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Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2016/JE/C1/IAASB/70

Subject Line: IAASB’s Invitation to Comment: *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*

Dear Madam:

The International Organization of Securities Commissions’ Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board’s (the IAASB or the Board) Invitation to Comment: *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO’s mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

We believe that audit firms have the ultimate responsibility to deliver audit quality in performing financial statement audits. This is a process that does not begin on the first day of fieldwork but it starts by a firm cultivating an environment in which high quality audit engagements are prioritized



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and consistently performed. Confidence in the integrity of audited financial statements and the auditor's opinion thereon, both of which are influenced by the quality of the audit, can form an important part of an investor's decision making. As such, audit quality provides great benefit to investors and other financial statement users. We are pleased that the Board is exploring the areas of professional skepticism, quality control and group audits as these are some of the critical areas, among others, which we have observed give rise to audit findings that suggest deficiencies in audit procedures.

As the auditing standards including the ISAs and *ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements*, form the framework upon which auditors conduct their work it is important that these standards communicate requirements that instill in the auditor a mindset that strives for the highest quality of audit to benefit the users of the financial statements. This is not simply an exercise in better linking various standards together but it is a more significant goal of shaping the mindset of the auditor in conducting the audit. This is shaping an auditor's mindset with the intent of steering auditors of all levels of experience to challenge management's assumptions rather than only confirm what has been done. It is shaping an auditor's mindset to be proactive and remain vigilant for sources of conflicting evidence. This must be interwoven throughout the standards to affect how auditors approach every stage of the audit.

While we recognize that audit related deficiencies may result from insufficient compliance with the ISAs we believe that the principles-based requirements and guidance needs to be written with adequate levels of granularity to promote consistent application of the standards. We believe that this project presents an opportunity for the Board to enhance the ISAs and ISQC 1 to achieve more consistent levels of audit quality in practice.

We recognize that the Paper was written to explore various options that could then lead to greater levels of specificity as part of a standard-setting process. To this end, while we have observed that the three broad topics covered by the Paper – professional skepticism, quality control and group audits – correspond to issues related to people within the firm, firm processes and the application of standards, respectively, how these are addressed by the Board going forward may also vary. This is because addressing behavioral issues present unique challenges and complexity as compared to solutions to correct a process. While the level of complexity to address these areas may vary, we recognize that the Paper was written to explore various options that could then lead to greater levels of specificity as part of a standard-setting process. As such, while we have provided our comments below to certain areas of the Paper for the Board's consideration as it determines the next step, we would be better positioned to provide greater levels of specificity to our comments upon understanding the direction the Board proposes to pursue based on feedback received.



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We note that the first topic covered in the Paper, Professional Skepticism, is at an earlier stage in the standard-setting process (i.e., currently performing outreach and obtaining understanding of conceptual issues and academic research) as compared to the latter two sections, Quality Control and Group Audits. As such, with respect to professional skepticism, we have endeavored to provide our perspectives on this topic along with reference to the interrelated topics of due care and objectivity for the Board’s consideration as it deliberates the feedback received. Given that the extant standards related to quality control and group audits are further developed and detailed (and consequently, the Board has provided more detailed issues and possible actions to address the issues in the Paper), we have provided more specific feedback on these topics based on issues or challenges that we have observed in practice. Where we have a specific perspective, issue, or possible path forward to share with the Board based on the current proposal, we have provided it in the relevant section of our letter aligned with the categories enumerated in the Quality Control and Group Audit sections in the Paper.

Professional Skepticism

Understanding the “Root Causes”

We believe that there may be other significant factors, such as, a lack of due care, objectivity, and/or professional competence which may sometimes be mislabeled as a lack of professional skepticism or that may contribute to a lower perceived level of skepticism and negatively affect audit quality as well. For example, it may be a lack of due care rather than solely a lack of professional skepticism when the auditor neglects to investigate inconsistent audit evidence in order to meet a tight deadline to issue the auditor’s report. While professional skepticism, due care and objectivity are separate concepts they are also interrelated. As such, we would like to emphasize that it is critical to understand the interplay between these three concepts in order to more appropriately address the issues in practice. Certain of these practice issues cannot be mitigated through standard setting alone, and instead are likely dependent on broader improvements to culture, quality control and processes at firms. Therefore, we encourage the Board to engage in further dialogue among all constituencies to better understand these dynamic issues.

Relatedly, we have observed that the lack of professional skepticism has consistently been identified by auditor oversight bodies as one of the top audit inspection findings. There may be a need however for greater transparency about the criteria used in making such determinations and the factors that contributed as there could be several potential reasons for this occurrence. We believe it is important for the Board to identify which of these issues can be addressed through standard-setting versus through other more appropriate solutions. In this regard, while we agree with the Board that “the concept of professional skepticism, and the expectations of how auditors should appropriately apply it, may need to be more clearly articulated in our standards”, we believe it is of paramount importance that the Board work closely with auditor oversight bodies to understand the reason/“root cause” or



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underlying contributors for the inspection findings that are today considered to be indicative of a lack of professional skepticism and what steps those bodies would have expected auditors to perform to evidence the appropriate level of professional skepticism. This could assist the Board in narrowing its focus in this broad area of professional skepticism.

Defining Professional Skepticism and Enhancing Application in Standards

We recognize that the concept of professional skepticism can be rather abstract and relatively complex to address because it embodies behavioral traits and relates to the auditor’s state of mind and attitude. Nonetheless, we encourage the Board to formulate a definition that is concrete and practical yet broad enough so that it is not easily distilled into a “check the box” activity.

We encourage efforts of the Joint Working Group described in the Paper to explore if it is clear enough what is meant by the term “professional skepticism” and whether current requirements and guidance in the international standards that refer to professional skepticism are clear enough, particularly in subjective and highly judgmental areas. In these efforts, we encourage all parties to explore ways to emphasize that professional skepticism may not be an “all or nothing” concept but rather can be exercised to varying degrees in practice, which in some instances may be judged to be insufficient albeit not absent.

Of similar importance are standards that the Board could establish to obligate the accountant to take ownership of actions that minimize or eliminate the potential for deficiencies in professional skepticism and enhance the quality of the audit. The Board could use language in the standards such as “challenging management’s reasoning or sources” rather than “corroborating evidence” that shifts the auditor’s mindset from one of an accepting attitude to one that is more skeptical.

