



For the attention of Ms Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York, 10017  
USA

[Submitted via IAASB website]

16 May 2016

Dear Ms Healy

**IAASB Invitation To Comment – ‘Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits’**

We<sup>1</sup> appreciate the opportunity to comment on the International Auditing and Assurance Standards Board’s (IAASB’s) Invitation To Comment (ITC).

Stakeholder confidence in the audit is critical to underpin the effective functioning of business and markets. It is important that the ISAs and ISQC 1 continue to be seen by stakeholders as setting an appropriate benchmark for audit quality. It is also important that the standards remain fit for purpose in light of changes in business and audit environments. It is for these reasons that we support the Board’s initiative on quality control, group audits, and professional scepticism, as these are areas in the ISAs and ISQC 1 that stakeholders have indicated most warrant a fresh look.

In the appendix to this letter, we respond to the questions asked in the ITC. Below, we highlight three areas that we believe are the most important to get right. In doing so, we identify a number of principles (identified in boxes) that we intend to use as we evaluate whether changes that are proposed to the ISAs/ISQC will be constructive and support audit quality.

***Standards need to allow audits to be designed in the way that best delivers audit quality across the wide spectrum of organisational structures***

*Changes to the standards should:*

- *in relation to the design and scope of a group audit engagement, reflect, and be responsive to, how management has structured the group and how the group undertakes its financial reporting processes, recognising evolving global operating and reporting models.*

<sup>1</sup> This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to “PwC”, “we” and “our” refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

*PricewaterhouseCoopers International Limited  
1 Embankment Place  
London WC2N 6RH  
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652*



- *place responsibility for different aspects of audit quality with those who are best placed to influence them, and recognise how the interaction of those responsibilities collectively contributes to, and reinforces, audit quality.*

The business world is evolving rapidly. Companies are facing fast-changing global issues, sustained economic uncertainty, disruptive new technologies, and increasingly interdependent stakeholder relationships that are changing their business models.

One implication of this is that many companies have increasingly complex organisational structures to manage growing cross-border activity. They make more extensive use of shared service centres (SSCs) and innovative cooperative relationships with their supply chain and stakeholders.

Auditors need to be able to design their audits in ways that can deliver audit quality across those different organisational structures. To make the ISAs fit for purpose in today's business environment, we believe changes to the ISAs are needed.

In our view, the ISAs remain a sound and pragmatic approach to planning and performing audits, including ISA 600 on group audits. For example, we support the concept of the group engagement partner having overall responsibility for the group audit opinion. We also believe in the importance of the group engagement team having a holistic understanding of the work being done as part of the group audit and how it fits together as a basis for the opinion on the group financial statements. At the same time, however, it is important to recognise that component and other auditors play an important part by taking responsibility for quality in the audit work they do. Audit quality is enhanced when there is accountability for audit quality at different levels of the audit, together with strong two-way communication and interaction between the group, component and other auditors.

But there are challenges in applying the ISA requirements that we believe the IAASB should address:

- The structure of the standards inhibits the flexibility needed to be able to place responsibility and accountability for different elements of audit quality with those best placed to influence it, given the structure of the organisation being audited. Organisations do not always fit neatly into either groups (ISA 600) or single-entity audits (ISA 220). Applying the ISA requirements as if they do, can, in some cases, lead to some counter-intuitive outcomes. To drive audit quality across the range of organisational circumstances, auditors need to be able to apply the requirements that best suit the situation.
- There is too much focus on who does what. The engagement leader plays a vitally important role. However, accountability for different aspects of audit quality in an engagement can, in our view, be shared with others when all participants understand their role and how it interrelates with those of others. There should be a spectrum for the expected involvement of the engagement leader (e.g., in direction, supervision and review) as best fits different engagement circumstances.
- Applying ISA 600 to components that may be significant due to size but which the group does not control (e.g., investments in associates or joint arrangements) can cause challenges to the level of involvement of the group engagement team envisaged in the standard. With the increasing use of collaborative working arrangements between companies, these issues may



become more prevalent. We encourage the Board to explore pragmatic solutions that would be acceptable in these circumstances.

**Standards should address the conditions under which audit evidence can be shared**

*Changes to the standards should:*

- *avoid unnecessary duplication of effort by allowing for the sharing of audit evidence and using the work of others, when permitted and justifiable in the circumstances.*
- *recognise the value that firm and network processes and controls contribute to audit quality, when appropriate in the circumstances.*

There are many circumstances in which audit evidence obtained at the group level or other centralised location, such as a SSC, is relevant to both the group engagement team and multiple auditors of different components. The ISA requirements today can result in duplication in work effort by the group engagement team and auditors of components who each need audit evidence from that work as the basis for their own audit opinions. In our view, there are circumstances when audit evidence should be able to be appropriately ‘shared’ if certain conditions are met. We believe there is scope for exploring which conditions would support use by different auditors of the same audit evidence.

Similarly, member firms in our network have invested, as have some other networks, in developing network policies, methodology, technology, training and quality review processes. We have invested because we know that the collective investment by our member firms can make a significant contribution to audit quality, particularly because many organisations that we audit have global operations. Standards would be strengthened by providing greater clarity on the conditions (including the nature and extent of evidence) under which it would be appropriate for member firms across the network and engagement teams to be able to take credit for quality processes and controls.

Given the variation in network structures (due to legal, regulatory and other drivers), this necessarily needs to be directed at the firm level. It is neither feasible nor appropriate to impose direct requirements in ISQC 1 at the network level.

**Standards should promote proactive, scalable and robust quality management**

*Quality control standards should be designed to embed and reinforce audit quality throughout the audit process, by focussing on:*

- *the key inputs and drivers of audit quality, rather than primarily relying on detective measures,*
- *identifying and assessing the risks to achieving audit quality as a basis for designing and implementing quality processes and controls that are commensurate with identified risks, and*
- *promoting continuous improvement.*



A commitment to, and pervasive culture of, quality needs to be embedded within the fibre of audit firms, audit engagements and auditors. Auditors and audit firms need to have an unwavering focus on delivering the type of high quality audits expected by stakeholders, including investors, those charged with governance, regulators, the public and themselves. The concept of a Quality Management Approach (QMA) is entirely consistent with this ambition and we support the Board in exploring how a QMA can be incorporated effectively into ISQC 1.

ISQC 1 has served its purpose well. It has moved the audit profession's thinking forward about the role the firm plays in promoting, supporting and managing quality in the audits, reviews, and other assurance and related services provided. Its focus on the recognised drivers of audit quality (quality elements) has provided a structure for firms to develop their quality controls and systems. Indeed, the requirements in ISQC 1 underpin our quality management systems and review as an integral part of our Quality Review programme.

Whilst ISQC 1 remains, in our view, a robust foundation for quality control, we support the IAASB in exploring how the standard should now evolve. Thinking around quality management has progressed since ISQC 1 was first written and there are lessons that can be learned from state-of-the-art industry standards for effective quality, risk and compliance systems (e.g., ISO 9000, the new ERM COSO II). These standards reflect approaches that focus on not only relevant quality controls, but also on the continuous cycle of proactive quality management.

The concept of a continuous cycle of quality improvement underlies ISQC 1, but it can be overlooked if focussing on compliance with the discrete requirements alone. Incorporating into ISQC 1 a greater focus on quality *management* would, in our view, have a positive impact on shifting the mindset to:

- a more proactive identification and assessment of risks to quality,
- thinking more broadly about how quality can be built into the design of processes, rather than focus primarily on detective controls,
- continuous improvement, and
- seeking clarity in responsibility and accountability.

We believe it is important to retain the key quality elements in ISQC 1. They are broadly recognised to be drivers that can have a significant influence on audit quality and would factor into any quality assessment. A number of the requirements in ISQC 1 are expected responses to specific risks and are, in our view, an important part of what stakeholders expect as part of a robust quality framework. For that reason we support retaining the requirements in ISQC 1 today, although acknowledge that the standard may need to be restructured to effectively incorporate the QMA process.

The advantage of having a QMA overlay to the specific ISQC 1 requirements is that it is not practicable to envisage, and set common responses to, all risks to quality that will exist in practice or may emerge. In fact, there is a risk in doing so that ISQC 1 would become very long and static and could, as a result, inadvertently drive a rules-based response in complying with it. We believe ISQC 1 will more effectively drive the right behaviours if it focusses on the most significant common risks and directs firms to proactively identify and manage others. Furthermore, while we acknowledge that there will need to be some requirements that drive certain actions, it is important that ISQC 1 remains predominantly principles-based in order to be adaptable to current and emerging risks, and scalable.



*Standards should recognise that auditing is fundamentally behavioural in nature and, therefore, requirements and application material need to be designed in a way that will promote the mindset necessary to support the appropriate application of professional scepticism and professional judgement.*

Application of professional scepticism in the audit process is fundamentally important to audit quality. We support measures that can help auditors in the practical application of professional scepticism. Exploring how individual auditor behaviours, and inherent conscious and unconscious biases, impact the application of professional scepticism is critical to understanding how to better promote its consistent application. Changes to auditing standards cannot address all of the issues being raised about scepticism. In the end, it is something that is fundamentally behavioural in nature and we believe there is much that the profession can learn from academics and others who have insight into and expertise in behavioural sciences.

At the same time, we believe it is important for the IAASB to explore what is behind some of the criticism. We believe that at least some of the differences in perception regarding scepticism will only be resolved through dialogue at a more granular level. In relation to accounting estimates, for example, exploring:

- What is considered to be sufficient challenge of key management judgements in making an estimate? Or perhaps worded a different way, what constitutes sufficient appropriate audit evidence in relation to those judgements?
- What is expected in audit documentation to clearly demonstrate the challenge and evaluation that took place over management's judgements?

We strongly support, therefore, the Board's focus on these issues in its project on accounting estimates.

### **Concluding remarks**

For all of the reasons above, we agree the time is right for the IAASB to revisit its group audit and quality control standards, to ensure they remain fit for purpose. We also support the Board's intention to reflect on how standards best support the application of appropriate professional scepticism in obtaining sufficient appropriate audit evidence.

As highlighted in our remarks above and explained more fully in our responses to the detailed questions, there are a number of areas in which we believe standards could better support audit quality. We look forward to contributing to the standard setting discussion and debates as those issues are more fully explored.

In making changes to the ISAs and ISQC 1, we believe it is particularly important to audit quality that the standards remain capable of being applied in different engagements, organisational structures and circumstances. The best way to achieve that is with principles-based standards. In our view, detailed, prescriptive standards can inadvertently undermine audit quality rather than enhance it by promoting a focus on compliance with the rules – a “tick the box” mentality – rather than thoughtful application of professional judgement. It is important to properly evaluate the underlying drivers of the findings and suggestions and be satisfied that changes to the standards will be the most effective



response, rather than adding new, or amended, requirements in response to every one of the detailed “laundry list” of suggestions the Board has received.

A final thought in closing – at the same time as addressing areas that stakeholders believe warrant revision, the IAASB also needs to think to the future. Developments in technology are changing the ways that audit evidence can be obtained. The Board needs to think about how evidence obtained electronically regarding data and systems can contribute effectively to the auditor’s risk assessment, controls and substantive evidence, and overall audit quality. For this reason, in addition to the topics being addressed in the ITC, we strongly support the IAASB’s work on data analytics and encourage the Board to ensure that findings from that project are appropriately taken into consideration in these current initiatives.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at [diana.hillier@uk.pwc.com](mailto:diana.hillier@uk.pwc.com), or me, at [richard.g.sexton@uk.pwc.com](mailto:richard.g.sexton@uk.pwc.com).

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sexton". The signature is written in a cursive, flowing style.

