



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

16 May 2016

The Chairman
International Auditing and Assurance Standards Board for Accountants
529 5th Avenue
6th Floor
New York 10017
United States of America

Submission via IAASB website

Dear Professor Schilder

Submission on Invitation to Comment – Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits

We welcome the opportunity to provide feedback on the Invitation to Comment (ITC). We support the International Auditing and Assurance Standards Board's (IAASB's) initiative to progress the debate on audit quality and improve transparency in relation to how high quality audits are achieved. We also support the IAASB's publication of the *Framework for Audit Quality* and we consider this ITC as a natural progression of the IAASB's work in relation to audit quality.

Audit quality is best achieved in an environment where there is support from all participants in the financial reporting supply chain. As the IAASB has recognised, audit quality is a complex topic and high quality audits are the result of a large number of interrelationships and experiences. This view was reflected widely in stakeholder forums run in Australia and New Zealand (including roundtables with National Standard Setters). There was strong agreement at these forums that additional standards (mandatory requirements) for auditors were not the optimum response. Rather it was suggested that engagement with and by other participants and clarity of expectations would best address many of the objectives. While IAASB does not have authority over other parties, producing succinct, clear, consistent and manageable standards will give a strong basis for consistent messages and education to other stakeholders.

Significant global developments have enhanced the volume of meaningful information that is available to financial market participants, including information on audit quality. We believe the new enhanced audit report will help to address a number of the perceived issues in relation to audit quality, in part by promoting dialogue with directors and investors. We consider a period of stability is required to assess the impact of key audit matter reporting on audit quality.

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We have provided responses to the specific questions raised in the ITC in the Appendix (attached), but the key themes in our feedback are outlined below.

- Mandatory requirements need to be (1) principle-based, (2) very clear so there is little opportunity for widely differing interpretations, (3) applicable to smaller firms and sole practitioners, and (4) no more in number.
- Mandatory requirements need to use words and terms consistently between each other, with application guidance, and with other standards (i.e. ethics and education).
- Additional mandatory requirements are not necessarily needed rather clearer articulation of current mandatory requirements.
- Application guidance needs to be relevant and focused, setting out the approach to applying mandatory requirements to common scenarios and covering how the application of mandatory requirements could be reflected in working papers in these scenarios.
- There are some specific areas which have caused issues in practice where application guidance would be particularly useful and/or mandatory requirements need to be revised to be clearer. We expand on these areas in the Appendix.

In addition, we encourage the IAASB to consider the following aspects as it proceeds with the specific projects in relation to professional skepticism, quality control and group audits.

Professional skepticism

Professional skepticism is an attitude and the core of an auditor's skill set. However we would be concerned if revisions to clarify application strayed into reducing the skill to a list of prescriptive requirements. Feedback from practitioners and others is that evidencing the application of professional skepticism is particularly challenging and we recognise this has been brought into focus by the increased external scrutiny of audit files. We provide suggestions for addressing application and documentation in the Appendix (attached).

Quality control

We are of the view that the ultimate responsibility for audit quality in any audit firm rests with the leadership of that firm as a whole, but we do not believe that a standard is an appropriate vehicle to direct firm-wide leadership styles. Similarly standards should refrain from directing audit firms how to run their business.

Group audits

Business models used by entities participating in financial markets are becoming increasingly sophisticated. The variety of circumstances in which an auditor may need to use the work of another auditor continues to evolve. We received feedback that there is a need to address a wider range of models other than group audits. Our members are supportive of broadening the scope of the existing mandatory requirements to address other common situations where other auditors may be involved such as shared service centers, joint ventures, and associates.

Feedback has raised practical issues with accessing component management and component auditor information. We support clarification of the responsibilities of component auditors, for example an explicit link to their ethical obligations under the IESBA's *Code of Ethics for Professional Accountants*.

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 115,000 diverse, talented and financially astute members who utilize their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international capital markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

The Appendix (attached) provides responses to the specific questions raised in the ITC. If you have any questions regarding this submission, please contact Liz Stamford (Audit and Insolvency Leader) via email; Liz.Stamford@charteredaccountantsanz.com.

Yours sincerely



Rob Ward AM FCA
Head of Leadership and Advocacy

APPENDIX

**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

Name: <i>(Please also fill in name in header for ease of reference)</i>	Chartered Accountants Australia and New Zealand
Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)	IFAC member body
Name of contact person at organization (if applicable):	Liz Stamford Audit and Insolvency Leader
E-mail address:	liz.stamford@charteredaccountantsanz.com