We believe that the exercise of professional skepticism is not simply a verification process but it is a mindset that enables the auditor to gather audit evidence and, apply sound judgment that, when combined with relevant levels of experience, can result in the auditor making sense of the sufficiency and appropriateness of the evidence obtained. This may require the auditor to take on a more assertive and proactive attitude rather than a passive one in conducting the audit. To drive this concept, the Board may wish to consider how different strategies could be used to influence the auditor’s mindset. A few examples of this include the following:

1. The standards could be written in a manner that compels the auditor to critically evaluate audit evidence obtained;
2. Emphasize in the standards the need for auditors to critically evaluate conflicting audit evidence;



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3. Auditors could be reminded to resist persuasion and to objectively consider issues from different perspectives; and
4. The Board could consider additional requirements and application material throughout the ISAs that promotes a mindset that actively questions or makes inquiry regarding management’s assumptions or audit evidence obtained.

This should also entail, not only training in technical knowledge, but teaching auditors how to recognize management fraud, if encountered.

Whereas the degree of intensity of professional skepticism may vary by task or the level of risk of material misstatement we believe professional skepticism should nonetheless be exercised by the auditor throughout all stages of the audit process. As such, we believe the Board can emphasize the concept of professional skepticism in ISQC 1 and within ISAs such as *ISA 240, The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Statements*; *ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and its Environment*; *ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*; and *ISA 620, Using the Work of an Auditor’s Expert*, to name a few. As an extension of this, the Board could consider application material that provides tangible examples of what professional skepticism looks like throughout the standards.

Role of the Auditors and Firms in Enhancing Professional Skepticism

Enhancing the standards is one means through which professional skepticism could be promoted in the audit. However, other solutions worth pursuing may include encouraging firms to strengthen the apprenticeship model within the firm that enables less seasoned auditors to learn their skill by observing more experienced auditors. This model would also encourage a more intentional communication of lessons learned by experienced auditors through mentoring of younger auditors. It also facilitates having more seasoned auditors on hand to engage with seasoned executives of the audit client when discussing complex issues or conducting difficult conversations. The Board may also wish to consider as part of its quality control standards how firms can encourage audit engagement team members at all levels to respectfully challenge each other’s conclusions or thought processes, where helpful.

We agree with the Paper’s emphasis on appropriate “tone at the top” by firm leadership in enabling the application of professional skepticism. However, we believe additional emphasis should be included in standards compelling firm leadership to ascertain that all engagement team members, including mid-level management and more junior team members understand the importance of



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exercising professional skepticism in the performance of the audit. Setting this “tone in the middle” can empower mid-level management and junior engagement team members to embrace a mindset of professional skepticism while not diminishing the engagement partner’s overall responsibility for audit quality.

We believe that experienced auditors who understand the company’s business, who are competent in accounting and auditing standards and are appropriately supervised, are better equipped to exercise professional skepticism as compared to those individuals who do not possess these qualities. In addition, the appropriate and timely involvement (for example, earlier rather than later) of the engagement partner and the Engagement Quality Control (EQC) reviewer in the audit process can help cultivate an environment in which professional skepticism can thrive. Similarly, moving appropriate testing and audit work forward to an interim period (rather than at year-end) which could be subsequently updated, to better even out workloads can help promote an environment in which professional skepticism is not stifled by time constraints.

We note that paragraph 31 of the Paper highlights that “auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepticism in following through with appropriate actions”. This statement regarding not following through on application of professional skepticism is written in paragraph 31 in the context of “tight financial reporting deadlines, and heavy staff workloads, as well as time and resource constraints more generally”. We believe that these resource constraints and heavy staff workloads may point to the lack of due care by the auditor, rather than solely a lack of professional skepticism, consistent with our earlier comment regarding the interplay between professional skepticism, due care, and objectivity. We encourage the Board to consider whether there is incremental application guidance that could be added to ISQC 1 (e.g., in the context of ISQC 1 paragraph A24 “the estimation of personnel needs”) that could acknowledge that the application and/or effectiveness of professional skepticism, objectivity, and due care may decrease as the staff workload increases beyond a reasonable level. The Board may also wish to consider including additional ISQC 1 guidance that calls for review of partners’ workload and adequate planning of engagements to address significant issues as early in the audit process as practical.

Additionally, we encourage the Board to work with the IESBA to see how the requirements could be strengthened to be more aligned with the Ethics Code’s requirement of “Professional Competence and Due Care” as we note that Section 130 of the Code states:

130.1 “The principle of professional competence and due care imposes the following obligations on professional accountants:



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[...] (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.”

130.4 “Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.”

130.5 “A professional accountant shall take reasonable steps to ensure that those working under the professional accountant’s authority in a professional capacity have appropriate training and supervision.”

Consistent with auditors acting thoroughly and on a timely basis as referenced in paragraph 130.4 of the Code, it may be beneficial for the Board to work with the IESBA to see how the ISAs and/or ISQC 1 could include guidance to encourage firms and engagement teams to more actively monitor and manage workloads. In addition, similar to the supervision responsibilities referenced in paragraph 130.5 of the Code, the Board may also find it useful to work with the IESBA to consider whether one aspect of this supervision could be to monitor the overall staff workloads to prevent exhaustion levels that may lead to a decrease in audit quality.

Further, the standards can provide additional guidance to assist auditors in determining whether they have sufficiently engaged the use of experts based on the nature and complexity of work involved. Auditors could also be encouraged to step back, after having complied with the ISAs, and consider whether the transaction or area under consideration has been appropriately accounted for and audited based on the facts and circumstances. These various strategies may help mitigate the influence that time pressures or reporting deadlines may have on the propensity of the auditor to exercise professional skepticism.

Quality Control

A New Quality Management Approach

Overall, we support the addition of a Quality Management Approach (QMA) to ISQC 1 considering the points noted below, but emphasize that a more detailed description of a QMA is necessary for us to comment further. We agree that firms should establish a quality management framework that emphasizes firm leadership's responsibility to establish appropriate quality objectives, perform a risk assessment, design and implement quality control activities, and monitor, communicate and document the achievement of these quality objectives. This quality management framework should be an ongoing and iterative process as the environment in which the firm operates and the services provided by the firm change.



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The addition of a requirement for an overall quality management framework may lead to increased audit quality as it will enhance firms' consideration of risks and related quality control activities to address such risks. Further, to the extent that such risks had not been previously included as a detailed requirement in extant ISQC 1, firms will have to identify new related quality control activities to address such risks. Additionally, by identifying quality control objectives and risks to achieving those objectives, firms may find that they need to implement incremental quality control activities beyond those required in ISAs addressing quality control at the engagement level.