Richard G. Sexton  
Vice Chairman, Global Assurance

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

The following template is intended to facilitate responses to the IAASB’s 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 ITC on pages 87–95. 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><b>Name:</b> <i>(Please also fill in name in header for ease of reference)</i></p>	<p>PwC (PricewaterhouseCoopers International Limited)</p>
<p><b>Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)</b></p>	<p>Accounting Firm (Forum of Firms member)</p>
<p><b>Name of contact person at organization (if applicable):</b></p>	<p>Diana Hillier (<a href="mailto:diana.hillier@uk.pwc.com">diana.hillier@uk.pwc.com</a>) or Richard Sexton (<a href="mailto:richard.g.sexton@uk.pwc.com">richard.g.sexton@uk.pwc.com</a>)</p>
<p><b>E-mail address:</b></p>	<p>As above.</p>

## GENERAL QUESTIONS

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)	<p>We broadly support the matters outlined in Table 1, in particular the need for the ISAs to remain fit for purpose. We believe the actions described in the Board's projects on these topics are the right areas to explore.</p> <p>In our cover letter, we highlight three areas that have the greatest potential to have an impact on audit quality in practice and that we believe are the most important to get right:</p> <ul style="list-style-type: none"> <li>• Standards need to allow audits to be designed in the way that best delivers audit quality across the wide spectrum of organisational structures.</li> <li>• Standards should address the conditions under which audit evidence can be shared.</li> <li>• Standards should promote proactive, scalable and robust quality management.</li> </ul> <p>We expand on our views on how we think the ISAs and ISQC 1 could be strengthened to address those matters in our responses in this appendix. Our cover letter also identifies a number of principles that we will be using as we evaluate whether changes that the Board proposes to the ISAs/ISQC will be constructive and support audit quality.</p> <p>We are, however, sceptical about what can be achieved in certain areas through changes to the standards. For example, many of the issues cited related to the application of professional scepticism are significantly influenced by an auditor's personal traits and behaviours, cultural factors, or represent more granular questions about what constitutes sufficient appropriate audit evidence in specific circumstances. Similarly, as regards the role of a network, there are real challenges in seeking to place requirements at a network level due to the different legal and operating structures that exist.</p> <p>In exploring these matters it will be critical to seek consensus on their underlying root causes, the objectives to be achieved in addressing them and how best to achieve consistency in interpretation. In our view it is critical that changes to the standards:</p> <ul style="list-style-type: none"> <li>• Are based on clear evidence of an underlying deficiency in a standard or requirement to avoid a proliferation of changes that may not prove to be relevant responses in enhancing audit quality.</li> <li>• Seek to eliminate existing, and avoid creating, different interpretations of requirements through clarifying the intent of existing requirements rather than adding undue prescription, thus helping to build consensus around what represents a quality audit.</li> <li>• Be scalable and adaptable to developments in the global business and audit environments and the circumstances of particular audit engagements.</li> <li>• Be written having regard to developments in technology that are transforming auditing tools and methods that are helping contribute to enhanced audit quality.</li> </ul> <p>In addition, auditors need to be able to design audit approaches that best bring audit quality to bear across the spectrum of organisational structures that have arisen in recent times and that will inevitably evolve in the future. It is also important that standards do not unduly inhibit innovation through undue prescription. The best way to achieve this is with principles-based standards. In our view, detailed, prescriptive standards can inadvertently undermine</p>
-------	--



**Name of Respondent: PwC**

	<p>audit quality rather than enhance it by promoting a focus on compliance with the rules – a “tick the box” mentality – rather than thoughtful application of professional judgement. It is important to properly evaluate the underlying drivers of the findings and suggestions and be satisfied that changes to the standards will be the most effective response, rather than adding new, or amended, requirements in response to every one of the detailed “laundry list” of suggestions the Board has received.</p> <p>Our views on these matters, as well as the other topics set out in Table 1, are further explained in our responses to the detailed questions below.</p>
G1(b)	<p>Entities are becoming increasingly sophisticated, with increasing use of centralised functions, integrated systems, and technology. Approaches to scoping a group audit are evolving as a result, to design audit approaches that are most effective in response to the assessed risks. In today’s global business environment there are a range of organisational structures that were not contemplated when the majority of the ISAs were last revised. We strongly believe that it is important for the ISAs to recognise this spectrum of engagements and the different considerations that these bring with respect to how best to bring audit quality to bear on any given engagement. Within an overall framework of responsibility for the audit, we believe the ISAs need to be sufficiently flexible to recognise the impact of these different organisational structures and not inhibit effective approaches to the audit through unduly prescriptive requirements.</p> <p>Related to the above, we believe the increasing use of shared service centres (SSCs) is an important development that the IAASB needs to address. SSCs, and the work performed therein, often support multiple audit engagements (both audits of a component of a group as well as the statutory audit of those components) concurrently. How such work is co-ordinated, the conditions under which audit evidence can be shared, and how audit quality is best brought to bear in such circumstances, including where, and with whom, that responsibility rests, are key questions that we consider should be addressed by the IAASB in its projects on Quality Control and Group Audits. The ISA requirements today can result in duplication of work effort and, in our view, there are circumstances when audit evidence should be able to be appropriately ‘shared’ if certain conditions are met. Guidance clarifying what ISA concepts need to be applied to a SSC environment, including those in ISA 220 with respect to the responsibilities of the engagement partner (and ISA 600 with respect to the group engagement partner, where applicable), and how audit quality is best reinforced in relation to work conducted at a SSC may help alleviate the confusion that exists today.</p> <p>Recognising both of these developments, we believe there is merit in the IAASB exploring the option of developing a standard that addresses using the work of other auditors (that are not component auditors in a group audit engagement). We believe this could provide an effective mechanism for addressing some of the challenges outlined in the ITC and we discuss that in our responses to the questions.</p>
G1(c)	<p>As evidenced by the IAASB’s Audit Quality Framework, there are multiple drivers of audit quality. “Solutions” driven through prescriptive changes to auditing standards alone will not, in our view, be effective in responding to some of the issues identified in the ITC.</p> <p>To develop effective responses, we believe that consensus will be needed among various stakeholders in the financial reporting chain on the objectives to be achieved in addressing the matters set out in the ITC, what can be achieved through changes to auditing standards, as well as the roles other stakeholders need to play to achieve them. We believe the IAASB has a key role to play in facilitating that dialogue.</p> <p>For example, we believe audit committees – as the representatives of shareholders – are critical to the integrity and, ultimately, the quality of the audit, through their oversight of management and work of the auditor. It is generally accepted that audit quality has improved noticeably in countries where independent audit committees have the authority and responsibility – either through laws or regulations – to oversee the preparation of the company’s financial statements, the conduct of the audit and to appoint the auditors. Having consistent high quality governance standards around the world, resulting in strong independent audit committees, would make corporate reporting significantly better, and help</p>

Template for Responses

**Name of Respondent: PwC**

	<p>underpin oversight of, and consequently confidence in, the audit process.</p> <p>Open and honest dialogue between auditors and audit committees is essential. Auditing standards recognise that the information the auditor provides to the audit committee, and the quality of that information, is critical to the effectiveness of the audit committee – and to the quality of the audit. Communications by those charged with governance to the public, about the audit, would, in our view, also enhance the understanding and confidence stakeholders have in the auditor’s report and opinion. We therefore encourage relevant bodies that have the necessary authority to establish frameworks for governance to explore how global best practices for audit committees can be adopted, in jurisdictions where such governance frameworks are yet to be established or are in their infancy.</p> <p>Lastly, we believe that the IESBA could help promote professional scepticism through incorporating the concept into the fundamental principles of integrity and behaviour in the IESBA Code. In turn this could help enhance the importance of the fundamental principles by stressing the role professional scepticism plays in demonstrating those attributes. We continue to encourage the IAASB and the IESBA to work closely together. And, as we note in our response to question PS2 below, it is important that both Boards work closely with the IAESB in relation to the topic of professional scepticism.</p>
--	---

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	<p>We acknowledge the work that is being undertaken by the Board’s Data Analytics Working Group. We fully support the need to explore how the ISAs, and the audit, remain effective in a digital environment that is fundamentally changing business’ operating models and controls. In considering the changes being made within the projects addressed in the ITC, but also more widely across revisions to the Board’s standards, we believe that the IAASB needs to be thinking about how evidence obtained electronically regarding data and systems can contribute effectively to the auditor’s risk assessment, controls and substantive evidence, and overall audit quality. We believe it is important that the Board think broadly about what the most effective response is to achieving this. In our view it would be ineffective to seek to retro-fit how these new tools and techniques are being applied to fit the current ISA structure and requirements. The Board should not be constrained by the current structure of the standards – if new or significantly amended ISAs are the most effective way of embracing these new approaches, in the interests of audit quality, then we encourage the Board to explore those options, ensuring that findings from the work of the Data Analytics Working Group are appropriately taken into account.</p>
----	---

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	No comments.
----	--------------

**PROFESSIONAL SKEPTICISM**

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?

PS1	<p>Broadly yes. The definition: <i>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</i>, reflects the key elements necessary in the application of professional scepticism.</p> <p>In applying a questioning mind, the auditor needs to consider the quality, relevance and reliability of the audit evidence obtained. This includes consideration of alternative evidence that may contradict evidence provided by management.</p> <p>This concept of a questioning mindset could be more effectively incorporated into the definition as adopted in the ISAs, which would help reinforce the objective of a “critical assessment of audit evidence”.</p> <p>As noted in our response to question G1, we think it is important to distinguish between questions over the appropriate application of professional scepticism and questions about what constitutes sufficient appropriate audit evidence in different circumstances, or concerns over the sufficiency of audit documentation in evidencing the scepticism that was applied by the auditor. Where questions more directly relate to these other issues, in particular then we support and encourage the IAASB to have those debates and explore the underlying issues, which will help eliminate areas of differing interpretation and lead to overall enhanced audit quality.</p> <p>As noted in the November 2013 academic paper: <i>Enhancing Auditor Professional Skepticism</i>, commissioned by the Global Public Policy Committee (GPPC), (hereafter referred to as the “GPPC paper”), the absence of clear direction and practical application guidance on what behaviours and actions constitute appropriate professional scepticism across a range of risk scenarios for different assertions and accounts leads to different views, applications, and opinions. We therefore support the proposal in the GPPC paper highlighting the benefits that may accrue from the establishment of a professional scepticism continuum that acknowledges that the appropriate application of professional scepticism will depend on the risk characteristics of the account and assertion. We support the recognition of this concept in the ISAs, including incorporating the factors described in the GPPC paper that would lead to the need for less or more audit evidence. We comment further on this topic in response to question PS2 below.</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? How should we prioritize the areas discussed in paragraph 37?

PS2	<p>We consider that the list of factors that influence application of professional scepticism in paragraphs 28-32 is largely comprehensive.</p> <p>Further to our comments in response to question PS1, in framing the debate, we believe it is important for the IAASB to explore what is behind some of the criticism. We believe that at least some of the differences in perception regarding scepticism will only be resolved through dialogue at a more granular level. In relation to accounting estimates, for example, exploring:</p> <ul style="list-style-type: none"> <li>• What is considered to be sufficient challenge of key management judgements in making an estimate? Or perhaps worded a different way, what constitutes sufficient appropriate audit evidence in relation to those judgements?</li> <li>• What is expected in audit documentation to clearly demonstrate the challenge and evaluation that took place over management’s judgements?</li> </ul> <p><i>Challenge</i></p> <p>We agree that it is appropriate to consider, and where appropriate to revise, the language</p>
-----	--

**Name of Respondent: PwC**

adopted in the ISAs to better reinforce an independent and challenging mindset. There are certain requirements in the ISAs that may unduly promote a mindset of seeking to validate (corroborate) the assumptions and judgements adopted by management. This is particularly of relevance in areas involving significant management judgement, including accounting estimates that have high estimation uncertainty. Where appropriate, seeking to promote a more neutral attitude that avoids a drive towards corroborative evidence may bolster scepticism.

However, we have real concerns about amending the ISAs to focus on seeking "disconfirming evidence", a move that we consider a step too far, as the boundaries of the extent of the auditor's work effort then become unclear – how far does the auditor have to go to 'seek out' all possible alternative evidence? Often, such evidence may not exist and this risks an open-ended 'search' obligation being imposed. Such a shift would be a significant change in the overall concept of the audit itself.

We also agree with the assertion made in the GPPC paper that "in the absence of known errors, red flags, or other risk conditions suggesting a high risk and susceptibility of material misstatement, always applying a presumptive doubt mindset across all assertions of varying risk may lead to unnecessary cost being imposed on the reporting entity and ultimately on investors. On the other hand, overuse of a neutral approach may result in failure to obtain sufficient appropriate evidence in areas with higher susceptibility to fraud or material misstatement."

In seeking balance it is important to reinforce the principles that in considering the reliability of audit evidence, the auditor may accept records and documents as genuine unless having evidence to the contrary. Some audit evidence, accounting records and other documents require less judgement to evaluate and will inevitably require less 'challenge'. Scepticism is applied throughout and at all stages of the audit, but it is most critical in those areas of significant management judgement.

We also believe that professional scepticism needs to be applied taking into consideration the applicable financial reporting framework that is the subject of the audit. For example, some of the challenge directed at auditors seems to come from the perspective of an expectation that auditors can be the guardians of prudence. However, auditors cannot impose an objective that is not inherent in the financial reporting framework itself. Where supported by audit evidence auditors rightly request management to correct identified misstatements, and challenge management's judgements in that context. It is important to not lose sight of the fact that management is responsible for preparing the financial statements in accordance with the financial reporting framework, and the judgements that entails.