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)	We agree that the public interest issues are relevant to the IAASB's work on professional skepticism, quality control, and group audits.
G1(b)	<p>The public interest areas noted in the ITC are largely internally focussed. We acknowledge that this may well assist audit inspections, however, other relevant public interest issues to consider are:</p> <ul style="list-style-type: none"> • Supporting a sustainable business model for the auditing profession. • Improving engagement and communication by audit regulators and audit committees about audit quality with users and the markets. • Enhancing the competency of directors and those charged with governance to enable them to better challenge auditors. • Improving the overall quality of financial reporting.
G1(c)	<p>We believe it is important to focus any changes or actions on the IAASB's <i>Framework for Audit Quality</i>. This identified parties in the financial reporting supply chain and the role they have in supporting audit quality and links audit quality to the broader objective of effective markets. While some changes may seem relevant with a singular focus, if the proposed action or change cannot be directly linked to an audit quality improvement in terms of the matters identified in the framework, we do not believe they will be the best response or an effective use of resource.</p> <p>Audit committees have the ability to 'drive' audit quality and therefore can have a significant influence, albeit indirect, on the quality of the audit. An audit recipient who gets the most out of an audit is one who has an empowered audit committee that can hold the auditor accountable for audit quality. Audit committees also have the ability to communicate to investors their interactions with auditors to enable investors to make their own assessment of audit quality. We believe there is value to be gained from exploring and developing an enhanced corporate governance model. By way of example, in the United Kingdom, a report from the audit committee is required as part of the financial report and in Canada there are a number of initiatives supporting the Audit Committee's involvement in audit quality. We believe this is an aspect in which the IAASB could usefully be involved.</p> <p>In relation to actions by others, we believe there are two key areas which have an important impact on audit quality:</p> <ul style="list-style-type: none"> • Regulators are increasingly influencing the public's perception of the performance of the audit profession by publishing audit inspection results. The manner and matters included in

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	<p>these reports impacts on perceptions but also can impact on behaviour.</p> <ul style="list-style-type: none"> The financial literacy of boards is important as it drives the company to produce quality reporting and enables discussions with auditors to focus on significant matters, rather than basic accounting adjustments.
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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	See our comment in relation to G1.
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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	<p>Published academic research studies that we are aware of include but are not limited to:</p> <ul style="list-style-type: none"> Cropley, A. (2006) In praise of convergent thinking <i>Creativity Research Journal</i> 18(3), 391-404. Harding, N., and Trotman, K. T. (2014) Enhancing Professional Skepticism via the Fraud Brainstorming Discussion Outcomes. Working Paper, University of New South Wales. Hurt, R. K. (2010). Development of a scale to measure professional skepticism. <i>Auditing: A Journal of Practice & Theory</i>, 29(1), 149-171. Kahneman, D. and Tversky, A. (1974). Subjective probability: A judgement of representativeness. In <i>The Concept of Probability in Psychological Experiments</i> (pp. 25-48). Springer Netherlands. Mauldin, E. G., and Wolfe, C. J. (2014). How Do Auditors Address Control Deficiencies that Bias Accounting Estimates? <i>Contemporary Accounting Research</i>. Plumlee, D., Rixon, B & Rosman, A (2011) Training Auditors to Think Skeptically working paper. Puccio, G.J, Wheeler, R.A, & Cassandro, V.J (2004) Reactions to creative problem solving training: Does cognitive style make a difference? <i>The Journal of Creative Behavior</i> 38(3) 192-216. Russo, J.E & Schoemaker, P.J.H (1989) <i>Decision Traps: Ten Barriers to Brilliant Decision-Making and How to Overcome Them</i>. Simon & Schuster Inc. Scott, G., Leritz, L. E. and Munford, M. D. (2004), The effectiveness of creativity training: a quantitative review <i>Creativity Research Journal</i> 16(4) 391-388. Simons, D. J. (2010) Monkeying around with the gorillas in our midst: Familiarity with an inattentional-blindness task does not improve the detection of unexpected events i- <i>Perception</i> volume 1, pages 3–6). Smith, J.F & Kida, T. (1991) Heuristics and biases: Expertise and task realism in auditing <i>Psychological Bulletin</i> 109(3) 472-489. Tversky, A. and Kahneman, D. (1974). Judgement under uncertainty: Heuristics and biases. <i>science</i>, 185(4157), 1124-1131.
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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?

<p>PS1</p>	<p>We consider the definition of professional skepticism included within the ISAs¹ is appropriate. As professional skepticism is defined as an attitude, its application is subjective. There can be, and are, a range of interpretations on what constitutes an <i>appropriate</i> level of professional skepticism, and what demonstrates sufficient appropriate evidence that professional skepticism has been applied.</p> <p>Achieving a level of consistency in application across jurisdictions and across sectors would be enhanced by (1) focusing on clarity and alignment when describing scepticism in the ISAs, (2) practical application guidance which demonstrates the application of professional skepticism in specific circumstances, and (3) an indication of how this could be evidenced in the audit file.</p> <p>In addition, the concept of professional skepticism referred to throughout the ISAs could be better aligned with related concepts in the International Ethics Standards (IES's) and International Accounting Education Standards (IAES's). For example, the IESBA Code includes five fundamental principles; integrity, objectivity, professional competence and due care and professional behaviour. While professional skepticism is closely related to the objectivity and professional competence concepts, the link between these concepts has not been explained in the international standards. It may, therefore, be useful to provide guidance on the relationship between these concepts. Consistent use of terminology across the IAS's, IES's and IAES's would assist consistent understanding and application.</p> <p>It would also be valuable to explicitly link the concept of professional skepticism with the closely related concept of professional judgment. The diagram on page 13 of the ITC describing the relationship between professional skepticism and professional judgment is useful in helping to succinctly explain the linkage between these concepts. Promotion of the diagram may help to develop a common understanding of these concepts amongst broader stakeholders.</p> <p>Another concept that would be useful to clarify is the concept of '<i>corroboration</i>'. Corroboration encourages auditors to adopt an understanding mind-set, rather than one of challenge. It would be beneficial to emphasise the need for auditors to maintain a questioning mind-set, and in some circumstances, consider the opposing case or seek evidence that does not support management's assertions. These circumstances may be dictated by the use of the continuum referenced below.</p> <p>Further explanation of some of the key terms used in the definition of professional skepticism would also be useful. For example, paragraph A20 of ISA 200, which provides a brief description of what is meant by a critical assessment of audit evidence, could be expanded.</p> <p>For the areas raised above, we do not support additional mandatory requirements, nor do we propose that every standard be reopened to include a professional skepticism reference. Rather we recommend more specifically articulated guidance in ISA 200 and work with other standard setters on consistency of language and options for joint communications or activities.</p> <p>We have developed two important tools to specifically assist auditors in interpreting and</p>
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¹ "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". ISA 200, Para. 13(l)