We note that paragraph 64b of the Paper states that the QMA would retain “the existing objectives and robustness of requirements in ISQC 1”. We support this statement regarding retaining detailed requirements, and also we believe that gaps already identified by the Board (e.g., inclusion of a requirement for firms to consider results of external inspections and pre and post-issuance reviews rather than just internal inspections and peer reviews, tone at the top establishment, remediation and root causes analyses) should be addressed through the addition of detailed requirements. Further, we believe it may be beneficial for the Board to include application material that provides examples of each element of the quality management framework (e.g., determining quality objectives, performing a risk assessment) that firms could consider when establishing and maintaining their quality management framework.

The degree to which the proposed QMA will affect audit quality may differ between firms. We note that some firms may already have such a quality management framework in place, whereas others may not. Those of our members who also have auditor oversight responsibilities have observed in inspection findings that some firms already face challenges in complying with the detailed requirements of extant ISQC 1. Nonetheless, the addition of an overall quality management framework may help firms better comply with detailed requirements by outlining the big picture, and providing context to what the firm is attempting to address. Having said that, we encourage the Board to provide for a framework that can be scalable and tailored depending on the nature of the services provided by the firm and the size of the firm. The Board should not provide overly prescriptive requirements for the QMA and instead use a form consistent with other risk assessment frameworks (e.g., COSO ERM Framework).

Paragraph 58 of the Paper states that “[w]e will also consider the implications of a QMA at the firm level for group audits. For example, the existence of a firm-level QMA may impact the engagement-level considerations about acceptance and continuance of group audits”. We believe that the Board should consider providing requirements for a firm to consider its role in the overall quality management framework in the context of a network of firms and consider whether its quality control objectives have been appropriately identified, and whether quality control activities have been appropriately designed and implemented at the individual firm level.



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Quality Control at the Engagement Level

Quality Control Considerations when Operating as Part of a Network

Please see discussion of quality control considerations when operating as part of a network in the context of a group audit in the *Group Audits* section below.

Exploring the Potential Effects that Firms' Changing Business Models and Structures Have on Audit Quality (ADMs)

We agree with the possible actions to address issues related to alternative delivery models (ADMs). Specifically, paragraph 123 of the Paper states that possible actions could include: "strengthening the auditor's consideration of:

- The risk of material misstatement associated with the account or balance on which the audit procedure is being performed, such that appropriate procedures are put into place to assess:
 - The level of complexity of the audit procedure; and
 - The level of judgment required to perform the audit procedure,

In relation to the competencies and experience of the personnel at the centralized location or other centralized resources tasked with performing the audit procedure."

We support the possible action that would require the engagement team to consider the nature of the risk of material misstatement (i.e., level of complexity and level of judgment required) when determining appropriate procedures to put in place. Beyond these appropriate safeguards, we believe that auditors should be required to consider whether, given the level of complexity or required judgment, the audit procedure should be performed by the group engagement team (or component auditor(s), another member of the engagement team, etc.) rather than by an ADM.

In addition, the Board should consider the usage of ADMs in the context of a group audit and what, if any, responsibility the group engagement team has for ADMs employed by component auditors (i.e., the expected level of involvement of the group engagement team with personnel at the ADM of a component auditor).



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Quality Control Specific Matters

Governance of the Firm, Including Leadership Responsibilities for Quality

We agree with the possible actions listed in paragraphs 131 to 135 of the Paper to address the issues related to governance of the firm. Specifically, paragraph 132 of the Paper states that “leadership responsibilities could be clarified in ISQC 1 through additional requirements or application material, or clarifications of existing requirements and application material, to more explicitly incorporate commonly used and familiar terminology (e.g., “tone at the top” and “leading by example”).”

We believe that not only should ISQC 1 emphasize the importance of “tone at the top” of the firm and for setting an appropriate culture for the firm, but also highlight the responsibility of leadership to establish an appropriate “tone in the middle”. Mid-level management of audit engagements are in a unique position as compared to the engagement partner in that they often spend more time with the most junior members of the engagement team. Mid-level management must understand their role in achieving audit quality and the importance of their significant and direct influence on junior members of the engagement team’s role in achieving audit quality.

This emphasis on the “tone in the middle” and junior engagement team members’ role in audit quality is important. Nonetheless, it should not decrease the level of the engagement partner’s overall responsibility for the audit. As we previously noted in the *Professional Skepticism* section of this letter, this emphasis of the role of engagement team members beyond the engagement partner could also lead to increased levels of professional skepticism applied by engagement team members.

Engagement Quality Control Reviews and Engagement Quality Control Reviewers

We agree that the application material in ISQC 1 regarding the criteria for selection of engagements for review by an EQC reviewer should be elevated from application material to requirements. Specifically, we believe that application material in paragraph A49 of ISQC 1 regarding maintaining the objectivity of the EQC reviewer should be elevated to requirements. Further, the application material in paragraph A47 of ISQC 1 related to the sufficient and appropriate technical expertise, experience and authority of the EQC reviewer should be elevated to requirements.

Additionally, the extant paragraph A47 of ISQC 1 describes situations where the EQC reviewer for an audit of the financial statements of a listed entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of listed entities.



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The Board could consider expanding the application material in paragraph A47 of ISQC 1 to describe situations or circumstances where it may be more appropriate for a partner to serve as the EQC reviewer to avoid hierarchical mismatches that could possibly impair a more junior (e.g., senior manager as compared to partner, or possibly a more junior partner as compared to a more senior partner) reviewer’s objectivity or intimidate the more junior staff member in raising matters with the engagement partner in a manner that negatively impacts his or her effectiveness. This additional guidance should not necessarily be limited to audits of the financial statements of a listed entity as currently written in extant paragraph A47, but rather should apply to any circumstance in which the firm has concluded an EQC review would be appropriate.

Additionally, we acknowledge the difficulty in identifying a global definition of a public interest entity; however, inclusion of criteria to be considered by firms when determining whether to perform an EQC review should likely lead to EQC reviews of entities beyond publicly listed entities.

Monitoring and Remediation

We agree with the Board’s possible actions described in paragraphs 156 to 159 of the Paper to address the issues related to monitoring and remediation. Audit quality could improve if firms implement a system for monitoring the results of feedback on audit quality from all sources, including a root cause analysis of audit deficiencies and implementation of policies and procedures to identify necessary corrective actions. We believe that a robust monitoring and remediation program would likely be identified as a necessary quality control step through application of a risk management framework such as the QMA noted in the Paper. We believe that detailed requirements regarding a monitoring and remediation program (including root cause analysis) should be included in ISQC 1, regardless of whether a QMA requirement is ultimately included in ISQC 1.