*Documentation*

In the majority of cases, auditors do apply appropriate professional scepticism in performing their work and at least some of the issues raised are primarily related to the sufficiency of audit file documentation reflecting fully the consideration of alternative evidence and challenge that did in fact take place. Considering the language adopted in the ISAs to encourage a more challenging mindset, as described above, may help address and promote better documentation of these considerations.

*Evidence*

As we note in our covering letter, we encourage the Board and other stakeholders to fully explore the underlying issues to help resolve debates that relate more to questions over the sufficiency of audit evidence in particular circumstances.

*Other factors*

In addition to our support for a scepticism continuum, as described in our response to question PS1, we also consider that there is benefit in exploring the impact of factors that can threaten or enhance professional scepticism at different structural levels: individual

**Name of Respondent: PwC**

	<p>auditor, engagement team, audit firm<sup>1</sup>, and overall audit profession, as described in the GPPC paper. We believe this has merit, as a more granular evaluation of the factors that may impede effective application of scepticism will help validate whether identified actions are responsive to those underlying drivers.</p> <p>We also believe it is of particular importance to recognise that effective application of professional scepticism is subject to behavioural factors and personal traits. These behavioural biases (and underlying behavioural economic principles) whilst systematic and predictable, are not immediately obvious to those committing them, and include:</p> <ul style="list-style-type: none"> <li>• Confirmation bias: the human tendency to search for and place undue value on information confirming our subconscious, preconceived narratives – such as the risk level of material misstatement for a particular audit engagement.</li> <li>• Herding and “groupthink”: the inclination for teams to conform to a consensus decision without critical evaluation, inhibiting audit team members from voicing sceptical opinions that may challenge an articulate, senior team member.</li> <li>• Familiarity bias: the affinity to favour the familiar, leading to the attribution of favourable intentions to long-standing clients or team members.</li> <li>• Availability bias: judgements concerning how likely an event may be are directly correlated to the ease with which the event comes to mind, undervaluing risks that are difficult to recall but are as equally likely to occur.</li> <li>• Future discounting bias: the possibility that individuals may undervalue the impact of events that take place in the future - for example, the impact of a lawsuit due to audit failure may be under-appreciated if it’s not immediate and present.</li> <li>• Priming: whereby environmental cues may influence certain types of behaviour (for example if certain language used in standards “promotes” actions that do not support appropriate scepticism – as described above).</li> </ul> <p>How these individual auditor behaviours, inherent conscious and unconscious biases, impact the application of professional scepticism is critical to understanding how to better promote its consistent application.</p> <p>Consequently, given the importance of these factors in driving application of professional scepticism, we believe that coaching and mentoring by experienced team members, setting the tone within the team, supported by firms’ training – based on a better understanding of the root causes of poor application of scepticism – is likely to be a compelling driver in influencing and reinforcing practice. And, for these reasons, it is important that the education standards board plays a key role in the work of the Joint Working Group. Simply adding additional references to scepticism throughout the standards will not be effective in driving behaviour. However, recognising these driving factors in application material may help raise awareness and therefore be an appropriate action.</p>
--	--

PS3. Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

PS3	<p>We support the cross Standard Setting Board project on this and believe that exploration of the matters outlined in paragraphs 38-40 is appropriate.</p> <p>Further to our comments in our response to question PS2 above on behavioural factors, we believe it is important for the Board to also consider:</p> <ul style="list-style-type: none"> <li>• Challenges arising from regulatory reporting complexity and deadlines. The increasing complexity of financial reporting, and often shortening timetables in which</li> </ul>
-----	---

<sup>1</sup> References to “firm” throughout our question responses are intended to mean a firm that is a “member firm” of a network.

**Name of Respondent: PwC**

	<p>financial statements need to be filed (and therefore the audit completed) are relevant factors that place pressure on management, those charged with governance and the auditor and can have an impact on audit quality. We believe these factors should be evaluated to determine what actions may be appropriate, and by whom, in seeking to address such pressures; and</p> <ul style="list-style-type: none"> <li>• How the use of technology may impact the application of scepticism. Technology can be a powerful tool that helps the auditor focus in on key areas where further challenge of management is appropriate, thereby enhancing scepticism. Equally, there is a need to mitigate the risk that technology can cause the auditor to ‘switch off’ and not apply independent thinking or properly understand the objectives of audit tests and therefore not recognise those areas where scepticism really needs to be focused.</li> </ul>
--	---

PS4. Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?

PS4	<p>As noted in our responses to the questions above, the effectiveness of actions will largely be determined by whether the changes to standards are an effectual response. We believe it is critical to determine the root causes of comments raised by regulators about insufficient scepticism – specifically, to which of the underlying questions we highlight in our response to question PS2 those issues relate. For example, if the underlying question is in fact one of what level of audit evidence is sufficient, superficial changes to encourage a more questioning mindset are unlikely to resolve those issues.</p> <p>We encourage the Board to evaluate the effectiveness of the approach adopted in the Clarity project when revising ISA 240 – embedding actions designed to encourage the application of professional scepticism into the ISA. Is there evidence that doing so had a direct impact in reinforcing application of scepticism by auditors? That would usefully inform the Board on the likely effectiveness of including additional explicit requirements or references to professional scepticism in the ISAs.</p> <p>We consider that elements of the proposed QMA, reinforcement of firm leadership responsibilities for audit quality, and aspects of the proposals relating to group audits (communications and review and evaluation of the work of component auditors) do have the potential to influence behaviours and reinforce the application of professional scepticism of staff within a firm.</p>
-----	--

PS5. 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 IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

PS5	<p>We believe that audit committees and others charged with governance have a key role to play in encouraging and reinforcing scepticism – providing robust oversight over, and asking probing questions about, the audit. See also our response to question G1(c).</p> <p>Audit inspection bodies also have a role to play in working with standard setters and practitioners to collectively agree on the underlying nature of issues raised with respect to professional scepticism, as we discuss in our response to question PS2. That includes addressing the issue of “hindsight” bias, as acknowledged in the GPPC paper. This bias can lead observers of others’ judgements to conclude after the fact that judgements made before additional events occurred or additional information became available were incorrect or lacking.</p> <p>We also believe further analysis of the impact of training and education would be useful in informing what actions would be most impactful and whether in fact training alone can impact/change inherent personal traits. We believe the IAESB could facilitate a dialogue</p>
-----	--

**Name of Respondent: PwC**

	<p>or outreach exploring education responses to professional scepticism and seeking to understand the evidence that such training has on its application in practice.</p> <p>We have set out in our response to question G1(c) actions that the IESBA could take to contribute to this area.</p>
--	--

**QUALITY CONTROL (INCLUDING QUESTIONS EXPLORING CROSSOVER ISSUES/ISSUES RELEVANT TO MORE THAN ONE PROJECT)**

The following questions relate to quality control matters set out in paragraphs 45–190. If you believe actions relating to quality control beyond those discussed in these paragraphs should be prioritized, please describe such actions and your supporting rationale as to why they require priority attention.

QC1. We support a broader revision of ISQC 1 to include the use of a QMA as described in paragraphs 45–67.

- (a) Would use of a QMA help to improve audit quality? If not, why not? 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 paragraphs 64 and Table 3, 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?
- (d) If ISQC 1 is not restructured to require the firm's use of a QMA, do you believe that we should otherwise address the matters described in paragraph 59 and table 2, and if so, how?

QC1(a)	<p>ISQC 1 defines important elements that are central to an effective system of quality control. It has served a useful purpose in that regard and, in our view, continues to provide a foundation for the future. Indeed, the requirements in ISQC 1 underpin our quality management systems and review as an integral part of our Quality Review programme.</p> <p>However, we agree that the standard needs to evolve, to reflect developments in approaches for effective risk management, quality and compliance systems that exist in today's environment. Enabling the QMA mindset, and a focus on a continuous cycle of quality management, has the potential to better focus and embed actions designed to support quality.</p> <p>Incorporating into ISQC 1 greater focus on quality management would, in our view, have a positive impact on shifting the mindset to:</p> <ul style="list-style-type: none"> <li>• a more proactive identification and assessment of risks to quality;</li> <li>• think more broadly about how quality can be built into the design of processes, rather than focus primarily on detective controls;</li> <li>• continuous improvement; and</li> <li>• seeking clarity in responsibility and accountability.</li> </ul> <p>Recognising that the key elements that are currently described in ISQC 1 are important drivers of audit quality (e.g., leadership, independence, human resources etc.), we believe it is both necessary and important to retain current requirements in a restructured and updated standard.</p> <p>We don't underestimate the challenges of trying to build a standard that incorporates both a principle-driven focus on a quality "process" (the QMA), designed to encourage firms to assess risks of not achieving quality objectives and designing appropriate responses that are commensurate with their business, while also retaining "core" requirements focused on key drivers of audit quality. Getting the balance right will be critical. If done well, we agree this has the potential to reinforce and improve audit quality by encouraging firms to think about other risks that may not be affected by/driven by the elements set out in ISQC 1 today. Explaining how, and why, core requirements fit within the overall QMA structure will be important in avoiding a "dual-track" standard that promotes QMA thinking but nevertheless imposes a proliferation of requirements that are based on current identified drivers of quality and those that others are seeking to add. That will be of crucial importance if the IAASB is to achieve one of its stated objectives of improving the scalability of the standard.</p>
QC1(b)	See response to point (a).



QC1(c)	<p>Based on the eventual revisions to ISQC 1, amendments will likely be needed to ISA 220 to accommodate potential engagement level risks and responses that are identified by a firm through its application of the QMA.</p> <p>We also suggest that paragraphs A32 to A34 of ISA 220 could be expanded to reference the importance of determining the root causes of deficiencies noted during an inspection, both to develop an appropriate action plan for the engagement as well as assessing whether also relevant for the broader system of quality control.</p>
QC1(d)	Not applicable – see response to point (a).

QC2. *Engagement Partner Roles and Responsibilities*

- (a) Paragraphs 69–86 set out matters relating to the roles and responsibilities of the engagement partner.
- (i) Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Do you think it is necessary for the ISAs to include requirements or otherwise address the circumstances described in paragraph 79 in which an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor’s report or is named therein? If yes, please explain why, and provide your views about how this could be done (including describing the work effort you believe would be necessary for such an individual).

QC2(a)(i)	<p>Consistent with the principle outlined in our cover letter, and our views in response to question G1 on the evolving spectrum of organisational structures that exist today, we believe audit quality will best be enhanced when responsibility for aspects of quality on the engagement rests with those best placed to influence it.</p> <p>In our view, there is a spectrum for the expected involvement of the engagement partner (i.e., direction, supervision and review), which should be reflected through requirements that can be appropriately adapted to different engagement circumstances. The engagement leader plays a vitally important role and has overall responsibility for the engagement. However, accountability for different aspects of audit quality can, in our view, be shared with others on the engagement team when all participants understand their role and how that interrelates and interconnects with those of others. Said another way, we believe there is a distinction to be drawn between the engagement partner’s overall responsibility for the engagement and how to best achieve execution of that responsibility, in a way that acknowledges how audit quality is best supported.</p> <p>We believe audit quality will best be enhanced if responsibility for overall engagement quality, responsibility for quality on specific aspects of an engagement (for example at a SSC), and responsibility for signing the auditor’s report are each individually addressed – reflecting on how audit quality is best brought to bear in the specific circumstances of a given organisational structure.</p> <p>To achieve this, we believe that the following actions are those that would benefit most from clarification:</p> <ul style="list-style-type: none"> <li>• Clarifying the meaning of proactive and appropriate direction, supervision and review, and identifying factors that assist in considering who may be best placed to perform this in relation to different aspects of the audit based on the organisational structure and circumstances.</li> <li>• As an extension of the above, providing clarity as to responsibilities of the</li> </ul>
-----------	--