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	<p>applying the concept of professional skepticism:</p> <ul style="list-style-type: none"> • A professional skepticism online training programme² that explores inherent cognitive biases and delves into the thinking processes underpinning judgment and challenges auditors to avoid judgment traps. This online tool is designed for senior practitioners who lead audit teams. It provides these auditors with a score based on their responses to scenario based questions. It focuses on the important role of promoting professional skepticism within the audit team through on-the-job coaching, and role models the appropriate application of professional skepticism in different audit scenarios. This brings the application of an appropriate attitude throughout all phases of an audit engagement front of mind. • A practical guide³ for members providing guidance on the exercise of professional skepticism at different stages of an audit engagement and how this could be documented in the audit file (produced in partnership with the Chartered Professional Accountants of Canada). <p>Another useful tool which has been developed to assist auditors understand the relationship between professional skepticism and the quality and quantity of audit evidence required is the Professional Skepticism Continuum (the continuum) developed by academics commissioned by the Global Public Policy Committee⁴. This continuum depicts a graduation of complete doubt to complete trust based on the risk factors identified within an audit (such as errors detected, indicators of fraud, level of judgment required, consistency between audit evidence and initial risk assessment and risk and susceptibility to material misstatement). The continuum explains that, as these risk factors increase, so too does the need for heightened professional skepticism and additional audit evidence to support the auditors judgments. The level of doubt shown in the continuum ranges from a neutral stance, through to presumptive doubt and complete doubt (which would require a forensic audit approach). At the far left of the continuum is complete trust, which the authors do not consider to be an appropriate mind-set for undertaking an audit engagement. We believe that this is a useful tool to support the ISA 315 approach and to help articulate when a different level of professional skepticism is applied in certain circumstances.</p>
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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>While there are a number of drivers for the appropriate application of professional skepticism, the drivers that we consider can best be enhanced by the standard setter are centred around three key areas:</p> <ul style="list-style-type: none"> • Clarity of description (ie firm culture, appropriate professional standards and adequate auditor training) • Transparency of application (ie auditor and client competence); and • Accountability for application (ie external audit inspections and internal quality reviews to assess documentation of the application of professional skepticism). <p>Impediments to the appropriate application of professional skepticism include budget and time</p>
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² <http://www.charteredaccountants.com.au/Training/Resources/eLearning/Professional-Skepticism>

³ [Practical Ways to Improve the Exercise and Documentation of Professional Skepticism in an ISA Audit](#) (May 2013)

⁴ [Enhancing Auditor Professional Skepticism](#) Professors Steven M. Glover and Douglas F. Prawitt, Brigham Young University (November 2013)

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	<p>pressures, tight reporting deadlines, heavy workloads, firm's performance management/reward systems and the 'payor' model. These are explained in further detail below.</p> <p>We commissioned research⁵ into how firms conceptualise and apply professional skepticism in an audit context. This research identified a range of drivers and inhibitors of professional skepticism, which would be a useful reference point for the IAASB.</p> <p>In our view the IAASB's role in enhancing these drivers and addressing the impediments lies most effectively in ensuring that the ISAs encourage the appropriate application of professional skepticism throughout the audit. For example, the ISAs currently require documentation of professional judgments made in an audit. Including the diagram linking professional judgement to professional skepticism (page 13 of the ITC) in ISA 200, and improving the linkage to the IESBA Code, would provide a stronger link to the requirement to maintain an attitude of professional skepticism throughout an audit.</p> <p>While we are aware that individual firms and others have developed a professional skepticism framework, we encourage the IAASB to consider using existing professional skepticism tools, such as our professional skepticism training tool, or considering promoting one of the existing frameworks rather than developing additional material. We consider there will always be a need for on-going auditor training, for clear and relevant standards, and for on-going guidance and reminders. In our publication⁶ we set out some of the practical ways in which firms in Australia are providing on-going training to enhance the application of professional skepticism.</p> <p>We note that most of the impediments identified relate to practice issues such as managing tight deadlines and working with finite resources. In our view audit firms are best placed to train auditors to apply the concept of professional skepticism when faced with such pressures and the most effective training in this regard is as part of the engagement, by way of on-the-job training, coaching and mentoring. Our online tool focuses on this aspect. Also we undertook research into attitudes within audit firms to particular drivers of audit quality. This research⁷ noted the importance of coaching, but also noted strong recognition amongst staff at all levels of the importance of professional skepticism.</p>
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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?