Engagement Partner Performance and Rewards System

We acknowledge that the engagement partner plays a pivotal role in an audit and is responsible for the overall quality on his or her assigned engagement. We believe that audit quality is an important factor upon which all members of the audit engagement team should be evaluated. In addition, we believe audit quality should be a consideration for human resource policies and performance evaluations of engagement partners and engagement teams that may ultimately lead to differences in compensation or possible future roles for those individuals in the firms. The Board may also wish to consider whether the benefits of establishing a requirement to directly link audit quality and remuneration would exceed the risks with respect to audit quality.

We understand why some have expressed a view that it would be appropriate to provide that an element of partner’s remuneration should be variable and include incentives or sanctions more closely



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linked to whether audit quality has been achieved; however, we believe that there may be significant challenges to establish an explicit provision requiring a firm to link audit quality achievement to partner remuneration.

One such reason is that there is not currently a commonly understood metric as to how to define audit quality that would enable there to be such a direct linkage. Nonetheless, we note that different organizations have several projects underway and thought pieces published as to how to measure audit quality, particularly through the usage of Audit Quality Indicators (AQIs) so we encourage the Board to monitor developments in this area.

Additionally, while internal or external inspection findings may appear to some to be an observable data point that is indicative of audit quality, we note that linking remuneration to inspection findings may have unintended consequences (e.g., partner resistance to accept the findings and then make changes in order to avoid the direct financial penalty). Having said this, perhaps the Board can think of ways to encourage the firms to create a culture that is more receptive to independent findings after reasonable discussions.

And finally, under certain inspection regimes, the larger and more risky audits are selected for inspection at a greater frequency than less risky audits. Often, engagement partners and engagement teams that are deemed to be of higher quality may be assigned to the higher risk audits to address the risk level. By linking partner remuneration to audit quality (specifically when using internal or external inspection results as a direct indicator of audit quality), the historically higher quality personnel may be penalized disproportionately as compared to engagement partners of lower risk engagements.

Notwithstanding the risks described above related to the addition of an explicit requirement of a direct link between audit quality achievement and partner remuneration, we believe the Board should continue to consider ways to encourage firms to place a greater emphasis on audit quality in human resource policies related to the evaluation of personnel, and the corresponding link to personnel assignments, leadership responsibilities, and remuneration.

We also note that, previous comments notwithstanding, any changes to the standard or considerations related to linkage between audit quality and performance evaluations or remuneration should apply not only to the engagement partner, but also to key members of the engagement team. This could lead to increased levels of professional skepticism applied by engagement team members, which is consistent with our requested emphasis on enhancing the “tone in the middle” as described within the *Professional Skepticism* section of the letter and above, within the *Governance of the Firm, Including Leadership Responsibilities for Quality* section of the letter.



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*Transparency Reporting*¹

We note that jurisdictions are at varying stages of development of transparency reporting, and it may be either required by legislation or voluntarily provided by firms. We support the Board’s suggested path forward described in paragraph 190 of the Paper. We believe that possible work to be performed by the Board related to either a requirement to issue audit firm transparency reports or information to be contained in an audit firm transparency report, should not affect the ability of a jurisdiction, securities regulator and/or audit oversight regulator to develop and implement its own requirements. As audit firm transparency reporting continues to evolve we encourage the Board to explore ways to stimulate continued improvements in reporting by the audit firms on their practices, policies and results to investors and other stakeholders.

Group Audits

We are supportive of the Board’s efforts to identify opportunities to improve ISA 600, *Special Considerations – Audits of Group Financial Statements (including the work of Component Auditors)*, and clarify its application. We believe that the concerns in relation to the application of ISA 600 should be addressed as a matter of priority. One Committee 1 member has participated in the preparation of our comments on group audits but has not concluded on its own views in this area given a current proposal by its national standard-setter related to group audits.

We believe that the Board should consider its approach to how the requirements related to group audits are presented throughout the ISAs. The extant ISAs present incremental requirements related to group audits within ISA 600, and incremental requirements and application material is also included in certain other ISAs (e.g., paragraph A22 of ISA 315). We believe that the clarity of the ISAs could be improved if incremental requirements related to group audits were entirely included in each relevant ISA, or entirely within ISA 600, with appropriate explanation in the ISAs as to which approach has been selected. The Paper discusses adding linkage of relevant requirements in other

¹ See for example, IOSCO’s Final report: *Transparency of Firms that Audit Public Companies* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD511.pdf> and IOSCO’s *Survey Report on Audit Committee Oversight of Auditors* <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD531.pdf>.



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ISAs to the requirements in ISA 600; however, a mixed presentation approach may not be the most clear, understandable or effective presentation of these requirements.

The previous paragraph notwithstanding, we support additional linkage to other ISAs as necessary; however, in most cases, it will not, on its own, be sufficient to solve what we perceive to be significant issues with the existing standard. Based on our experiences with extant ISA 600, we believe that certain issues arise due to ambiguity or silence in the standard. This may indicate the need for additional requirements. Other concerns arise due to a lack of execution by auditors in meeting the extant requirements in the standards, which may indicate that further application material is needed. We caution the Board to carefully consider this distinction. Solutions that propose only to include linkages to other standards and clarify or expand application material, will not, in many instances, fully address the issues identified. In addition, where requirements and principles currently exist, application material to underpin the principles is essential for consistent application of ISA 600.

The Paper briefly discusses the possibility of a separate standard for component auditors. Given that the nature, timing and extent of the work of the component auditor is intended to support the group engagement partner's opinion and is based on the needs of the group engagement team, it is unclear from the discussion in the Paper what the content of a separate standard for component auditors would consist of, and how such a standard would work in practice. Additionally, it is the responsibility of the component auditor to perform the audit in accordance with all applicable ISAs in order to support an auditor's opinion on the consolidated financial statements which states that the auditor has audited the financial statements in accordance with the ISAs.

To present the requirements of the component auditor as being separate and distinct from other ISAs may provide an impression that the component auditor is not required to apply all relevant ISAs. The Board should, however, consider whether the requirements in ISA 600 need to be clarified such that they directly state the responsibilities of the component auditor. As an example, paragraph 19 of ISA 600 states that "...the group engagement team shall obtain an understanding of the following:..". This paragraph could be amended to state that "...the group engagement team shall obtain, and the component auditor shall provide documentation of an understanding of the following...".