	<p>engagement partner when that individual is not located where the majority of the audit work is performed.</p> <p>In clarifying these aspects, we encourage the IAASB to think broadly about how engagements and such responsibilities may be impacted by different organisational structures, and whether a one-size-fits-all model remains fit for purpose. For example, when:</p> <ul style="list-style-type: none"> <li>• the engagement partner that signs the auditor's report is located in a different jurisdiction from where the majority of the audit work is performed (as a result of the entity's operations primarily being outside the jurisdiction in which the auditor's report must be signed), the person best placed to oversee audit quality may be the partner in the other jurisdiction.</li> <li>• work is undertaken at a SSC, on a combined basis for multiple audits (component and/or statutory), the partner overseeing the work undertaken at that SSC may be best placed to influence the quality of that work.</li> <li>• a group structure involves a significant number of sub-consolidations, the partner in the location at which the sub-consolidation takes place, may be best equipped to evaluate quality at that level. See also our response to question GA7.</li> </ul> <p>The lack of clarity seen today results in varying interpretations being made as to how and when certain ISA requirements apply, including those, for example, in ISA 600 (specifically when applied to engagements as envisaged under paragraph 2), ISA 402 and ISA 220, in a manner that is appropriate to the engagement circumstances. This lack of consistency is not in the interests of audit quality and we strongly encourage the IAASB to address these issues as a matter of priority.</p> <p>Therefore, we believe an appropriate model is for standards to define the roles and responsibilities that need to be fulfilled in the audit – but not, in every instance, be prescriptive as to the individual that needs to fulfil that role. In that regard, we believe there is merit in drawing parallels with paragraph 04 of PCAOB Auditing Standard (AS) 1201 (currently AS 10) on how other appropriate members of the engagement team can support the objectives of appropriate supervision and review in the interests of audit quality. Building on our principle and key messages in our cover letter, we encourage the IAASB to explore how a similar concept to that conceived under AS 1201 could be applied within the ISAs to the various circumstances we describe above.</p> <p>Some revision of definitions (engagement partner, group engagement partner), and the individual to which certain responsibilities are ascribed in the standards, may therefore be needed to accommodate the concept of responsibility for aspects of the engagement being assigned to those best placed to influence it. See our further comments in response to part (b) below.</p> <p>The areas outlined above are those, which in our view, are most susceptible to inconsistent interpretation and application. Further clarifying these responsibilities will likely help address such inconsistencies – both in how audits, including group audits, are performed and in how audit quality is assessed within a firm, including across a network of firms. We elaborate further on use of other auditors in the audit in our response to question QC3.</p>
QC2(a)(ii)	See response to point (i).
QC2(a)(iii)	<p>As noted in our response to point (ii) above, the ISAs need to define the roles that need to be filled, but they should not impose unnecessary prescription as to who needs to fulfil that role, as different organisational structures (and hence engagement structures) may necessitate different solutions in the circumstances.</p> <p>To the extent that changes are proposed to ISQC 1 (for example, in respect of engagement acceptance and continuance and engagement partner selection) it is important to give due consideration to applicability to non-audit assurance engagements as well as audit engagements.</p>

QC2(a)(iv)	No further comments.
QC2(b)	<p>The ISAs cannot prescribe who is required to sign the auditor’s report because this is a matter for local jurisdictions, which may, through law or other regulation, specify the qualifications of those able to sign the report.</p> <p>For example, we are aware that there are jurisdictions:</p> <ul style="list-style-type: none"> <li>• That limit the absolute number of auditor’s reports that may be signed by any one individual;</li> <li>• That require that only citizens of a country, or partners that hold a local qualification, may sign the auditor’s report (and that there may be restrictions as to who may be awarded that qualification).</li> </ul> <p>The individual that signs the report has to be satisfied that there is a sufficient and appropriate basis to do so, and is therefore accountable for the report that is issued. However, consistent with our views above, we do not believe that the ISAs should include explicit requirements that specify that the individual responsible for signing the auditor’s report has sole responsibility for all aspects of audit quality on the engagement. They do, however, need to be satisfied that audit quality has been brought to bear. Depending on the particular circumstances of the engagement being audited, there may be one or more individuals within the overall engagement team who are best placed to oversee audit quality on aspects of the engagement, and we believe the ISA should acknowledge that principle.</p> <p>In that regard, we believe the current definitions of “engagement partner” and “group engagement partner” create challenges by explicitly incorporating responsibility for the auditor’s report that is issued by the firm, which we believe is interpreted as meaning the individual that signs the report. We believe that an individual other than the engagement partner can sign the auditor’s report. The relevant actions and considerations in such circumstances could be addressed through:</p> <ul style="list-style-type: none"> <li>• Removing direct reference to responsibility for the report that is issued from the definition of engagement partner;</li> <li>• Separately defining the role of “signing partner”; and</li> <li>• Developing appropriate application guidance that supports the interaction and responsibilities of the two roles, as we have described in our responses above - that is, we do not consider that additional requirements are necessary to facilitate our views on aspects of audit quality being a collective responsibility.</li> </ul>

QC3. *Others Involved in the Audit*

- (a) Paragraphs 87–104 set out matters relating to involvement of others in the audit:
- (i) Which of the actions outlined in paragraphs 100–104 would be most meaningful to address issues related to others participating in the audit?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Should we develop further requirements or application material for circumstances when other auditors are involved in an audit engagement (i.e., auditors that don’t meet the definition of component auditors)?

QC3(a)(i)	Further to our response to question QC2, we support bringing clarity to the responsibilities of different roles within the engagement team and others involved in the audit with respect
-----------	--

	<p>to audit quality.</p> <p>We believe that other auditors, specifically other engagement partners, may be best placed to bring quality to bear on aspects of an audit engagement, as described in our comments on question QC2. We agree that revisiting those requirements that specify responsibilities of the “auditor” is appropriate, to clarify those that are applicable to the engagement partner and, as a result, should not be delegated. However, as we have described, we believe that in assessing the nature of the responsibility addressed by a requirement, the IAASB should consider how different organisational structures may impact the structure of the engagement team, and consequently when it is appropriate to recognise in the standards that those responsibilities may best rest with others within the engagement team.</p> <p>We agree that the engagement partner (and group engagement partner, where applicable) is responsible for assessing the professional competence and capabilities of others involved in the audit (including specialists and experts) when that work is performed directly under the supervision and review of the engagement team i.e., not, for example, at a SSC. We would support reinforcing considerations in this area within ISA 220.</p>
QC3(a)(ii)	See response to point (i).
QC3(a)(iii)	<p>We believe there is merit in the IAASB exploring whether issues that have been identified relating to others involved in the audit, specifically other auditors that are not component auditors, may best be addressed through development of a new standard. In reality, it is not always clear whether a given organisational structure most closely represents a “group” (ISA 600) or a single-entity audit (ISA 220). Branches, SSC’s, multi-location operations all add to complexity of the judgements involved. Applying the ISA requirements as if entities can be easily categorised can, in some cases, lead to some counter-intuitive outcomes. To drive audit quality across the range of circumstances that exist, auditors need to be able to apply the requirements that best suit the situation.</p> <p>We believe a separate standard could directly address questions over relevant requirements and what that means in terms of applicable responsibilities, including how those are best executed and by whom, as described in our response to question QC2.</p> <p>We are concerned with the behavioural implications of allowing the ability to make explicit reference to the report of another auditor. Specifically, we are concerned by the risk of perceived divided responsibility. We elaborate further on this point in our response to question GA1 (c).</p>
QC3(a)(iv)	No comments.
QC3(b)	See our response to point (a). In particular, as outlined in our cover letter, we support addressing use of SSC auditors and circumstances when the engagement partner is located in a different jurisdiction to that where the majority of the audit work is undertaken.

QC4. *The Firms’ Role in Supporting Quality*

- (a) Paragraphs 106–123 set out matters relating to networks of firms and use of ADMs.
- (i) Which of the actions outlined in paragraphs 114–116 and 122–123 would be most meaningful to address issues related to firms operating as part of a network of firms and firms’ changing business models and structures?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) What could we do to address the issues identified in the context of networks of firms? For

Template for Responses

**Name of Respondent: PwC**

example, should we develop more detailed requirements and application material to address reliance on network-level policies and procedures at a firm or engagement level?

- (ii) Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.
- (iii) Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.
  - a. How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?
  - b. Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.

QC4(a)(i)	<p>Member firms in our network have invested, as have some other networks, in developing common network policies, methodology, technology, training and quality review processes. We have invested because we know that the collective investment by our member firms can make a significant contribution to audit quality, particularly because many organisations that we audit have global operations.</p> <p>When designed and operating effectively, these common network elements can bring significant benefits to audit quality and we believe member firms within a network should leverage them so that engagement teams within the firm are able to take credit for those elements in the conduct of their audits. We believe that standards would be strengthened by providing greater clarity on the conditions (including the nature and extent of evidence) under which it would be appropriate for member firms across the network and engagement teams to be able to take credit for quality processes and controls.</p> <p>Given the variation in network structures, due to legal, regulatory and other drivers, this necessarily needs to be directed at the firm level. We comment further under point (ii) below.</p> <p>Appropriate application guidance could be developed to guide firms, and hence engagement teams, on the relevant considerations in that regard. Relevant considerations for the firm could include:</p> <ul style="list-style-type: none"> <li>• Whether the common network policies and procedures have been appropriately designed to meet their intended objectives; and</li> <li>• Whether sufficient evidence has been obtained that a firm is applying the common network policies and procedures.</li> </ul> <p>It is important that any enhanced guidance, in setting out relevant considerations, takes into account different network structures, the differing nature of audits undertaken by firms within a network (not all firms will undertake large multi-national audits), and the specific risks to audit quality identified through the firm's QMA system.</p> <p>Further to our comments in response to question G1, we also believe it is appropriate for the standards to recognise the evolving nature of how audits are structured, including the use of centralised delivery centres (audit delivery models), and how these contribute to enhancing audit quality. We provide further views on how this may best be achieved in our response to point (b) (iii) below.</p> <p>With respect to communicating inspection findings across a network, this may be possible for internal inspections conducted under relevant network processes. However, law or regulation often preclude communication of the results of external inspections of a firm. ISQC 1 can therefore only address this in application material, highlighting considerations for a firm in seeking to understand inspection findings of another firm.</p>
QC4(a)(ii)	See response to point (i).
QC4(a)(iii)	We acknowledge the important role the network plays in supporting individual firms within a network in how those common systems are used, but believe it is neither feasible nor appropriate to impose direct requirements in ISQC 1 at the network level. A network,

Template for Responses

Name of Respondent: PwC

	<p>through its member firms, may develop and promote common systems, processes and methodology. However, it is the member firm's responsibility to adopt and implement such things in their jurisdiction. Therefore, we believe it is right that the focus of ISQC 1 be on how the firm addresses that responsibility, monitors its compliance and, as described in our response above, how it supports the engagement teams conducting audits in its jurisdiction in providing relevant evidence that supports judgements on sufficiency of work performed.</p> <p>As also noted in the ITC, most networks, by definition are a collaboration of separate legal entities. There is, therefore, no single legal entity to which any requirements in ISQC 1 could be attached and measured against. The burden of responsibility to demonstrate that they provide quality audits, and the mechanisms that exist to support that objective rest with the firm who is issuing the auditor's report.</p>
QC4(a)(iv)	<p>We believe there is merit in exploring whether principles in ISA 402 or ISAE 3402 could be adapted for use in exploring how a network supports member firms. However, we would caution against <i>requiring</i> reports similar to that of a 'service organization'. Doing so may not be compatible with how certain networks are structured and operate.</p>
QC4(b)(i)	<p>See response to point (a).</p>
QC4(b)(ii)	<p>See responses to point (a) and (b).</p>
QC4(b)(iii)a	<p>We believe audit delivery models can contribute directly to enhancing audit quality and that a broadly similar construct to that which we describe under point (a) above can also be applied to centralised audit delivery centres.</p> <p>We broadly agree with the list of considerations identified in paragraph 123 (evaluation of risk, complexity, level of judgement involved, direction and supervision of work, communications, documentation and review etc.).</p> <p>It may be the case that, when common network policies and procedures applicable to firms within a network exist, there may similarly be common policies and procedures that apply to centralised audit delivery centres used within a network. For example, we apply a common set of standards that apply to work conducted at a service delivery centre that provides a framework that supports audit quality. There is also common guidance for engagement teams in how such work is planned, coordinated and what the engagement team's responsibilities are in evaluating that work for the purposes of the engagement.</p> <p>As a result, we believe application material for paragraph 32 of ISQC 1 on engagement performance could usefully describe what is expected by a firm in making use of an audit delivery centre. We expect a firm to have policies and procedures in place to address such matters as the direction, supervision, and review of the work performed at a centralised location, assessment of the risks of using a centralised location, and identifying those policies and procedures to promote audit quality and continuous improvement.</p> <p>As noted in our response to question QC2, we do believe that consideration should be given to how aspects of quality control are best brought to bear on an engagement. Where large volumes of work, supporting multiple audit engagements (component or statutory), is performed at a centralised delivery centre, establishing and monitoring quality over that work is likely best addressed through responsibility being assigned to an appropriate partner at that level. Engagement teams making use of such centres still have to evaluate the overall outcomes of work supported by such models and sufficiency of audit evidence obtained, but the cumulative impact to audit quality is, in our view, enhanced through such an approach.</p>
QC4(b)(iii)b	<p>No comments.</p>

**QC5–QC10 address the more significant issues relating to quality control specific matters**

QC5. *Governance of the Firm, Including Leadership Responsibilities for Quality*

- (a) Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.
  - (i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
  - (i) Do you believe it is necessary for us to explore how the governance of a firm could be addressed in ISQC 1?
  - (ii) Should ISQC 1 specifically address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence- related matters? If so, how should this be done, and what direction should ISQC 1 provide to firms in appointing appropriate individuals to assume these responsibilities?
  - (iii) Would the use by firms of a QMA provide better support or context for the importance of quality-related responsibilities for firm leadership, and related accountability, and therefore better facilitate the ability of firms to address these matters?