<p>PS3</p>	<p>We are encouraged by the creation of the Joint Working Group, set up to take a coordinated approach to addressing issues relating to professional skepticism. As noted in PS1 above, we consider that developing application guidance and clarifying elements of the definition of professional skepticism are the most significant areas that can be explored by the IAASB. Clarifying the relationship between key concepts such as professional skepticism, objectivity, professional judgment and professional competence, and providing explicit linkages between the ISAs and other international standards should be key priorities.</p> <p>We encourage the IAASB to promote the use of existing educational tools, such as our online professional skepticism training tool. Consistent training and education, consistently applied definitions and terminology and clearer guidance become increasingly more importance as different disciplines start to form a core part of the audit team (ie data analysts and IT</p>
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⁵ A [study](#) on how firms conceptualise and apply professional skepticism in an audit context, Philomena Leung, Nonna Martinov-Bennie and Maria Cadiz Dyball, Macquarie University

⁶ [Sharing experiences on audit quality infographic](#) Liz Stamford FCA (ICAA) and Valerie Clifford AAAPPC (November 2013)

⁷ [Audit quality research infographic](#)

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	<p>professionals becoming integrated in the audit team).</p> <p>Another area that may be useful to explore is the inclusion of additional critical thinking training at the university level. It may be worth examining whether critical thinking training could be incorporated into accounting university courses.</p> <p>Additional specific areas that could be addressed as part of the IAASB's forward work-plan include focussing on areas where the auditor is required to exercise a high degree of professional judgment. While we acknowledge that efforts are underway in this respect with the revision of ISA 540 <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>, we consider that ISA 570 <i>Going Concern</i> would also be a useful standard to review.</p>
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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>We consider the possible actions proposed in relation to quality control and group audits will assist in promoting improved application of professional skepticism and positively reflect the IAASB's desire to address impediments to audit quality that can be addressed through changes to the ISAs. However, in general, we do not support the creation of additional mandatory requirements as we consider this will deflect from the focus on applying professional skepticism. Additional mandatory requirements are likely to increase the time required to understand what audit procedures need to be undertaken, and may encourage a compliance ('tick box') mind-set.</p> <p>We address changes to quality control and group audits later but believe the intention to:</p> <ol style="list-style-type: none"> (1) clarify the timing and substance of review procedures performed by the engagement quality control (EQC) reviewer; and (2) evidence significant or substantive discussions between the engagement partner and EQC reviewer <p>may assist enabling the audit file to evidence key areas of the audit in which professional skepticism was applied.</p>
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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 consider a range of stakeholders have a key role in ensuring that professional skepticism is effectively applied, and appropriately demonstrated, in an audit file. These stakeholders include audit regulators, standard setters, professional bodies and audit firms. However a consistent understanding of the concept is a prerequisite. For example in relation to documentation, ISA 230 states: <i>"The auditor shall document discussions of significant matters with management... including the nature of the significant matter and when and with whom the discussions took place"</i>.</p> <p>We are aware of differences of views as to how this translates in relation to documenting challenges to key judgements. Some audit practitioners point to the spirit of paragraph 8 and A4</p>
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to support a view that the decision process and type of challenge should not be recorded. This, they believe is supported by practicalities of how many of the thousands of judgements made on an audit may need to be spelt out. Other practitioners, and some stakeholders, believe it is appropriate to record the substance of discussions on significant or material matters and judgements, including what alternatives were discussed and discounted.

It would be valuable if the IAASB could clarify its intention in this type of situation.

Resources which may be relevant to the IAASB considerations include:

- The Australian Securities and Investments Commission (ASIC) guidance⁸ encouraging directors and audit committees to challenge auditor's judgments with a view to assessing whether professional skepticism has been applied throughout an audit.
- The Australian Auditing and Assurance Standards Board (AUASB) bulletin⁹ on professional skepticism which advises that 'audit committees play a significant influencing role and commonly seek to foster professional skepticism in the external audit'. It includes examples of ways in which the audit committee can seek to foster appropriate professional skepticism in the external audit.
- The New Zealand Audit and Assurance Standards Board (NZAuASB) explanatory guide¹⁰ promoting application of the Staff Q&A released by the IAASB on Professional Skepticism in an Audit of Financial Statements¹¹.

Audit firms have also been instrumental in developing tools to assist with building a common understanding of professional skepticism, in order to enhance the application of professional skepticism in practice.

The Professional Skepticism Continuum, outlined in PS1 above, is another useful tool that was designed to assist auditors in understanding the concept of professional skepticism and determining the appropriate level of professional skepticism to apply in different circumstances.

As mentioned in PS1 above, we have developed an online training tool to auditors in applying professional skepticism. We drew upon a wide range of research to develop this programme, particularly in the area of decision heuristics. We provide a list of the research drawn upon in developing the online training programme in G3.

We are currently finalising a series of "Fraud Story" videos designed to share lessons learnt by experienced audit practitioners with younger members of the profession.