Acceptance & Continuance of the Group Engagement

We agree with the general direction of the possible actions that the Board has outlined in paragraphs 215 and 216 of the Paper. We have outlined specific matters below to which we would like to draw the Board's attention as it considers the nature and extent of enhanced requirements and application material.



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Situations where an Engagement Partner is not Located where the Majority of the Audit Work is Performed

We appreciate that the Board has made and continues to make efforts to address the concerns that were identified by stakeholders in feedback on the IAASB’s Work Plan for 2015-2016 and the feedback from the ISA Implementation Monitoring Project in 2013. We noted in our 2013 letter on ISA Implementation Monitoring the significant issue with respect to the application of ISA 600 in the circumstance where the engagement partner is not located where the majority of the audit work is performed. In our view, this represents a significant concern related to the quality and application of ISA 600 that should be identified and addressed, along with other identified concerns, as a matter of priority.

We are of the view that the Paper does not fully convey or discuss in detail the unique challenges that can exist where the engagement partner is not located where the majority of the audit work is performed (referred to by some as audits of letterbox companies). Issues can arise in such a situation in all phases of the audit (e.g., acceptance and continuance, understanding of the entity, risk assessment and responding to identified risks, communication, documentation, determining the appropriate level of involvement of the group engagement team, review and supervision, and evaluation of the component auditor’s work).

Our members have encountered scenarios where the audit of the underlying operations is almost entirely performed by the component auditor. The group engagement partner who signs the audit report has seemingly very little participation in the conduct of the group audit, instead relying primarily on an opinion statement (paragraph 41(j) of ISA 600) from the component auditor who has undertaken the work. In these circumstances, we are of the view that these group engagement teams are failing to comply with the underlying principles and specific requirements of ISA 600 and other ISAs (e.g., ISA 220 which contains the responsibilities of the engagement partner for the direction, supervision and performance of the audit engagement). Although we raise this concern in the context where an engagement partner is not located where the majority of the audit work is performed, we believe it could apply to group audits more broadly.

We believe practice issues have arisen in part as a result of the standard allowing component auditors to provide findings, conclusions *or* (emphasis added) opinions. This may have been too wide open as to what it means for an auditor to provide each of these and when the use of each is appropriate. This may have encouraged some group engagement teams to solely ask for and/or simply rely on the opinion that is provided by the component auditor without being sufficiently involved with the work of the component auditor and obtaining sufficient appropriate audit evidence regarding the financial



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information and other typical areas of audit findings (e.g., function of internal controls, passed financial statement adjustments, and potential auditor independence issues) of the components. Accordingly, we believe that component auditors should be required to provide their findings and conclusions to the group engagement team. Further, we suggest the Board review how the terms “findings” and “conclusions”, as well as “opinions”, are meant to be applied and clarify the deliverables to the group auditor associated with these terms.

We believe the Board should further consider what the impact is on audit quality if a component auditor provides opinions to the group engagement team consistent with paragraph 41(j) of ISA 600. For example, with respect to opinions, as we stated above, the group engagement team should not consider an “opinion” to be audit evidence that obviates the need for the group engagement team to be sufficiently involved with the work of the component auditor and to obtain sufficient appropriate audit evidence regarding the financial information of the components. We believe the Board should consider whether or not receipt of an opinion may give rise to unintended consequences with respect to the component and group auditor. For example, if an “opinion” is not provided to the group engagement team, could the component auditor consider him or herself to be less accountable for the audit procedures performed at the component? Would removing the requirement for the “opinion” cause the group engagement team to apply the extant requirements of ISA 600 in a more robust manner? At the same time, if an opinion is provided to the group auditor, could the group auditor consider him or herself less accountable for the component’s element of the group audit?

While paragraph 85 of the Paper suggests consideration of additional requirements or application material to specifically address situations where the engagement partner is not located where the majority of the audit work is performed, we do not believe the Paper goes far enough in its identification and consideration of specific issues to be able to assess whether the additional requirements or application materials will be helpful. For example, ISA 600 could be expanded to include factors or considerations that the group engagement partner should evaluate that, if present, may call in to question the ability to accept or continue an engagement, or examples of scenarios in which it may not be appropriate for the group engagement partner to accept or continue an engagement. As part of its considerations in this area, we think that the Board should specifically consider how the group engagement team should determine what constitutes a “majority” of the audit work. The Board should also consider what constitutes “a location” when stating that an engagement partner is not located where the majority of the work is performed as this could be interpreted differently (e.g., office, city, firm, country, network of firms).

Acceptance and Continuance

A key consideration in acceptance should be whether the group engagement team can be adequately involved in planning and reviewing the work of the component auditor, which could be impacted if



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there are restrictions on the group engagement team’s ability to access the component auditor’s work. We agree with the comments in paragraph 215(e) of the Paper that suggest that ISA 600 should be strengthened to include more clarity on the types of circumstances that could lead to access issues and provide considerations of how some of the issues may be addressed. Related to this, we recommend that the Board make it clear that there may be circumstances where the restrictions or challenges relating to access are so severe such that it could result in a group engagement team determining that it cannot accept or continue an engagement.

As part of providing clarity on the circumstances that could lead to access related issues, we think that the Board should acknowledge that there may be circumstances in which the group engagement team may not be permitted access to a particular foreign jurisdiction, which could result in the group engagement team having no option but to request that a component auditor perform work on the financial information of a component. In this scenario, additional guidance on factors to consider with respect to access, understanding and assessing the competence of the component auditor, as well as considerations of how the group engagement team can be sufficiently involved in the work of the component auditor (during the performance and the conclusion of the audit) at the acceptance and continuance phase would be useful.

We agree with the Board that strengthening the link in ISA 600 to the requirements in ISQC 1 that address the firm’s acceptance and continuance policies and procedures, and the requirements in ISA 220 that address the engagement partner’s related responsibilities for quality at the engagement level would be helpful. Given that most of the requirements and application materials lie in ISQC 1 and ISA 220, the link would reinforce the need for the group engagement partner to consider the competence and capabilities of senior members of the component auditors when considering the competence and capabilities of the engagement team (comprising the group engagement team, the component auditor, and experts).