QC5(a)(i)	<p>We agree that leadership and tone-at-the-top are important to setting a culture of quality, and that having an effective structure and mechanisms for governance can play a role. We therefore support the need to address the matters described in paragraph 127 within ISQC 1 and, consistent with our principle, we believe assigning responsibility and accountability for audit quality to those best placed to influence it is important.</p> <p>Within our network, all firms already identify a partner with overall responsibility for independence and we would support such a requirement being included in ISQC 1. However, we do note that each individual also has a clear personal responsibility to assess their own independence and comply with firm policies. We elaborate further on our views in response to point (b) below.</p>
QC5(a)(ii)	See response to point (i).
QC5(a)(iii)	<p>While we fully support the importance of tone-at-the-top in reinforcing a culture of audit quality, we believe that establishing a requirement for firm leadership to “act in the public interest” is likely impractical because the term is poorly defined and therefore subject to differing interpretations. It will be more effective if requirements and application material are written in a manner that underpins what the Board believes reflects application of that concept in the specific context. Explicitly incorporating such a term into ISQC 1, particularly into any requirement, could cause confusion or unhelpful interpretation due to the lack of an agreed and accepted definition.</p>
QC5(a)(iv)	No comments.
QC5(b)(i)	<p>Not explicitly. It is entirely appropriate for ISQC 1 to establish clear expectations of firm leadership (including its governing bodies) in relation to audit quality, including the need for safeguards to mitigate against business drivers being able to override quality. However, the structure of a firm’s governing model is necessarily influenced by jurisdictional legal regimes and its business model and operations, which are far beyond the remit of the IAASB. ISQC 1 should set principles of what governance should achieve,</p>

**Name of Respondent: PwC**

	<p>but not rules for how that should be achieved, which would likely be unduly rigid.</p> <p>It would be difficult to readily transfer a structure between jurisdictions. There are often different legal requirements or existing governance structures between territories that may not be compatible with other jurisdictions, for example, the co-determination model required under the Commercial Code in Germany (which requires members from the audit firm), or the establishment of a Public Interest Body for larger UK audit firms under corporate governance best practices.</p>
QC5(b)(ii)	<p>We believe in principle that ISQC 1 should address the topic of accountability of firm leadership (including leadership, partners and personnel) for matters related to quality, including independence matters, as this reinforces their responsibility for the outcomes. However, it should be left to the firm to decide what processes to follow regarding accountability. A prescriptive checklist would not be appropriate.</p> <p>Application material could be introduced to promote effective application in the individual firm circumstances. This is something we are currently taking into consideration as part of updates to our own current accountability framework, aimed to drive higher audit quality.</p> <p>As an example, we require that member firm leadership teams be accountable for the behaviours of their partners and staff, monitor compliance, and develop and implement a territory evaluation / accountability framework to effectively address circumstances in which partners or staff cause non-compliance with standards and policies. Each member firm's own policies govern the processes for accountability for audit quality and actual consequences / sanctions for audit quality failures after consideration of all facts and circumstances.</p> <p>To be practicable, however, we believe ISQC 1 will need to address what 'accountability' means in practice, including what evidence is needed to demonstrate accountability. We would assume that the existence and implementation of an effective accountability framework by a firm would be adequate evidence of this.</p> <p>Lastly, within our network, all firms already identify a partner with responsibility for independence and ethical compliance. While we would support standards requiring firms to address such responsibilities, we believe it should be left to the firm to identify and appoint appropriate individuals and assign those responsibilities. Responsibilities within a firm will depend on its size, structure and organisation.</p>
QC5(b)(iii)	<p>It is possible that a QMA would better facilitate the ability to address quality matters and responsibilities, as any greater emphasis on such responsibilities is likely to warrant closer attention to them by firms. In addition, a QMA acknowledges that there is a system that supports audit quality and that responsibility is collectively assigned and shared.</p>

**QC6. Engagement Quality Control Reviews and Engagement Quality Control Reviewers**

- (a) Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.
- (i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.



Template for Responses

**Name of Respondent: PwC**

- (ii) Do you believe it is necessary for ISQC 1 to require that firms define the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement? If yes, how do you think this should be done and why? If no, please explain why.
- (iii) Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.

<p>QC6(a)(i)</p>	<p>We support bringing clarity to the objective and scope of the role of the engagement quality control (EQC) reviewer. Key to addressing this is to get consensus on what the roles and responsibilities of an EQC review is, and how it relates to other aspects of a QMA / quality management system in supporting quality on an engagement.</p> <p>It is fundamentally important that the respective roles and responsibilities between the engagement partner and EQC reviewer are clear. This includes addressing key questions of timing and extent of involvement in the audit by the EQC reviewer and recognising the behavioural implications changes in roles might inadvertently drive. Proposed changes to the EQC role should clearly identify the risk that is trying to be addressed, how that might best be addressed (and by whom) and what the relevant costs/benefits might be.</p> <p>The EQC reviewer brings a critical challenge to areas of significant management judgement and provides a check on the quality of the audit work done in response to those areas, including key judgements made by the engagement team. It is impracticable to expect the EQC reviewer to check and be responsible for all aspects of audit quality – they are not the engagement partner. Such an extension of scope would be unworkable in practice.</p> <p>We believe consensus is needed on the objective of the EQC review and for the responsibilities of the EQC reviewer to be discussed in that light. Seeking to have every judgement subject to EQC review is not warranted and likely an unachievable aspiration.</p> <p>We are comfortable with elevating additional considerations for the selection of the EQC reviewer into the requirements in ISQC 1 and ISA 220, reinforcing key concepts such as objectivity, association and relevant experience. We agree that there needs to be appropriate guidance on when an individual may not fulfil the role of EQC reviewer and that appropriate collaboration with IESBA on such material is appropriate. We believe it is more helpful if the two Boards collaborate on the question of a ‘cooling-off’ period rather than leaving any decision solely to firms, which may result in inconsistencies across practice and which may not be considered acceptable to regulatory authorities.</p> <p>We also agree with the proposal to expand the scope of audits subject to an EQC review to include certain public interest entities, which is consistent with our current practice as a network. We agree that, given the challenges associated with the definition of this term in the international arena, this is likely best achieved through more specific criteria that would lead to that result in practice, but that would allow judgement to be applied if there were clear indicators that a particular engagement did not warrant such a review. Linkage with the proposed concepts of a QMA would also be appropriate in requiring firms to establish additional criteria for identifying those engagements that should require an EQC review based on risks to achieving the firm’s quality objectives.</p>
<p>QC6(a)(ii)</p>	<p>See response to point (i).</p>
<p>QC6(a)(iii)</p>	<p>We share the concerns expressed in the ITC on the potential disadvantages and consequences of an unduly excessive focus on the EQC review. Such reviews are one element of the system of quality control.</p> <p>We do not support describing in the auditor’s report the fact that an EQC review has taken place. It is important that users feel able to rely on any audit opinion that has been expressed, and including additional statements about further quality reviews that have taken place would inappropriately imply degrees of ‘quality’ (and hence reliability) of an auditor’s report.</p>

Template for Responses

Name of Respondent: PwC

	We are also concerned about suggestions that the EQC reviewer may need to be involved in review of the work done at components in a group situation. Such individuals are not responsible for the work undertaken by component auditors but should evaluate key judgements made with regards to engagement scope and the conclusions drawn by the group engagement team on any significant matters that have arisen at components.
QC6(a)(iv)	If the responsibilities of the EQC reviewer become very onerous, relative to the responsibilities of the engagement partner, this could have a direct impact on the population of individuals available to act as EQC reviewer. This can be exacerbated by jurisdictional constraints on who can act as an EQC reviewer. What is important is that the appropriate experience and expertise can be brought to bear on significant judgements in the audit engagement, and there are limits to the number of qualified professionals available to fill these roles.
QC6(b)(i)	As described in our comments in point (a) above, we believe that engagements that are of particular importance to a firm, whereby a significant concern with such an engagement could pose a risk to the firm, the region (if applicable), or the network should be subject to an EQC review. Such considerations could be addressed in application material, including noting that those engagements may also potentially be other assurance-type engagements beyond an audit.
QC6(b)(ii)	Association with an engagement, and how it relates to objectivity and independence, is a key criterion in the selection of the EQC reviewer. As noted in our response to point (a) we believe the IAASB and IESBA need to work together to develop requirements and guidance in this area. Firms should be required to determine policies and criteria based on these relevant requirements.
QC6(b)(iii)	We do not consider the location of requirements to be a key issue. The most important outcome is that there is sufficient clarity around the role and responsibilities and that the balance of respective responsibilities compared to the engagement partner remains appropriate.

QC7. Monitoring and Remediation

(a) Paragraphs 147–159 set out matters relating to monitoring and remediation.

- (i) Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?
- (ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control? Please provide further detail to explain your response.

QC7(a)(i)	We support each of the actions described in this section and believe that the linkage between inspections, other reviews and a QMA is particularly important, as strong linkage between these elements provides strength to the overall system of quality control.
-----------	--

Template for Responses

**Name of Respondent: PwC**

	<p>We believe it is important that findings identified from all relevant sources are considered, thematic findings analysed from a root cause perspective to allow for meaningful action to be taken, and that the link between the inspection/review program and QMA is strengthened. We believe this is best addressed at the firm level as it is impracticable to require individual engagement partners to perform such analysis. The firm will have access to the relevant information to be able to analyse and cascade key messages to engagement partners.</p> <p>Based on our internal experience we find this can successfully contribute to improved understanding across engagement teams thereby promoting where action is necessary to enhance audit quality.</p> <p>There can be various formal and informal processes that contribute to the evidence a firm obtains of effective monitoring of ISQC 1 policies, procedures and controls. We believe it would be helpful to clarify in ISQC 1 what is needed to evidence the effectiveness of relevant monitoring controls. In our experience, expectations in this area vary.</p>
QC7(a)(ii)	See response to point (i).
QC7(a)(iii)	<p>We consider that a system of quality control should encompass a combination of:</p> <ul style="list-style-type: none"> <li>• Where deemed appropriate, taking into account the risk assessment and other factors from the firm's QMA, reviews conducted within the firm prior to the issuance of the auditor's report,</li> <li>• Reviews conducted within the firm after the issuance of the auditor's report, and</li> <li>• Where applicable, reviews conducted under relevant network quality management policies and standards (where such exist) by appropriate individuals, independent from the firm that issues the auditor's report.</li> </ul> <p>We believe application material in ISQC 1 could usefully highlight the role that such reviews can make in contributing to audit quality. In addition, application material could reinforce the linkage back to the QMA. For example, thematic findings from such reviews may indicate a concern that needs to be addressed within the QMA, just as findings from the QMA process may identify matters to be considered at an engagement review level. The purpose, objective and precision of other inspections and reviews must be understood before any findings therefrom are considered relevant and action taken.</p>
QC7(a)(iv)	No further comments.
QC7(b)(i)	<p>Causal factors, once identified as thematic root-causes of identified issues, should all directly feed into a firm's QMA program. As noted in our response to question G1, appropriately understanding root-causes of issues is essential before taking action. That applies equally to firms as well as the IAASB. As part of incorporating a QMA into ISQC 1, we support application material addressing how such matters are considered, which in our view would ordinarily result in an action to amend or implement a policy, process, execution or monitoring procedure(s) designed to mitigate the root-cause of the noted deficiency.</p> <p>Guidance that explains that the determination of the corresponding actions may impact multiple elements within a QMA program, including those less directly related to the particular matter, would also be considered helpful.</p> <p>We believe, however, it is important that any application material also acknowledge that whilst understanding the root causes of engagement level findings is important, to address the correct action points specific for that engagement team, the link between the identified causal factors and a QMA should focus on thematic issues or those of a significant nature to the firm, region, or the network.</p>
QC7(b)(ii)	If there is not a direct linkage between the QMA program and the inspection/monitoring programme it is unlikely the overall system of quality control will be optimal. In particular, maintaining a strong linkage between the two facilitates the identification of potential

	concerns at an engagement level before they materialise. We would therefore support this action.
--	--

**QC8. Engagement Partner Performance and Rewards Systems**

Paragraphs 160–170 set out matters relating to engagement partner performance and rewards systems.