As noted in PS2 above, we also commissioned research into how audit firms conceptualise professional skepticism (with a focus on training and education) and worked with a number of firms to explore practical ways in which the application of professional skepticism is enhanced.

⁸ Information sheet 196: [Audit quality - The role of directors and audit committees](#) (March 2014)

⁹ [Professional Skepticism in an Audit of a Financial Report](#) (August 2012)

¹⁰ EG Au7: [References to Practical Guidance on Professional Skepticism in an Audit of Financial Statements](#) (February 2013)

¹¹ https://www.xrb.govt.nz/Site/News/NZAuASB_Communique/NZAuASB_Communique_6_15_Mar_2012.aspx

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

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>Whilst we support the concept of a QMA, it is not clear what differentiates a QMA from the current approach and how it would operate in practice. The cost of compliance with increased mandatory requirements versus a possible increase in audit quality needs to be carefully considered.</p> <p>The key challenge would be implementing a QMA firm-wide where there are multiple service lines each with different objectives. There are concerns about how any additional cost would be justified to the market. Scalability for smaller firms is also a concern.</p>
QC1(b)	<p>In developing any QMA, we support using an approach that is similar to, or aligned with, existing risk management and governance frameworks. In doing so, we encourage the use of an internationally recognised framework such as ISO 31000 <i>Risk Management</i> or COSO.</p>
QC1(c)	<p>If there are no substantive changes to ISQC 1, a restructure alone does not necessarily have to impact on the ISAs.</p>
QC1(d)	<p>We agree that the culture within a firm is a key element that creates an environment for audit quality. However, the tone at the top within a firm is determined by the characteristics of the leadership of that firm. We do not believe that a standard is an appropriate vehicle to direct firm-wide leadership styles.</p>

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.

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(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>We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Providing further clarity through guidance material in ISA 220 about what is meant by performance, direction, supervision and review by the engagement partner with reference to different audit team structures and technologies. • Adding an appendix to ISA 220 that sets out the responsibilities of the engagement partner.
QC2(a)(ii)	<p>The role of the engagement partner is challenging particularly where untraditional audit delivery models are used.</p> <p>Collating all engagement partner responsibilities in one place would serve as an easy single reference point. Currently they are spread out across requirements and application material.</p>
QC2(a)(iii)	<p>We do not support providing more specificity as to what audit documentation is required to be reviewed by the engagement partner and the nature of such review procedures. Whilst it is a tangible response, it would depart from the principles-based standards approach.</p>
QC2(a)(iv)	<p>Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
QC2(b)	<p>There is no need to include mandatory requirements or otherwise to address those circumstances in the ISAs. We believe this will only confuse and add no value. There is no requirement in Australia or New Zealand to name another individual other than the engagement partner in the audit report.</p>

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?

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- (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)	<p>We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Focusing on the core principles established by ISA 220 in relation to the engagement partner's responsibilities and the necessary direction, supervision and review of the work of others. • Expanding on the how the mandatory requirements apply when using another auditor's report as audit evidence. • We are concerned that the extent of suggestions in relation to the specific mandatory requirements and actions for an engagements partner could be counterproductive. It could lead to the partner spending more time enquiring documentation of compliance with each element rather than taking time to supervise, be involved, discuss judgements and evaluate. We believe that focusing on the core principles in relation to responsibilities, and providing specific guidance on how to apply principles and mandatory requirements in relation to directing work and review will be an effective approach.
QC3(a)(ii)	See above.
QC3(a)(iii)	We do not support naming others in the audit report, as this could confuse users as to respective roles and responsibilities.
QC3(a)(iv)	<p>Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
QC3(b)	<p>Application guidance for circumstances when other auditors are involved in an audit engagement (ie auditors that do not meet the definition of component auditors) could be useful.</p>

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

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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 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>We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Expanding application guidance on the extent to which individual firms can rely on network-level policies and procedures. • Exploring how ISQC 1 and the ISAs could acknowledge the use of new audit delivery models (ADMs).
QC4(a)(ii)	<p>Audit firms are increasingly using ADMs that are different to the traditional engagement team structures. Application guidance on how firms can rely on network-level policies and procedures (for those who are part of a network) would be well received.</p>
QC4(a)(iii)	<p>The manner in which networks and ADMs are structured can vary significantly. Therefore the flexibility of the principle-based standards needs to be maintained.</p>
QC4(a)(iv)	<p>Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
QC4(b)(i)	<p>Clarification as to what is required at the firm level and engagement level to appropriately</p>

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	rely on network-level policies and procedures would be well received.
QC4(b)(ii)	We agree that it would be challenging, and unproductive, for the IAASB to work on mandatory requirements for networks given the variety that exists and also the fact that a large number of practitioners to whom the standards apply may not be part of a network. We support practical application guidance giving examples of how the objective and mandatory requirements would be applied in different scenarios. This helps to establish an approach to application that can be utilised in other situations and as structures change and evolve.
QC4(b)(iii)a	Guidance material that addresses how the engagement partner's responsibilities for direction, supervision, performance and review would be applied in example ADM scenarios would be well received.
QC4(b)(iii)b	Auditing in the cloud is an emerging area, and raises issues such as the impact of changing technology on data privacy, personally identifiable customer information and data ownership on the audit approach, and how cyber security impacts audit risk. While technology changes the way in which components of an audit are undertaken, there is no substitute for the appropriate use of judgment and approaching each aspect of the audit with a sceptical mindset. In relation to quality control, it may be a different type of risk and may require specific controls and safeguards, but should not of itself impact the principles of managing quality in a firm's audit work.