We think that the Board should also include additional guidance in ISA 600 on how those standards (e.g., ISQC 1, ISA 220) are applied in group audit engagements. For example, the requirements and responsibilities of the group engagement team are the same as for any non-group audit. The Board should clarify that the group engagement team’s responsibility to assess the professional competence of the component auditor does not differ regardless of whether the component auditor is, or is not, part of a network firm, or if the component auditor is performing procedures for a significant component or a not significant component. The Board should also provide clarification on the application of those requirements. For example, the Board could clarify that the group engagement team fails to meet the requirement to assess component auditor competence if the only work performed is documentation of a statement that the component auditor is part of the same network of firms as the group engagement team (or a component auditor of a differing network of firms that the group engagement team



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considers reputable). The additional assessment of the component auditor’s competence as outlined in paragraph A38 of ISA 600 must also be performed.

Communications Between the Group Engagement Team and Component Auditor

We support actions that seek both to enhance the level of two-way communications throughout all phases of the audit between the group engagement team and the component auditor, and that emphasize the importance of documenting those communications.

Paragraph 224(e) of the Paper is specific in that it includes a consideration by the Board on whether there is a need to revise paragraph 48 of ISA 600 and the related application material to better address the ability of the group engagement team to communicate directly with the component auditor when the group engagement team is aware of non-compliance or suspected non-compliance with laws and regulations that may be relevant to the work being done by the component. While we agree that the Board should clarify paragraph 48 of ISA 600 in this regard, the Board should also focus on the importance of improved communication in other stages of the audit. For example, the Board should be looking for solutions that drive a consistent approach for communication in all areas that are of importance to a component auditor (e.g., risk assessment, results of control testing on group level controls, (sub)consolidation procedures performed at the group level, and results of testing performed, etc).

As we have previously communicated, we are concerned about the sufficiency of component auditor communications. For example, in some instances, the component auditor communications to the group engagement team can be as brief as a statement of compliance (paragraphs 41(a) and 41(b) of ISA 600), an explanation of the fluctuations in balances of financial information assigned to the component auditor (paragraph 41(c) of ISA 600), and an opinion statement under paragraph 41(j) of ISA 600, as discussed above in the section *Situations where an Engagement Partner is not Located where the Majority of the Audit Work is Performed*. We question whether this provides the group engagement partner with sufficient, appropriate audit evidence to express an audit opinion. On this basis, we agree that objectives that enhance component auditor communications to the group engagement team would be an improvement to ISA 600.

Additionally, the Board should consider the need for guidance in ISA 600 that requires the group engagement team to actively consider if communication among component auditors is necessary (with appropriate oversight and involvement of the group engagement team, as appropriate). This need for such component-to-component communication may be of particular importance in instances where the entity processes transactions via shared service centers, where there are significant intercompany transactions, or where there are risks that are unique to only certain components of the group audit.



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Related to the above, we note that in our 2013 ISA Implementation Monitoring letter, we pointed out the need for more extensive two-way communication requirements on the results of fraud risk considerations. We note that this aspect of enhancing communications has not been specifically addressed.

Using the Work of the Component Auditor

We agree with the general direction of the possible actions that the Board has outlined in paragraph 234 and 242 of the Paper. However, we note that the application material of ISA 600 contains significant, relevant material with respect to understanding the component auditor. The Board should consider whether it would be helpful to elevate certain application material within ISA 600 to requirement level. We have outlined specific matters below to which we would like to draw the Board's attention as it considers the nature and extent of enhanced requirements and application material.

Similar to our comment above in the *Acceptance and Continuance* section, while the requirement to understand the professional competence of the component auditor should not differ regardless of whether the component auditor is, or is not part of a network firm, we agree that the Board should provide clarification on the application of this requirement. Based on our experiences, it is unclear in many group audit situations what the group engagement team did to understand and assess the competence of the component auditor. It is not uncommon that the only discussion from the group engagement team about professional competence was the acknowledgement that the component auditor was from a network firm. The Board could clarify that it would be inappropriate for the group engagement team to effectively meet the requirement to assess component competence by a statement that the component auditor is part of the same network of firms as the group engagement team.

We note that paragraph 229 of the Paper raises concern about the group engagement team's understanding of the planned use of experts by the component auditor when obtaining an understanding about the competence and capabilities of the component auditor. It is relevant to understand the component auditor's use of experts (or the decision not to use experts). If the component auditor has decided it is necessary to utilize an expert, this may be due to the level of complexity or judgment involved, which could then rise to the level of a significant risk of material misstatement to the financial statements. This would likely be an audit area that the group engagement team should seek to understand the planned response to risks of material misstatement by the component auditor and the expert so that the group engagement team has sufficient understanding of the nature of the risk and the audit procedures performed. Additionally, the group engagement team should understand the component auditor's planned use of experts so that it can further consider whether other component auditors should similarly be requesting work to be performed by experts.



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Paragraph 234(a) of the Paper states as a possible action to address the issues identified, the group engagement team would make an explicit determination about whether it is appropriate to use the work of a component auditor. While we agree that the addition of an objective or requirement to make an explicit determination is desirable, the Paper appears to imply that this is a binary decision. We believe that the use of the work of component auditors is not a binary decision, but that rather the group engagement team’s nature, timing and extent of involvement in the component auditor’s work should be scalable based on the competency of the component auditor, risk of material misstatement of the financial information subject to audit procedures by the component auditor, and other factors such that the work performed by the group engagement team and the component auditor provide sufficient and appropriate audit evidence upon which to base the group audit opinion. ISA 600 should retain the concept expressed in paragraph 20 that if there are “serious concerns” about using the work of the component auditor, it may be appropriate to conclude that it is inappropriate to use the work of the component auditor.

Identifying & Assessing the Risks of Material Misstatement

Existing Guidance Related to Risk Identification by the Group Engagement Team

We agree with the Board that the requirements in ISA 600 and related application material, as well as the requirements in ISA 315 would adequately require the auditors of group financial statements to obtain the necessary understanding of the entity and its environment in order to identify and assess the risks of material misstatement at both the group and component level. However, as most of the requirements lie in ISA 315 and ISA 330, we agree that a clearer link between these standards and ISA 600, along with corresponding application material, is necessary.

While this existing level of guidance (i.e. the requirements in ISA 315, ISA 330, and ISA 600 and related application material), may work well in many group audit situations when the environment of the component is very similar to that of the group; we acknowledge that there are many situations in which the components are operating in diverse, foreign jurisdictions where the business and audit risks of the component are different from those encountered by the group engagement team. There may also be differences in the nature of the business at the component as compared to that in the jurisdiction where the group engagement team is located. These differences impact not only the identification and assessment of risks, but could have a fundamental impact on the effectiveness of planned audit procedures and the group engagement team’s decision of the degree of involvement they need to have in the audit work performed by the component auditor. We believe that requirements and application material in ISA 600 should be expanded to highlight the importance of understanding the differences in environment of foreign jurisdictions and the nature of the component’s operations and the impact this could have on the group audit.