- (a) Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?
- (b) What actions (if any) do you believe we should take in this regard? Are there potential consequences of possible actions that you believe we need to consider?

QC8(a)	<p>First and foremost, we believe partner compensation is a firm operational matter. As such, we support the view in the ITC that ISQC 1 should not impose an unduly rigid structure of engagement partner remuneration, and this is consistent with the overarching principles and comments noted in our cover letter. Identifying the acceptable boundaries of standard setting and avoiding inappropriately encroaching on firm operational matters needs to be considered.</p> <p>We do support a principle-based requirement for firms to assess performance in the area of audit quality, to establish criteria to do so, and to consider incentives or sanctions for engagement partner remuneration when audit quality is not achieved. See also our response to question QC5 (b)(ii) on an appropriate accountability framework.</p> <p>Establishing a link between compensation and audit quality may to some extent influence audit quality (it could be a driver of audit quality), but it is one of many factors to be considered as part of a remuneration structure. The IAASB should give careful consideration when deciding whether to draw a more direct link. While ISQC 1 can indicate that a firm should have an appropriate mechanism (system) to link audit quality and performance assessment, it cannot be prescriptive about what that mechanism should be. For example, many firms are structured as partnerships, which by their nature are profit-sharing structures. Others adopt more “employee” based structures or may be sole practitioner firms. Different legal and cultural factors also need to be taken into account. As such prescription in linking quality to individual partner compensation is therefore complicated.</p>
QC8(b)	Where a principle based requirement is created, application material on how to assess performance in the area of audit quality would also be necessary (upon which firms can then tailor their own policy and criteria based on local circumstances).

**QC9. Human Resources and Engagement Partner Competency**

- (a) Paragraphs 171–187 set out matters relating to human resources and engagement partner competency.
  - (i) Which of the possible actions outlined in paragraphs 176–178 and 187 would be most meaningful in addressing issues relating to human resources and engagement partner competency?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically, which of the possible actions outlined, or other actions not described, in paragraphs 176–178 and 187 would most positively impact audit quality:
  - (i) Arising from issues related to knowledge, skills, competence and availability of a firm’s partners and staff?
  - (ii) Related to engagement partner competency?
  - (iii) Why do you believe these actions are necessary? If you would not support a particular action,

Template for Responses

**Name of Respondent: PwC**

please explain why, including any potential consequences of those actions that you believe we need to consider.

QC9(a)(i)	<p>We support the proposed actions in paragraph 187 to give greater attention to the requirements of IES 8 within ISQC 1 and ISA 220 through greater specificity in application material. In particular, we agree that emphasising the role and responsibility of experienced team members in setting the tone within the team and in coaching and mentoring junior team members is important as this underpins behaviours that support professional scepticism. Setting the appropriate tone and reinforcing the primacy of quality within the team can also go some way to addressing the “time” challenges associated with pressure to complete the engagement.</p> <p>With respect to considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised) in the areas of Interpersonal and Communication Skills, Professional Skills and Professional Values, Ethics and Attitudes, we note that IES 8 explicitly references ISQC 1 and ISA 220, and includes a relationship diagram. We believe it would be helpful to see this relationship mirrored consistently in the IAASB standards. Drawing out relevant considerations for firms and engagement teams will, in our view, help drive consistency in practice.</p> <p>We support addressing continuity planning in ISQC 1, if addressed in the right context (that is, assessing risks of not meeting quality objectives). Commitment to developing experienced staff, supported through appropriate training, is a vital component in a firm’s ability to deliver a high quality audit.</p> <p>Coupled with mentoring and training, we agree that timely and informative performance appraisals support building experienced and competent individuals. Performance evaluations and “continuous development” are already required by many professional bodies. As such, reinforcing these concepts in ISQC 1 and ISA 220 would be consistent with practice.</p>
QC9(a)(ii)	See response to point (i).
QC9(a)(iii)	<p>IES 8 requires that partners demonstrate competence in specific areas. However, it does not provide any direction or guidance on dealing with issues identified. We consider it appropriate for individuals to set quality objectives, undertake performance reviews, be subject to internal inspection reviews on their engagements, and be subject to an accountability framework (as described in our response to question QC5). Clarifying expectations regarding remediation of identified partner or engagement team competence issues, including the link back to a firm’s QMA, would also be worth addressing, as the need for remediation actions becomes more explicit in a QMA - that is, that risks to audit quality, including engagement partner competence are identified, assessed and addressed.</p> <p>Further to our response to question PS3, we consider it relevant to consider the impact of technology on the audit. As noted in point (i) above, mentoring and training are important factors in relation to the competencies and skills required of auditors. Evaluating the impact of technology on training needs and how use of technology impacts on ‘learning from others’ (more experienced team members) is relevant.</p>
QC9(a)(iv)	No further comments.
QC9(b)(i)	See response to point (a).
QC9(b)(ii)	See response to point (a).
QC9(b)(iii)	See response to point (a).

**QC10. Transparency Reporting**

Paragraphs 188–190 set out matters relating to transparency reporting.

**Name of Respondent: PwC**

- (a) Do you believe we are able to positively contribute to the evolving developments related to transparency reporting? If so, what, in your view, would be the most appropriate action we could take at this time?
- (b) If you would not support us taking actions as described in paragraph 190(b), please explain why, including any potential consequences of those actions that you believe we need to consider.

QC10(a)	<p>We can see a number of advantages to preparing such reports, which include greater transparency to stakeholders as well as bringing a sharper focus internally towards disclosed audit quality matters. A number of our network firms currently publish annual transparency reports which describe the quality-oriented systems they have in place, the steps they take to safeguard their independence etc., which are well received in their respective jurisdictions. Consequently, as a network we are also currently considering what the advantages and challenges would be in preparing a network-wide transparency report. We are also experimenting with audit quality indicators and the role they might have in our transparency reports.</p> <p>Developments in this area are still at an early or 'pilot' stage and, in our view, it is premature to consider standard setting. We believe that there is still much to learn, and research into whether and how such reporting can promote audit quality would be valuable. For example, it would be important to understand demand and requirements for transparency reporting globally, and how these reports are used. This currently differs between jurisdictions, while some firms issue reports on a voluntary basis as well, and it would be difficult to arrive at global consistency in what is reported (for example, our UK and Australian member firms prepare transparency reports but these include different elements). The costs of compiling reports should also be considered, which will vary depending on the size of the firm.</p> <p>It is important to recognise that it is not just about disclosing more or simply responding to requests from different groups for disclosure. Being transparent about the right matters to be disclosed and in the right way should drive how such reports evolve – i.e., what is needed or wanted by the users to enhance their value.</p> <p>As this is an evolving area much like integrated reporting, and consistent with our principles and other comments outlined in our cover letter, care should be taken to ensure any future requirements, if deemed appropriate, are adaptable and broad enough to foster (and not inhibit) innovation, while instilling a structure to act as an appropriate guide.</p>
QC10(b)	See response to point (a).

**The following questions are overall questions relating to quality control:**

QC11. Are there any other issues relating to quality control that we have not identified? If yes, please provide details. What actions should we take to address these issues?

QC11	No comments.
------	--------------

QC12. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

QC12	No comments.
------	--------------

QC13. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

QC13	No comments.
------	--------------

QC14. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

QC14	No comments.
------	--------------

**GROUP AUDITS**

The following questions relate to group audit matters set out in paragraphs 191–305. If you believe actions relating to group audits beyond those discussed in these paragraphs should be prioritized, please describe such actions and your supporting rationale as to why they require priority attention.

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 194–198)? 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>ISA 600 was designed to facilitate the decisions and judgements that need to be made by a group engagement partner and team to assist them in meeting the requirements of the ISAs. We support any changes that reinforce that principle in the standard. ISA 600 should not be viewed as an “over and above” other ISA requirements standard, nor should a group engagement team that complies with all requirements in ISA 600 have to try and determine whether there are other ISA requirements that may need additional consideration just by virtue of the engagement being a group engagement.</p> <p>We support the principle that all relevant ISAs are applied in a group audit. However, we acknowledge that questions sometimes arise about what this means given the range of work that may be undertaken in a complex group structure. We discuss our views on this in our response to question GA7.</p> <p>It is also important that the revision of ISA 600 brings clarity to the scope of engagements addressed by the standard. As explained in our responses to questions G1 and QC3, in our experience, it can be difficult to apply the ISAs to the broad spectrum of engagements that exist today given the variation in different organisational structures, particularly when the scope of ISA 600 is interpreted narrowly.</p> <p>As noted in our response to question G1, entities are becoming increasingly sophisticated, with increasing use of centralised functions, integrated systems, and technology. Approaches to scoping a group audit and ‘sharing’ audit evidence need to evolve. We believe the ISA needs to be sufficiently flexible to accommodate the range of different organisational structures and not inhibit effective approaches to the audit through unduly prescriptive requirements.</p> <p>In particular, we believe the Board needs to develop how the existing principle in paragraph 2 of ISA 600 should be applied to different organisational structures in determining the requirements that are appropriate in the circumstances. Overall, it may be helpful to clarify which ISAs need to (or may) be applied in certain circumstances or, as we explain in our earlier responses, consider whether development of a separate standard addressing the use of other auditors that are not component auditors may be a more effective mechanism in addressing the various considerations involved, including those we describe below with respect to centralised testing and use of SSCs. See also our response to question QC2(a)(i).</p> <p>As explained in our response to question G1, we believe the IAASB needs to directly address the question of work performed at the group level (or other centralised location, including SSCs) that may be used by component auditors to support their opinion to the group engagement team on the component’s financial information and, where applicable, the statutory audit of the component. These considerations extend beyond ISA 600 alone and,</p>
--------	---



Template for Responses

Name of Respondent: PwC

	<p>although not explicitly within the scope of the group audits project, we believe the overlap of the issues is such that it is appropriate for the IAASB to address these questions in that broader context.</p> <p>For example, with regard to SSCs, we consider that it is reasonable to apply ISA 402 concepts to work done at a SSC, but not require compliance with all requirements of ISA 402. As previously noted, we believe quality of the work conducted at a SSC is best enhanced through responsibility resting with an appropriate partner overseeing the work performed at the SSC.</p> <p>Lastly, we believe there is merit in clarifying expectations of component auditors and that this is most effectively achieved through a separate section within ISA 600 addressing such requirements. We believe it is important that any such requirements are included within ISA 600, rather than a separate standard, to best present an appropriate mirroring of requirements and facilitate a mutual understanding of requirements between a group engagement team and component auditors. We believe a separate standard would pose risks to this mutual understanding and impair audit quality.</p>
GA1(b)	See response to point (a).
GA1(c)	<p>We continue to support the principle that the group engagement partner retains overall responsibility for the group audit and opinion and consequently are not convinced of the merit in further exploring making reference to the report of another auditor in the auditor's report, as described in the ITC. We believe the principle in ISA 600 paragraph 11, precluding reference in the auditor's report to the work of another auditor, unless required by law or regulation to include such reference, should be retained.</p> <p>The ISAs are based on the fundamental premise that the group engagement partner (or firm) is responsible for the group audit opinion and whether the auditor's report that is issued is appropriate in the circumstances. If the group audit report makes explicit reference to the report of another auditor, there is a risk this will be perceived as a division of responsibility, and imply that the group engagement partner is not responsible for the overall opinion expressed. It would be inappropriate to imply that the group engagement team may have a lesser responsibility for reviewing and evaluating the work performed by other auditors when that work contributes to the evidence necessary to support the group audit opinion.</p> <p>Based on experience to date, we do, however, see examples in practice where references to other (component) auditors may otherwise arise in an auditor's report – specifically in relation to describing the audit approach in a group auditor's report. We see a distinction here, but in such circumstances, care still needs to be taken in making reference to the role of component auditors to avoid the risk of perceived division of responsibility. Based on the requirement in ISA 600 paragraph 44, the group engagement team needs to be satisfied that sufficient appropriate audit evidence has been obtained. Therefore, any description that makes reference to the work of other auditors needs to be described in that context i.e., what it was the group team asked the component auditors to focus on, why that was important in the context of the group audit, and how the group engagement team became satisfied with the audit evidence obtained.</p>
GA1(d)	<p>We believe it is important that the objective of ISA 600 is reinforced, with the focus of any revisions being on whether the group engagement team has obtained sufficient appropriate audit evidence as a basis for their opinion, rather than excess prescription in the process to be followed in obtaining that evidence. Too much prescription could lead to a compliance driven exercise of 'tasks' that need to be completed rather than a focus on how best to design the audit approach in the way that best brings audit quality in light of the entity's organisational structure.</p> <p>A focus on the structure of ISA 600 and the flow of requirements is also important – the current ISA can be 'challenging' in that regard. Its flow is different than that of other ISAs. For example, the group engagement team's involvement in the risk assessment (paragraph 30) of significant components is unhelpfully included in the responding to risks section. We believe there would be merit in moving identification (and definition of) components and risk assessment to be part of obtaining the understanding of the group. See also our response to</p>

	question GA7.
--	---------------

**GA2–GA9 address the more significant issues relating to group audits in greater detail.**

*GA2. Acceptance and Continuance of the Group Audit Engagement*

- (a) Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.
- (i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.
  - (ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?
  - (iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