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?

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QC5(a)(i)	<p>We believe that ISQC 1 appropriately sets mandatory requirements for leadership in relation to audit quality.</p> <p>We do not believe that ISAs are the appropriate vehicle to mandate how a firm should structure its business.</p> <p>We support the promotion of the public interest but question whether including the term will of itself achieve any change in approach.</p>
QC5(a)(ii)	See above.
QC5(a)(iii)	<p>There are concerns that the expanding number of standards, together with a regulatory focus on demonstrating compliance against specific mandatory requirements, is driving a compliance mindset. The focus on passing an audit inspection detracts from applying professional skepticism and judgement to form an opinion. We note that the IAASB does not frame audit quality as simply meeting the mandatory requirements of the auditing standards. We support the IAASB considering how standards achieve the objectives and if new standards are considered important, what existing mandatory requirements can be removed. An ever increasing list of mandatory requirements will not be effective.</p> <p>We believe audit firms that embed quality as a central objective of their business model will be significantly advantaged.</p>
QC5(a)(iv)	<p>Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
QC5(b)(i)	See our comment in relation to QC5(a)(i).
QC5(b)(ii)	<p>We do not support specifically requiring a firm to identify a single individual within firm leadership to be responsible and accountable for matters related to quality and independence matters. We are of the view that the ultimate responsibility for audit quality in any audit firm rests with the leadership of that firm as a whole. Also it may not be appropriate for a smaller firm or sole practitioner.</p>
QC5(b)(iii)	<p>The use of a QMA by firms might provide better support or context for the importance of responsibility and accountability for quality of firm leadership. We note that some firms already utilise this approach.</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

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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.
- (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.

QC6(a)(i)	<p>We consider that the most meaningful actions to address are:</p> <ul style="list-style-type: none"> • Clarifying application guidance in relation to the nature, timing and extent of matters to be considered by the EQC reviewer. • Maintaining an appropriate distinction between the responsibilities of the engagement partner and those of the EQC reviewer.
QC6(a)(ii)	<p>Feedback we received is that it is currently not clear how much involvement by the EQC reviewer is envisaged by the ISAs.</p>
QC6(a)(iii)	<p>We do not support mandating communication between the EQC reviewer and those charged with governance, as this could confuse respective roles and responsibilities. While some may choose to do this, the key objective of an EQC review is an internal, independent look at the team's judgements. The EQC reviewer will not be able to offer any additional or different insights to those charged with governance than those offered by engagement partner.</p>
QC6(a)(iv)	<p>Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
QC6(b)(i)	<p>In our view the types of engagements that would require an EQC reviewer should not be expanded beyond audits of listed entities. National standard setters are best placed to</p>

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	determine which entities it should apply to, over and above listed entities. For example, a 'listed entity' is not defined in New Zealand legislation. Consequently all references to listed entities in the ISAs have been replaced with 'Financial Market Conduct (FMC) reporting entities considered to have a higher level of public accountability ¹² '. This includes banks and insurance companies, so the EQC review requirement is already applied more broadly in New Zealand.
QC6(b)(ii)	Rotation requirements are set out in the IESBA <i>Code of Ethics for Professional Accountants</i> , and therefore should not be addressed in ISQC1.
QC6(b)(iii)	We do not believe a separate EQC review standard needs to be developed. Clarification of mandatory requirements for EQC reviewers can be achieved through revising existing standards.

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)	<p>We consider that the most meaningful actions that a firm/practitioner should do are:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the causal factors of any audit findings or deficiencies for the particular firm or engagement. • Developing and implementing remedial actions which specifically address the identified causal factors. • Monitoring by firm leadership of the effectiveness and appropriateness of remedial actions.
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¹² As defined in [section 461K of the Financial Markets Conduct Act 2013](#)

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QC7(a)(ii)	Consideration of firms' systems to improve consistency of approach by all partners and staff may be a more effective way to achieve continual improvement in audit quality. Also actions to address the cause of an issue, as opposed to just the resulting error, is likely to be more effective.
QC7(a)(iii)	No further comments.
QC7(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.
QC7(b)(i)	See above.
QC7(b)(ii)	See above.

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>Feedback from our members emphasises a view that audit practitioners are not primarily driven by compensation and indeed many firms operate straight equity sharing. Quality of audit work is safeguarded through a large variety of other means, such as direct accountability to other partners in the firm. Also quoted is the combined effect of ethical and professional training from university or professional qualification onwards, the public interest emphasis of being a member of a professional body, the application of auditing standards predicated on public interest, and professional pride.</p> <p>We believe that a clear emphasis on accountability for the quality of audit work is important but do not believe a focus on compensation will be effective.</p> <p>We note that in relation to compensation, there is already a provision in the IESBA <i>Code of Ethics for Professional Accountants</i> that prohibits audit partners from being compensated or evaluated for selling other services to an audit client.</p> <p>A question sometimes raised is whether there should be a monetary link between quality review or inspection results and partner pay. We believe the standards should focus on accountability. Such a monetary link may be given as an example of how accountability could be applied if appropriate to an individual firm but we do not believe it is appropriate, necessary or practical to be a mandatory requirement.</p>
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QC8(b)	See above.
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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, please explain why, including any potential consequences of those actions that you believe we need to consider.