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Paragraph 253(b) of the Paper contains the concept of clarifying or adding application material to emphasize that significant risks identified by component auditors for a specific component should also be considered at the group level by the group engagement team, to determine whether those risks may apply more broadly to some, or all, of the components, or for the group overall. We believe this is an important concept, and thus should be included in an explicit requirement in ISA 600 (as opposed to in the application material).

Component Auditor Risk Identification Process

We agree with the view expressed in paragraph 198 of the Paper that it is necessary to clarify, and potentially expand on how a group engagement team is expected to apply the requirements in the standards related to identifying and assessing risks of material misstatement (including in relation to fraud), and responding to those risks, including requiring the component auditor to actively address these risks at the component level.

Additionally, we believe that there should be an explicit requirement in ISA 600 for the group engagement team to require the component auditor of a significant component to engage in an active risk identification process, which could result in input being provided from the component auditor to the group engagement team, as part of a two-way dialogue between the group engagement team and the component auditor on risks of material misstatement. This would enable the group engagement team to consider the impact on the group engagement, and whether the identified risks are relevant to other components.

Depending on the level of significance of the component, the guidance should specify that the component auditor should preliminarily identify risks that exist at the component level, independent of the group engagement team, as communication by the group engagement team of group audit risks first could result in a less robust preliminary risk assessment process by the component. Once the component auditor has completed its preliminary independent identification of risks at the component level, an on-going, two-way dialogue between the group engagement team and the component auditor should take place to allow for discussion of the preliminarily identified risks of material misstatement. This two-way dialogue and risk assessment procedures performed by both the group engagement team and component auditor will help to ensure a consistent understanding of the identified risks. This would alleviate the concern that the group engagement team may not fully understand the component's jurisdictional risks, or risks specific to the nature of the operations of that component at the component level.

We believe that the application material in paragraph A22 of ISA 315 that describes which parties should take part in the discussion of the susceptibility of the entity's financial statements to material misstatement should be elevated to requirements.



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Extant paragraph A22 of ISA 315 states, in part, that “the engagement partner *may* discuss matters with key members of the engagement team including, *if considered appropriate*, those with specific skills or knowledge, and those responsible for the auditors of components, while delegating discussion with others [...]” (emphasis added). Extant paragraph A22 of ISA 315 also describes that it is “not always necessary or practical for the discussion to include all members in a single discussion (as, for example, in a multi-location audit), nor is it necessary for all of the members of the engagement team to be informed of all of the decisions reached by this discussion.”

Paragraph A22 of ISA 315, once elevated to requirements, should more directly state that the manner in which this discussion is conducted depends on the individuals involved and the circumstances of the engagement, which could include multiple discussions with component auditors. We believe the tone of paragraph A22 of ISA 315 should be revised to reflect the Paper’s emphasis on two-way dialogue between the group engagement team and component auditors, rather than describing difficulties in and impediments to accomplishing this communication.

The standard should be clear that risk assessment is an on-going, iterative process throughout the audit, and that communication between the group engagement team and component auditor should occur during the planning, execution, and completion phase of the audit as well, even if it is to confirm that there has been no change in the assessed risks. There should also be documentation of the back and forth dialogue between the group engagement team and component auditors.

Issues Relating to Component Materiality and other Aspects of Materiality Relevant to Group Audits

We are of the view that the determination of component materiality and component performance materiality needs to be addressed in ISA 600 in a more robust and comprehensive manner. We have observed considerable variation in practice in how these amounts are determined. Notwithstanding the Board’s position that its actions with respect to materiality concerns for group audits should not prejudice the outcomes of the IASB’s work on materiality, we strongly encourage the Board to develop further requirements or application material in ISA 600 that would not infringe upon the basic principles in ISA 320, but would address the considerations that the group engagement team should take into account in determining component materiality and component performance materiality as these concepts are not fully explained in ISA 600. We are also of the view that there should be an explicit requirement for the group engagement team to document its rationale for the determination of component materiality and component performance materiality.

Further exacerbating the lack of clarity of materiality concepts for components, in our view, is that the link between ISA 320 and ISA 600 is not sufficiently clear. It is not apparent how the determination



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of materiality under ISA 320 for the group financial statements as a whole is intended to flow through to the determination of component materiality. Further guidance in ISA 600 is needed in this regard.

Responding to Identified Risks of Material Misstatement in Group Audits (including issues relating to the Group Engagement Team’s Involvement in the Consolidation Process)

Issues Relating to Audit Procedures Performed on the Component’s Financial Information

An overarching concern related to the application of ISA 600 is the identification of components, including those that are significant. Though paragraph 50(a) of ISA 600 requires the group engagement team to document an analysis of components, indicating those that are significant, there are no specific requirements related to the determination of components and significant components. The determination is dependent on applying the definition in the standard and consideration of the related application material. Proper identification of significant components is of paramount importance, as it impacts the nature, timing and extent of the audit work, including the level of involvement by the group engagement team in the work of the component auditor. We are concerned that the existing level of guidance may result in inconsistent determination of significant components for the same entity by different auditors. The Board should consider the need for additional guidance or criteria that will result in a more consistent application of the requirements.

Issues relating to Non-Significant Components

Determination and selection of components that are not significant subject to additional procedures under paragraph 29 of ISA 600:

Paragraph 275 of the Paper notes that ISA 600 does not specifically require that, in making the determination as to what work is necessary for the group as a whole, the group engagement team should consider whether risks of material misstatement remain that are not addressed by work performed on significant components, selected non-significant components, and through work at the group level. We are of the view that there is variation in practice amongst group engagement teams and the circumstances under which they consider that additional procedures must be performed on the financial information of components that are not significant components. We agree with the possible actions the Board has outlined in paragraphs 279(a) and (b) of the Paper.

Consideration of consolidated financial statement balances when those balances are primarily composed of amounts from not significant components:

While paragraph 29 of ISA 600 requires additional procedures at the group level if the group engagement team does not consider that sufficient appropriate audit evidence on which to base the



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group audit opinion has been obtained, we are concerned that there is a risk of insufficient audit evidence to support material financial statement line items in the consolidated financial statements when that balance is composed of amounts from multiple components, many of which are not identified as significant components. We believe that ISA 600 should include a requirement (or address specifically through application material) that the group engagement team should evaluate whether sufficient and appropriate audit evidence has been obtained for each financial statement line item in the group financial statements. We are also concerned that some auditors may erroneously conclude that sufficient, appropriate audit evidence for material line items has been obtained via review level procedures. In the scenario where material balances in the consolidated financial statements are comprised primarily of amounts from multiple components that are not significant, we believe that review level procedures would be inappropriate (i.e., audit procedures should be performed rather than review procedures).