GA2(a)(i)	<p>We recognise and broadly agree with the analysis of the issues set out in paragraphs 204–217.</p> <p>The actions identified in paragraph 215(e) – providing more clarity over the circumstances that may lead to access issues and examples of how they might be addressed – are those that in our view are of greater importance, given the increasing complexity of organisations and cross-border implications. However, as we note in our response to point (b)(ii) below, many of the issues stem from legal or regulatory requirements in a jurisdiction. Therefore, the extent of the IAASB’s ability to take action in this area is likely limited to providing guidance on alternative actions that auditors may take in addressing the requirements of the ISA. Accordingly, and acknowledging that it is often not practicable for an engagement to be declined (see point (iii) below), we strongly encourage the IAASB to include guidance in ISA 600 on how to deal with requirements when access might be an issue. In the absence of division of responsibility, which as we have explained we do not support, how an auditor addresses the challenges of access, in particular for equity accounted entities, is a very significant current problem.</p> <p>We also believe there are benefits in enhancing the required understanding of the group – as a basis for acceptance, but also in benefiting downstream activities including component identification and risk assessment.</p>
GA2(a)(ii)	See response to point (i).
GA2(a)(iii)	<p>We agree that there are challenges with respect to obtaining sufficient appropriate audit evidence for certain components, such as significant equity associates not controlled by the entity, or other issues relating to access by the group engagement team to the work of component auditors. We support clarifying guidance related to acceptance and continuance considerations in such circumstances, however caution against setting requirements that could have the inadvertent effect of precluding the appointment of any auditor. The key issue is how the group engagement team can be satisfied that they have obtained sufficient appropriate audit evidence. Pragmatic solutions may be needed. We explore this issue further in response to point (b) below.</p>

GA2(a)(iv)	See response to point (iii).
GA2(b)(i)	<p>Access issues are somewhat still common, particularly in situations when the group has limited control of the component (e.g., equity associate). Such investments might be significant due to size, but the group engagement team's ability to have the level of involvement described in the ISAs for significant components due to size can be constrained because the group does not exercise control over that entity.</p> <p>Within our network, we currently provide guidance on potential procedures that can be performed. For example, if available, accessing information kept by group management in relation to that component; understanding how group management monitors and evaluates the investment and checks the financial information of the component has been correctly accounted for by the group; if the group has representatives who are part of the component's management or on the Board of Directors of the component, discussing the component and its operation and financial status with these representatives; and examining other external information such as publications and analysts' reports. If the component is a public company by itself, external information will also include any filings made by the component. As explained in our response to point (a)(i) above, guidance on these types of considerations in ISA 600 seems necessary.</p> <p>There are a few ways the IAASB could address these practical issues. A different audit approach may be appropriate to that expected in relation to other components that are significant due to size and fully consolidated in the group's financial statements. It may also be a limited circumstance when reference to the other auditor might be appropriate.</p>
GA2(b)(ii)	As explained in response to point (a) above, it is reasonable for the ISA to acknowledge such issues as part of acceptance and continuance. However, many of these issues are driven by questions of law or the application of laws and regulations in a given jurisdiction. Therefore, these may be issues that standards cannot fully address. It may be better to place more emphasis on practical guidance on potential alternative procedures, rather than simply requiring the auditor to withdraw from (or not accept) the engagement when issues are identified.
GA2(b)(iii)	Possibly. The Board will need to give careful consideration to whether any clarification of acceptance and continuance considerations adequately take into account that only certain information may be made available to a potential auditor during the acceptance process. It will be important that the nature and extent of understanding expected under the ISA is not set at a level that would preclude audit firms from being able to make a decision to accept an engagement.

GA3. *Communications between the Group Engagement Team and Component Auditors*

- (a) Paragraphs 218–225 set out matters relating to communications between the group engagement team and component auditors.
  - (i) Which of the possible actions outlined in paragraph 224 would be most meaningful in addressing issues relating to communication between the group engagement team and the component auditor?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why?
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

GA3(a)(i)	<p>Effective mutual communications between a group engagement team and component auditors is critical to an effective and high quality audit. We are therefore supportive of proposals to reinforce aspects (timing and extent) of such communications.</p> <p>We support the principle that the ISA can specify matters to be communicated, but not the</p>
-----------	--

**Name of Respondent: PwC**

	<p>mechanism of how that is to be achieved. That being said, we believe that the principle of a component auditor taking responsibility for issuing an opinion to the group engagement team on the financial information of a component (in circumstances other than specified procedures, when no opinion is expressed) builds in an important discipline of accountability that reinforces audit quality.</p> <p>Drawing a link between the importance of communications and the group engagement team's evaluation of the work of component auditors is relevant. However it's not clear what "enhancements" can be made to requirements about matters to be communicated that will tangibly change how group engagement teams evaluate those communications (ISA 600 paragraph 42). It appears the objectives here are more closely aligned with how the group engagement team's evaluation of work can be enhanced (see question GA4 and GA8).</p> <p>We are not convinced that strengthening related requirements would be helpful in all cases, as most of the issues relate to properly applying judgement in the engagement circumstances. One possible action that may have a direct impact would be to incorporate more explicit specificity on when certain communications take place i.e., break the communication and evaluation requirements up into the phases of the audit.</p> <p>As noted in our response to question GA1, we support including clarified requirements for component auditors within a distinct section of ISA 600.</p> <p>Application material that highlights the importance of documenting significant communications is acceptable as long as it is presented in the context of the requirements of ISA 230 and does not establish additional unduly onerous documentation requirements over and above ISA 230.</p>
GA3(a)(ii)	See response to point (i).
GA3(a)(iii)	<p>Further to our previous comments, in exploring how work at a SSC is scoped and evidence shared, communication will be a key element. Three-way communication may be required between a group engagement team, component auditors and SSC auditor.</p> <p>Likewise, we believe the ISA needs to directly address other communication impacts arising from centralised testing and sharing of evidence across multiple teams. For example, what evidence does a component auditor need to have communicated to them from a group engagement team performing centralised work e.g., IT General Controls (ITGC) testing, to enable the component auditor to have a sufficient basis for forming their opinion on that component?</p> <p>We also believe consideration should be given to guidance on how statutory audits that are required to be undertaken by component auditors may impact communications. For example, guidance could address what communications from the group engagement team on potential risks and work conducted centrally may assist component auditors in performing their statutory audits, how evidence obtained by the group engagement team may be shared and leveraged for the purposes of statutory audits etc.</p> <p>Further, we recommend that the issue of whether a suitable reporting framework exists, against which component financial information is to be audited, should be given attention. We believe it would be helpful in enhancing the quality of work undertaken by component auditors to reinforce the considerations of whether there is appropriate communication between group and component management as to the accounting policies, manual or framework that is to be applied by a component entity and hence used by component auditors. Such considerations include the sufficiency of such a framework, whether it has been maintained and updated and whether both group and component auditors have obtained, understood and evaluated its acceptability.</p> <p>Lastly, with respect to ISA 600 paragraph 48, the group engagement team cannot override confidentiality laws in relation to communication of actual or suspected non-compliance with laws and regulations that may impact a component. We acknowledge the revisions to the IESBA Code, but nonetheless auditors may be constrained in what they are legally</p>

Name of Respondent: PwC

	able to communicate. We support additional guidance being incorporated into ISA 600 on this topic. We believe that this should be made as part of the ISA 250 revision project but in the event such changes are deferred in favour of addressing through the ISA 600 project then this is a matter that project needs to address.
GA3(a)(iv)	Further consideration may need to be given to the growing challenge of access/legal restrictions on what can and cannot leave a territory. It is assumed that the current ISA is practicable with regard to communications. Any enhanced requirements would need to be evaluated to ensure that they would not be subject to any restrictions.

GA4. *Using the Work of the Component Auditors*

- (a) Paragraphs 226–242 set out matters relating to using the work of the component auditors.
- (i) Which of the possible actions outlined in paragraph 234 and 242 would be most meaningful in addressing issues related to using the work of the component auditor?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?
  - (ii) Should ISA 600 be strengthened to require the group engagement partner to make an explicit determination about whether the group engagement team can use the work of a potential component auditor?

GA4(a)(i)	<p>Subject to our specific comments below, we support the actions identified in paragraphs 234 and 242 and believe that they will assist group engagement teams in evaluating their use of the work of component auditors. Expanding the guidance on the group engagement team’s responsibilities in understanding the component auditor and assessing their competence is important given the continuing changes in client organisations, often moving into territories that may be outside a group engagement team’s network or have different jurisdiction or professional requirements.</p> <p>The ISA should reflect the spectrum of involvement of the group engagement team that may be necessary in the circumstances, based on professional judgement. We believe that enhancing the application material to more clearly address how firms and, through the guidance issued internally within a firm, group engagement teams can evidence how common network policies and procedures impact their levels of involvement in the work of component auditors is most beneficial – see our response to question QC4. This may help clarify how a group engagement team’s procedures, including the nature and extent of those procedures, may differ between component auditors from within the same network and those from other networks.</p>
GA4(a)(ii)	See response to point (i).
GA4(a)(ii)	There are a broad range of circumstances that may be encountered, reflecting the evolving corporate structures of large groups. Further to our comments in response to question GA1, we believe that in acknowledging the spectrum of engagements that exist, the ISA (or separate standard) needs to address how evidence can be effectively shared across a group engagement, and also across other audit engagements that may be required within that group corporate structure. It is, however, not possible for the ISA to address all potential circumstances. As such, requirements need to set out broad principles that are

	capable of being applied to those varying situations.
GA4(a)(iv)	No further comments.
GA4(b)(i)	<p>Yes, the nature, timing and extent of involvement of the group engagement team in the work of the component auditor should vary, depending on the circumstances. The level of involvement needs to be commensurate with the group engagement team's evaluation of the significance of the component, the identified risks of material misstatement, and evaluation of the component auditor's competence, including use of common network methodology and quality review processes. The ISA needs to reflect the need for a group engagement team to apply professional judgement.</p> <p>The extent of involvement will therefore vary based on whether a component auditor is from the same network or a different network, and whether there are any access, or other barriers, to involvement.</p> <p>We believe relevant considerations related to each of these factors could be included within application material in support of existing requirements on the group engagement team's understanding of component auditors. See also our response to question QC4.</p>
GA4(b)(ii)	<p>We believe that group engagement teams are implicitly already responsible for making this determination. However, we do not believe explicit determination and related documentation would be helpful in all cases, as this may result in a somewhat unnecessary (excessive) work effort and documentation. A requirement for the group engagement team to explicitly document the conclusions for each individual component auditor is likely unnecessary, and unduly onerous in case of a large group where a significant number of component auditors are involved. It would be more appropriate to focus on potential issues, that is, focus on component auditors where certain characteristics prompt a more detailed evaluation e.g., potential issues identified with regard to a component auditor's competence, or concerns over being able to be sufficiently involved in a component auditor's work (see access issues discussed previously in response to question GA2).</p>

GA5. *Identifying and Assessing the Risks of Material Misstatement in a Group Audit*

- (a) Paragraphs 243–253 set out matters relating to identifying and assessing significant risks in a group audit:
- (i) Which of the possible actions outlined in paragraphs 251–253 would be most meaningful to address issues relating to identifying significant risks for the group audit?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

GA5(a)(i)	<p>We agree that ISA 315 provides an appropriate framework for the group engagement team's understanding of the group and identification of risks.</p> <p>In principle, emphasising key points from ISA 315 or ISA 330 (that are not already reflected in ISA 600 – either in the application material or appendices) appears reasonable if that will facilitate better understanding of the understanding of the group and risk assessment at the group financial statement level. Such clarifications can address issues such as complex structures and use of SSC's by the group.</p> <p>It is important that ISA 600 supports what is necessary in a group context in applying ISA 315, recognising that the ISA 315 project will fundamentally re-assess the entire risk assessment process in the audit.</p> <p>Communication, and sharing of information, between component auditors and the group engagement team, both in respect of risk identification and other information, and as</p>
-----------	---

Name of Respondent: PwC

	appropriate, across the population of component auditors would seem to be best practice. A group engagement team should make an assessment of whether risks identified by component auditors impact the group financial statements and may also be relevant to other components. Building such consideration into the requirements would appear reasonable.
GA5(a)(ii)	See response to point (i).
GA5(a)(iii)	See response to question GA7.
GA5(a)(iv)	No further comments.