QC9(a)(i)	We consider that the most meaningful action to address is considering whether ISQC 1 should explicitly highlight the competencies in IES 8 (Revised).
QC9(a)(ii)	Application guidance that is consistent with IES 8 would be useful.
QC9(a)(iii)	No further comments.
QC9(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors’ ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.
QC9(b)(i)	See above.
QC9(b)(ii)	See above.

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QC9(b)(iii)	See above.
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QC10. *Transparency Reporting*

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

- (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)	Many major capital markets, including Australia, require auditors of listed entities to prepare an annual transparency report, explaining the firms' specific processes to manage audit quality. This provides a vast amount of detail on matters of direct relevance to the consistent provision of quality audits. We agree that it would not be feasible for the IAASB to mandate transparency reporting at an international level. Therefore, it is most appropriate if such requirements are established and enforced at the jurisdictional level.
QC10(b)	We agree it would be useful to explore the impact of transparency reporting on audit quality as suggested in paragraph 190(b) as these reports can be used to show how firms are implementing innovative actions to achieve continuous improvement in audit quality. We reviewed the 2014 transparency reports released in Australia and published our findings ¹³ . One of the elements we specifically looked for was evidence of firms addressing recognised drivers of audit quality as set out in the IAASB's <i>Framework for Audit Quality</i> .

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

QC12	No further comments.
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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	Whilst we agree with the IAASB's view that an 'audit is an audit', in practice, we know that there are issues in scaling an audit for smaller entities. We encourage the IAASB to explore options in relation to scaling an ISA audit (additional guidance) or developing either an audit standard or other assurance project for use by the auditors of small entities.
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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.

¹³ [Clearer Transparency](#) (June 2015)

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QC14	No further comments.
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GROUP AUDITS

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>We believe that it is clear to auditors that in applying ISA 600, they also need to comply with the mandatory requirements of all ISAs. The feedback we received was supportive of the need to increase the flexibility of ISA 600. An issue that auditors face is that the business models used by entities develop more quickly than auditing standards change, which leaves auditors to extrapolate the principles in existing standards to situations that were not contemplated when the standards were developed. We believe that standard setters should focus on developing standards that contain clear principles that can be used when the models used by business change.</p> <p>The area which could be improved is the application guidance. Application guidance should be written to show how to approach the mandatory requirements in specific circumstances – those that commonly arise or are potentially confusing. Clearly showing the approach to applying the mandatory requirements in these scenarios can help practitioners to apply the approach to different and evolving scenarios. We do not believe the existing principles of the standard are wrong.</p> <p>We believe it would be beneficial to broaden the scope of ISA 600 to address using the work of other auditors in a number of circumstances including group audits, audits of shared service centres, audits of joint ventures and associates along with other common scenarios that may be identified. The principles in the current mandatory requirements do not need to change. However the standard will need additional application guidance to show the approach to applying the principles to these other scenarios.</p> <p>The responsibilities of component auditors when performing work which will be used by another auditor whether in a group situation or in another business model, also need to be clarified. In our consultations, participants were split between those who believe there should be a separate standard for component auditors and those who believe the clarifications can be addressed through revisions to ISA 600.</p>
GA1(b)	<p>We believe that other than the need to expand the scope of the standard, and the need to clarify the responsibilities of component auditors (see our comments in GA4(a)(iii), most of the issues that exist in relation to the performance of group audits under the extant ISA 600 can be</p>

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	addressed through the development of application guidance.
GA1(c)	We do not believe it is necessary to refer to the work of another auditor in the auditor's report. The group engagement partner is responsible for forming the opinion on the group financial report.
GA1(d)	<p>As a project to revise ISA 600 will be a longer term project, we believe the board should develop separate guidance on applying the extant ISA 600 to other common business models such as shared service centres and audits of joint ventures and associates and the responsibilities of component auditors. Even traditional group audits encompass a wide range of situations with various degrees of control and homogeneity of process or management of components, combined with various degrees of homogeneity of process or management of the auditor (for example the complexity of a group audit performed by the same firm in one country, the same firm in several countries, the same network in one country, the same network in several countries or a group auditor who has to use non networked/affiliated auditor for some components varies considerably).</p> <p>We have also had feedback that guidance on situations such as group audits where the components are divisions rather than subsidiaries or where the group audit team also performs one or more component audits would be welcome.</p> <p>Standalone guidance would assist practitioners performing these engagements and improve audit quality in a faster timeframe than can be achieved through the revision of the standard.</p>