Considerations when individual components are not material but may be material in the aggregate:

We believe that ISA 600 should provide further guidance as to how to determine the nature, timing and extent of the work performed on individual components that are not material, but may be material in the aggregate. Paragraph A51 of ISA 600 describes factors that the group engagement team should consider as to how many components to select, which components to select, and the type of work to be performed at the component. We believe the Board should consider elevating this application material to requirements as this may help alleviate concerns that some have seen group engagement teams inappropriately use sampling techniques to select non-significant components from a population of non-significant components and then infer the results of the testing performed on one component onto components where audit procedures were not performed.

The guidance in extant A51 of ISA 600 could be improved by adding a factor to consider “the period of time since the auditor most recently performed audit procedures at that component”. Further, the guidance should make an explicit statement that an auditor should not consider the results of prior year audit procedures in the context of providing audit evidence for the current year audit. Extant paragraph A51 notes that “the selection of components is often varied on a cyclical basis”, which may be misinterpreted to mean that non-significant components should be selected using a “rotation plan” approach, rather than an approach that considers multiple factors as outlined in extant A51 that help the auditor determine which non-significant components are more likely to contain a material misstatement. Reflecting the period of time since the most recent performance of audit procedures as one element to consider may help to promote unpredictability in the timing and extent of the components that are selected.

Additionally related to extant paragraph A51 of ISA 600, consistent with our comment below regarding the role of review procedures, we believe additional clarity should be provided regarding



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the usage of the phrase “the type of work to be performed on the financial information of the individual components”.

Role of Review Procedures related to Non-Significant Components

With regards to paragraph 279(c) of the Paper, we do not believe that reviews of the component’s financial information and related review procedures should form part of the ‘sufficient, appropriate audit evidence’ that supports the audit opinion. We also agree that the Board should clarify the distinction between ‘specified audit procedures’ described in paragraph 27(c) of ISA 600 and the ‘specified procedures’ referred to in paragraph 29 of ISA 600.

Issues relating to the Group Engagement Team’s Involvement in the Consolidation Process

We generally agree with the issues identified by the Board as they relate to the group engagement team’s involvement in the consolidation process, and the possible actions to address the issues.

We note that ISA 600 does not directly address cases in which (i) a significant sub-consolidation is undertaken in a jurisdiction other than where the group engagement team is based, or (ii) the group consolidation is undertaken in a jurisdiction other than where the group engagement team is based. The latter scenario does not appear to be identified by the Paper. In both cases, it is unclear what level of involvement is required on the consolidation and/or sub-consolidation process by the group engagement team in paragraphs 32-37 of ISA 600 particularly in the case where audit work is performed by a component auditor. The requirements in ISA 600 should be clarified in this respect.

If the component auditor is instructed to perform audit procedures on the consolidation or sub-consolidation process, the requirements in the standard should be clear as to the group engagement team’s required level of involvement and be strengthened such that appropriate communications between the group engagement team and the component auditor occur, and are sufficiently documented.

Issues Related to Subsequent Event Procedures

While we are of the view that the requirements relating to subsequent events in paragraphs 38 and 39 of ISA 600 are sufficiently clear, we agree with the IAASB that it would be an improvement to ISA 600 to provide application material in ISA 600 to emphasize that in respect of the component, the onus is on the group engagement team to either directly perform subsequent event procedures at the component, or instruct the component auditor to do so, clearly communicating the expected procedures, and relevant dates. The group engagement team should retain adequate documentation of the instructions communicated, procedures that were performed, and the results thereof.



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Review & Evaluation of the Work of Component Auditors by the Group Engagement Team

We agree with the issues identified in paragraph 296 of the Paper, and underlying concepts behind the suggestions in paragraph 299 of the Paper to enhance the requirements in paragraph 42(b) of ISA 600, including the related application material to clarify the necessary work effort of the group engagement team in relation to reviewing the component auditor's working papers, and to strengthen the documentation requirements regarding the group engagement team's evaluation of the component auditors' communication, including the nature of any review of documentation that was performed by the group engagement team. In this regard, we also agree that a direct linkage in ISA 600 to the requirements in ISA 230 would be useful. However, we do not think the issues or possible actions have been described in sufficient granularity in the Paper, thus making it unclear whether the possible actions would drive behavioral change.

Specifically, we believe there should be additional emphasis of the group engagement team's determination of the appropriate level of involvement in the work of the component auditor, and the related documentation of these judgments. While ISA 600 allows flexibility as to the necessary level of involvement in the work of the component auditors by the group engagement team, there is concern that too much focus on flexibility will detract from the group engagement team's ultimate determination of whether the group engagement team's audit file reflects that sufficient and appropriate audit evidence has been obtained to support its opinion.

We believe that enhanced principles with supporting application material in ISA 600 are necessary to assist the group engagement team in its determination as to the appropriate level of involvement regarding the work of the component auditor. For example, what are the considerations and circumstances under which it would be appropriate for the group engagement team to conduct a site visit, or review the detailed working papers of a component auditor to ensure sufficient and appropriate audit evidence was obtained by the component auditor to support its conclusions?

The group engagement team's audit file must contain documentation that demonstrates the rationale for the group engagement team's judgments in its determination of the appropriate level of involvement in the work of the component auditor, the evaluation of the work performed by the component auditor, and the group engagement team's conclusions of that evaluation. Without this documentation, we do not believe that sufficient and appropriate audit evidence is obtained.

In particular, we think that ISA 600 should be supplemented with examples or discussion of how the group engagement team should document determinations as to whether the group engagement team performed a site visit and / or reviewed the work of a component auditor file directly. For example,



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the discussion could note the importance of the group engagement team's audit file explaining the extent of review of the component auditor's file, including the identification of what underlying work was reviewed (e.g., identify specific internal control tests or audit procedures that were reviewed in the component auditor file). The results of the group engagement team's site visits and / or working paper review file should be documented. Application material could suggest that this include, for example, the subject of the discussions with the component auditor, discussions between the group engagement team and group management, tours of the component's operations, and any other evidence supporting the group engagement team's understanding of the component and the component auditor.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact either Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chair
Committee on Issuer Accounting, Audit and Disclosure
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