GA6. *Issues Relating to Component Materiality and Other Aspects of Materiality Relevant to Group Audits*

- (a) Paragraphs 254–261 set out issues relating to applying the concept of materiality in a group audit. Do you agree with the possible actions recommended in paragraph 261 to clarify the different aspects of materiality in a group audit? If not, please indicate which actions are not appropriate and describe why.
- (b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address 9materiality more broadly), please describe any other relevant issues or additional actions that you think may be appropriate relating to component materiality, component performance materiality or the clearly trivial threshold at the component level.

GA6(a)	<p>We agree that the Board cannot take actions that would prejudice any future review of ISA 320. As we have stated, ISA 600 should support the proper application of the ISAs in a group context and cannot amend what is required under ISA 320.</p> <p>We agree that component materiality needs to be set at a level that is lower than overall group materiality, and that the concept of ‘below’ means more than simply one unit below e.g., £1. In clarifying the concept of component materiality, we believe there may be merit in clarifying the respective responsibilities for determining <i>overall</i> and <i>performance</i> materiality for the component audit, taking into consideration the risks associated with individual components and other circumstances of the organisational structure.</p>
GA6(b)	<p>We do not see issues in practice on the distinction between the group audit clearly trivial reporting threshold and the threshold to be used by component auditors in conducting their audit, although we acknowledge that this has been raised as an issue by others. We believe the situation arises most commonly when a component auditor is performing an audit of the component for both group reporting and statutory audit purposes. In those situations the component auditor applies ISA 320 to determine a threshold that is appropriate for the statutory audit, distinct from any threshold determined by a group engagement team for the purposes of communicating the results of the component audit.</p>

GA7. *Responding to Identified Risks of Material Misstatement in a Group Audit (Including Issues Relating to the Group Engagement Team’s Involvement in the Consolidation Process)*

- (a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team’s involvement in the consolidation process).
  - (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of possible actions that you believe we need

Name of Respondent: PwC

to consider further.

(b) Specifically:

- (i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered significant or non-significant? Are there any practical challenges that we need to consider further?
- (ii) Are there other possible actions related to auditing groups where there are a large number of non-significant components that we should explore? Are there other approaches to auditing such groups that need to be considered? Do the possible actions presented lead to any additional practical challenges?
- (iii) Should the standard be strengthened for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances? Are there further issues or practical challenges that have not been considered?
- (iv) Should the requirements or application material relating to subsequent event procedures be strengthened or clarified? Are there further issues or practical challenges that have not been considered?

GA7(a)(i)	<p>As noted in our response to question GA1, we support bringing clarity to the question of what it means to apply all relevant ISAs in work conducted on a component’s financial information. In particular, questions arise most commonly when the group team determines that an audit of one or more account balances, classes of transactions or disclosures is necessary at the component. In such cases, the component auditor is not conducting an audit of the full component, therefore questions arise as to whether there are ISAs and/or requirements of certain ISAs that are no longer relevant. We, therefore, support bringing clarity to procedures in the ISAs that may not be relevant in the circumstances of a component auditor’s work and how this impacts a component auditor’s assertion of compliance with the ISAs in their report, where issued, to the group engagement team.</p> <p>With respect to the work performed over a component that is individually financially significant to the group we believe that areas that are pervasive to the work of a component auditor are not matters that can be excluded from the scope of their work. There is a boundary beyond which it is no longer appropriate to assert that an audit has been conducted. Drawing out this consideration is, in our view, useful. We do, however, support the principle that a group engagement team determines the work that is necessary at a given component. We therefore believe that there is merit in revisiting whether an audit of the complete financial information of the component is the only option that may be responsive. Depending on how the group engagement team determines financial significance it may not be necessary for all the information of the component to be audited. We believe the construct of paragraph 27 of ISA 600 could be applied to all significant components, supported by enhanced application material on relevant considerations for determining the most appropriate response. See also our response to point (b)(i) below.</p> <p>As noted in our earlier responses, with respect to group engagement scoping, a SSC does not easily fall within the definition of a component and the determination of the work effort that is appropriate based on the requirements in ISA 600 therefore lacks clarity. We support clarifying considerations in this area.</p> <p>Lastly, we agree that confusion exists over the term “specified audit procedures” and how it compares to agreed-upon procedures. We therefore support clarifying the nature of such procedures and their characteristics that distinguish them from agreed-upon procedures. Further, we do not believe there was intended to be a difference between ISA 600 paragraph 27(c) (“specified audit procedures”) and ISA 600 paragraph 29 (“specified procedures”), and suggest simply aligning both to refer to specified audit procedures.</p>
GA7(a)(ii)	See response to point (i).



GA7(a)(iii)	No further comments.
GA7(a)(iv)	No further comments.
GA7(b)(i)	<p>We acknowledge the arguments for adopting a top-down approach, focussing on the assessment of risk at the group level. Such an approach works effectively when the auditor is also required to express an opinion over internal control and, as described in our earlier responses, we support the view that a group engagement team should have a holistic understanding of the group, its components, the risks of material misstatement to the group financial statements and the work that is performed in support of the group audit opinion.</p> <p>However, if the overall group audit scoping framework is updated to focus on the specific risks of material misstatement at the group level and to remove the need to determine significant components, this would represent a very significant change that would require careful consideration and significant implementation effort. Further evaluation of the likely impact and cost/benefit analysis would be necessary, in our view, before making such a holistic change. We are not convinced the case has been made to abandon audits of components using component materiality. We believe there are benefits that accrue from this approach, including when a statutory audit of the component is also required, which brings synergies in the audit of the component being conducted once for dual purposes. Further to the challenges noted in the ITC over timing of work, in such situations we see a real concern that solely focusing on group level risks would further exacerbate issues relating to how the work of the component auditor is coordinated.</p> <p>As such, we would be concerned with a wholesale mandating of a top-down risk based approach that removed the current concept of financial significance. However, as we note in our response to point (a) above, we do believe that this concept can be retained but with greater flexibility given to a group engagement team to, in collaboration with component auditors, determine the work effort response that is most appropriate in the circumstances for components that are financially significant. That is best achieved when there is strong two-way communication between a group engagement team and component auditors, sharing knowledge and working collaboratively to determine relevant risks and the right responses in the engagement circumstances.</p> <p>To that end, we believe proposed actions in relation to communications between a group engagement team and component auditors, which includes relevant information on risk assessment, clarity over instructions, and reporting expectations, can reinforce the performance of appropriate work and support audit quality.</p>
GA7(b)(ii)	<p>We support providing additional application guidance with regards to determining what level of work may be appropriate over non-significant components. Additional guidance may be helpful on matters to think about when determining the extent of work to be performed over non-significant components and 'how much is enough', taking into account the relative size of the component, risk, extent of common processes and controls over which the group engagement team has evidence, and building in an element of unpredictability in component selection. Specifically, where an entity is subject to common group processes and controls this provides useful risk assessment information and indirect evidence for such entities.</p>
GA7(b)(iii)	<p>With regard to consolidation, it will be important to recognise that potentially complex group structures will make it difficult for the group engagement team to be closely involved in all 'sub-consolidations'. For very large group audit engagements it will be impracticable for the group engagement partner to be involved across the entire spectrum of group sub-consolidations. Consistent with our principle, and further to our previous comments, we believe standards should acknowledge that audit quality may best be enhanced by responsibility for aspects of the engagement resting with those best placed to influence it. That principle would apply to sub-consolidations. The group engagement team necessarily needs to have an understanding of the group structure and sub-consolidation process but the quality of work at the sub-consolidation level is best addressed through the partner in</p>

**Name of Respondent: PwC**

	<p>the jurisdiction in which consolidation is taking place.</p> <p>Similar considerations apply to engagements where the overall group engagement partner is located in a different jurisdiction from where the group entity management resides, for the reasons previously discussed. In such situations, audit quality over the consolidation may best be enhanced by the partner in the other jurisdiction being responsible for that aspect of the engagement.</p>
GA7(b)(iv)	<p>We believe the existing requirements in the ISA are appropriate. In the event that a separate section of the ISA is developed addressing requirements for component auditors, such a section can include an appropriate requirement that mirrors the intent of the existing requirements that are drafted in the context of the group engagement team's requests of component auditors.</p> <p>The identification of any subsequent events is a key element of the two-way communication between the group engagement team and component auditors and drawing further attention to this in the communications section of the ISA would be appropriate.</p>

**GA8. Review and Evaluation of the Work of Component Auditors by the Group Engagement Team**

- (a) Paragraphs 293–303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.
- (i) Which of the actions outlined in paragraphs 299 and 303 would be most meaningful in addressing issues relating to the review and evaluation of the work of component auditors by the group engagement team?
  - (ii) Why do you believe these actions are necessary?
  - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
  - (iv) Please also describe any potential consequences of those actions that you believe we need to consider further.

GA8(a)(i)	<p>We do not believe the ISA should be unduly prescriptive in this area. Engagements and components vary in their size and nature. In addition, component auditors may come from within or outside a firm's network.</p> <p>We believe application material can address the relevant considerations to be taken into account by a group engagement team in determining the nature and extent of review that is appropriate in the circumstances. This necessarily builds on the group engagement team's evaluation of the component auditor, including their competence and adoption of common network policies and procedures designed to support audit quality.</p> <p>As we have reiterated, when designed and operating effectively, common network policies, methodology, technology, training and quality review, processes, are relevant factors that can, where appropriately evidenced, reduce the nature and extent of group engagement team involvement in the work of component auditors within the same network. Thus, the ISA should reflect the spectrum of involvement of the group engagement team that may be necessary in the circumstances, based on professional judgement (supported by appropriate guidance).</p> <p>Timely and detailed two-way communications also play a key role in evidencing appropriate evaluation of the work of component auditors. Consistent with our response to question GA3 we therefore support emphasising considerations relating to effective communications.</p>
GA8(a)(ii)	See response to point (i).
GA8(a)(iii)	We would not support an explicit requirement mandating that the group engagement team review detailed working papers for the reasons described in point (i) above.

GA8(a)(iv)	No further comments.
------------	----------------------

**GA9. The Impact of New and Revised Auditing Standards**

How should the matters set out in paragraphs 304–305 be addressed in our plans to revise ISA 600? Are there any other implications from our new or revised standards that should be considered?

GA9	<p>No changes were proposed to ISA 600 in the IAASB Disclosures project and we are not aware of significant issues arising in practice. As noted in our response to question GA1, there may be benefit in clarifying application material to better explain considerations for a group engagement team in addressing risks of material misstatements in disclosures in the group financial statements when components contribute directly to the matters requiring disclosure. In many cases that information may or may not be included in an entity’s traditional ‘reporting pack’ audited by the component auditor.</p> <p>Similarly, no conforming amendments were proposed to the requirements or application material of ISA 600 arising from the auditor reporting project, including the introduction of ISA 701. We believe a group engagement team, in light of the matters they discuss with the audit committee/those charged with governance, is best placed to determine key audit matters for the group. By applying professional judgement they can determine whether further communication with one or more component auditors is necessary in the circumstances. We have not seen significant challenges in practice that would warrant extensive additional application material.</p>
-----	--

**The following questions are overall questions relating to group audits:**

**GA10.** Are there any other issues relating to group audits that we have not identified? If yes, please provide details. What actions should we take to address these issues?

GA10	Further to our overarching comments in relation to quality control, we believe it is important for the Board to evaluate the impact of technology and changes in audit approaches, including data analytics on group audits.
------	--

**GA11.** Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

GA11	No comments.
------	--------------

**GA12.** Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

GA12	No comments.
------	--------------

**GA13.** Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

GA13	No comments.
------	--------------