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)	While the ideas explored in paragraph 215 are useful, we encourage the exploration of providing guidance rather than additional mandatory requirements wherever possible. Our
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	<p>members feel that continually expanding mandatory requirements drives a compliance mentality both in auditors and regulators and that this does not assist in improving audit quality. Any new mandatory requirements should be principles-based and not prescriptive and must be applicable for all size audits.</p> <p>We note that group situations are not limited to multi-national entities.</p>
GA2(a)(ii)	See above.
GA2(a)(ii)	No further comments.
GA2(a)(iv)	<p>Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.</p>
GA2(b)(i)	<p>We understand that firms do still experience access issues. These issues are more problematic in joint venture and associates, which could be addressed by widening the scope of ISA 600 as discussed in our response to GA1(d).</p>
GA2(b)(ii)	<p>Other than widening the scope of the standard, it would be preferable to explore additional guidance rather than additional mandatory requirements in relation to this issue.</p>
GA2(b)(iii)	<p>While the ideas explored in paragraph 215 are useful, again, we encourage the exploration of providing guidance rather than additional mandatory requirements. Our members feel that continually expanding mandatory requirements drives a compliance mentality both in auditors and regulators and that this does not assist in improving audit quality.</p>

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)	While the actions suggested in paragraph 224 are appropriate, we encourage the
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	exploration of providing guidance rather than additional mandatory requirements. Our members feel that continually expanding mandatory requirements drives a compliance mentality both in auditors and regulators and that this does not assist in improving audit quality. Also see above for our comments on addressing component auditor responsibilities more fully.
GA3(a)(ii)	See above.
GA3(a)(iii)	No further comments.
GA3(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.

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)	We support the need for additional clarification in relation to using the work of component auditors, but believe that most of the clarification needed can be achieved through the development of application guidance
GA4(a)(ii)	See above.
GA4(a)(iii)	A more explicit to the link between component auditors' professional obligations under the

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	IESBA's <i>Code of Ethics for Professional Accountants</i> to matters of access and confidentiality in the requirements would be useful as this would oblige component auditors to comply.
GA4(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.
GA4(b)(i)	We believe the role of the group engagement team should be flexible, particularly if the scope of ISA 600 is widened to include situations other than group audits where auditors need to use the work of other auditors as discussed in our response to GA1(d). We support the broadening of the standard to encompass a wider variety of circumstances but also the exploration of developing guidance for the existing (and any revised) standard to assist practitioners rather than impose new mandatory requirements.
GA4(b)(ii)	We do not support a more explicit mandatory requirement. We believe that group engagement partners already assess the work of potential component auditors.

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)	We believe that the priority should be placed on providing application guidance to assist practitioners to deal with risk assessment in the wide variety of scenarios which exist in practice rather than in the imposition of additional mandatory requirements.
GA5(a)(ii)	See earlier comments about the impact of imposing additional mandatory requirements versus the benefits of providing guidance on applying the existing principles.
GA5(a)(iii)	No further comments.
GA5(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking

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	required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.
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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 materiality 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)	There are challenges in applying the materiality in group audits. We believe that these are best addressed with application guidance as discussed in paragraph 261.
GA6(b)	No further comments.

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 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?

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- (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)	There is a need for further guidance on using qualitative factors in risk assessment and responses and, as previously discussed, on applying ISA 600 to a wide range of scenarios and expanding the scope of the standard.
GA7(a)(ii)	The feedback we received in relation to this section was that if the appropriate clarifications in relation to access, communication and access and continuance are made, many of the issues addressed here would be minimised.
GA7(a)(iii)	No further comments.
GA7(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.
GA7(b)(i)	See above.
GA7(b)(ii)	See above.
GA7(b)(iii)	See above.
GA7(b)(iv)	See above.

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

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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)	We believe that the priority should be placed on providing application guidance to assist practitioners to deal with these issues in the wide variety of scenarios which exist in practice rather than in the imposition of additional mandatory requirements.
GA8(a)(ii)	See above.
GA8(a)(iii)	No further comments.
GA8(a)(iv)	Unintended consequences of more prescriptive requirements may include encouraging behavioural traits that focus on compliance and which run counter to the depth of thinking required for a quality audit. Also, there are already over 440 mandatory requirements in auditing standards. The cost of complying with an increased number or with increased prescription in mandatory requirements is not insubstantial. Any potential increase in audit quality would have to justify the cost of compliance. Any potential increase in audit quality also needs to take into effect the cumulative effect of additional mandatory requirements on an auditors' ability to apply appropriate time and judgement. This may be particularly pertinent to smaller firms of practitioners, sole practitioners or smaller audit engagements.

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	Further application guidance on these matters, particularly the impact of KAM to group audits as discussed in paragraph 305, would be useful. Further guidance on the impact of modifications in components would also be useful.
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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	See our comment in relation to GA1.
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GA11. Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.

GA11	The directors and preparers could also impact the audit quality in group audits by looking at governance in relation to facilitating access for group auditors to components and communications with component managers.
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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	Whilst we agree with the IAASB's view that an 'audit is an audit', in practice, we know that there are issues in scaling an audit for smaller entities. This issue cannot be solely addressed
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	<p>through the auditing standards as part of the issue is which entities should be subject to audit, which is matter of policy in individual jurisdictions and requires policy reform to address. However we encourage the IAASB to explore options in relation to both scaling an ISA audit (additional guidance) and developing either an audit standard or other assurance project for use by the auditors of small entities. The Nordic Federation of Accountants proposed Standard for Audits of Small Entities which they consulted on in 2015 is an example of the kind of approach that could be considered.</p>
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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 further comments.
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