifying the expected performance requirements for individuals other than engagement partners who sign or who are named in the auditor’s report. <p>The IAASB also should consider the development of guidance when group audits are performed by several audit firms and there is need of quality control by the group engagement partner over those engagements performed by others (component auditors).</p>
GA1(b)	Yes, they would improve quality of group audits.
GA1(c)	<p>Yes, you should further explore making reference to another auditor in an auditor’s report.</p> <p>The group engagement partner is responsible for deciding for each component to either:</p> <ul style="list-style-type: none"> a) Assuming responsibility for the work of the component auditor b) Not assuming responsibility for and making reference of, the audit of a component auditor in the group auditor’s report. <p>The group engagement partner should evaluate if there will be enough and appropriate evidence by each audit of the component to support their group opinion.</p> <p>Communication between engagements partners (group and components) should be efficient in order to coordinate the efforts that the teams must make so that there is appropriate evidence to support the opinion.</p>
GA1(d)	None, which we can recall at the moment.