

May 16, 2016

Via Electronic Mail

IAASB Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

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

The following are answers to questions set forth in the invitation. Questions on which I do not have a comment are skipped.

*GI(a): Are these public interest issues relevant to our work on these topics?*

All topics listed in table 1 are relevant except firm-level transparency reporting. Stating the audit was conducted in accordance with professional standards should be sufficient to indicate a quality audit. In turn, the peer review report should be sufficient evidence that professional standards are followed. Results of any regulatory reviews provide further evidence, and ultimately the auditor's work is proved true over time. Accordingly, there is a risk that mandated transparency reporting may unduly undermine the auditor's opinion and peer review report. Existing forces – regulation, litigation and reputation – should be sufficient to control quality far better than any required transparency reporting.

That said, it is incumbent upon audit organizations to develop transparency reporting to the extent they find it useful to build their reputation. It is also incumbent on audit committees to ask for information to the extent they find it useful.

As recommended by the Center for Audit Quality's January 12, 2016 [report](#), further work is needed to develop consensus about audit quality measures and the most effective ways to assess audit quality. Attempting to measure audit quality is inherently difficult due to the nature of the auditor's work and is the subject of several ongoing projects by different groups. Accordingly, it would not be appropriate at this juncture for specific audit quality measures to be incorporated into professional standards. Even if consensus on audit quality measures is achieved, standards should require such measures be incorporated as a requirement for an audit organization's quality control monitoring rather than separate external transparency reporting.

*GI(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.*

Yes. Continued efforts for convergence of both accounting and auditing standards is relevant, since fragmentation of standards complicates and hinders professional skepticism, quality control and group audits.

*G1(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?*

See answer to question G1(b).

*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?*

Yes. FASB and IASB's recent proposals on materiality for note disclosures appear to be divergent from requirements of audit standards to identify, accumulate, evaluate and communicate misstatements. This divergence would have effects on application of professional skepticism, quality control and group audits.

*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?*

No.

*PS1: Is your interpretation of the concept of professional skepticism consistent with how it is defined and referred to in the ISAs*

Yes.

*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?*

I agree with the list of factors influencing professional skepticism listed in paragraph 23.

If there is any question about definitions or expectations, these should be clarified. However, since professional skepticism is a state of mind that is influenced by personal traits (as described in paragraph 28), there is a limitation to how much professional standards can "fix" any perceived deficiency in practice short of attempting to make professional judgments for auditors.

There are also inherent difficulties in evaluating professional skepticism. It is inseparable from the professional judgments on which it is applied (as described in paragraphs 24-27), and evaluating a professional judgment is itself a professional judgment. In other

words, it can be difficult to distinguish between a deficiency and a simple difference of opinion.

*PS3: Is the listing of areas being explored in paragraph 38–40 complete? What do you think are the most important area to be considered?*

The greater consensus in the profession about what professional judgments should be made in a particular circumstance, the clearer the application of professional skepticism will be. Therefore, the most important area would emerge from future projects, such as the project to address issues with auditor’s identification and assessment of risks as noted in paragraph 40(b).

*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?*

Yes. Professional skepticism ultimately means controlling for appropriately robust evaluations underlying professional judgments.

*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)?*

Continued efforts for convergence of accounting and auditing standards, as fragmentation is a barrier to technical competence, which is a foundation for professional skepticism (paragraph 23). Greater convergence will improve effectiveness of education and training and reduce barriers to consistently understanding, recalling and applying standards. This in turn leads to greater assurance of technical competence. For example, in the US, there are significant, unnecessary differences in financial reporting models for federal government, state and local government, not-for-profit organizations, and private companies. Due to these differences, universities are unable to sufficiently prepare graduates to prepare and audit financial statements for all of these domestic reporting models, much less for international private and international government models or issues in specialized industries as well. This leads not only to risks to technical competence, but also divergence in conventions and applications of professional judgments, which may lead to wider differences in views on how professional skepticism should be applied.

*QCI(a): Would use of a QMA help to improve audit quality? If not, why not?*

No. I believe more specific practical guidance and requirements are needed, rather than more conceptual guidance. If “QMA” is introduced, it should simply be as clarifications to requirements or application material for existing standards on an audit organization’s system of quality control and not as a new term. As I understand it from the invitation to

comment, this is simply emphasizing that quality control monitoring should be risk based and dynamic, which I think is obvious.

*QC1(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?*

Yes. Regardless of whether QMA is added, the following specific, practical elements should be required to be documented at the firm level:

- Identification of all internal and external assessments of audit quality.
- Summary of significant internal and external recommendations and the status of implementation or follow-up.
- Identification of separate teams for group audit, independence evaluation and quality control monitoring purposes.
- List of engagements performed by relevant attributes, at a minimum:
  - The type of engagement. That is, the standard or combination of standards under which the engagement is performed.
  - Whether the engagement was for a specialized industry.
  - The type of financial reporting framework for engagements relating to financial statements.
  - Team with primary responsibility for the engagement
- Tracking re-issuances and prior period adjustments.
- Firm-wide analysis of quality risks, to be performed at least biennially for small firms or annually for large firms, considering:
  - High risk types of engagements or specialized industries.
  - Emerging issues or changes in standards relevant to engagement types, specialized industries and/or types of financial reporting frameworks.
  - Independence, hiring, training or other concerns with specific teams.
  - Areas where few engagements of a certain type, specialized industry or financial reporting framework are done.
  - Areas where past quality concerns were noted.
  - Areas where policies or quality control materials have not been developed or need to be updated at the firm level.
- Root cause analysis on re-issuances and prior period adjustments, either individually or in aggregate on at least an annual basis.

By requiring these specific, practical elements, an audit organization of any size will be able to have the information needed to support an effective quality monitoring system. There will also be sufficient information needed for peer reviews or regulators to independently evaluate quality risks and the appropriateness of the audit organization's evaluation and responses to these risks.

The Board may also wish to consider brainstorming requirements associated with the analysis of quality risks.

*QC1(c): In your view, how might a change to restructure ISQC 1 impact the ISAs, including those addressing quality control at the engagement level?*

I don't think it will make an impact without specific practical requirements or application material. See suggested elements in answer to QC1(b).

*QC1(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?*

By adding specific practical elements. See answer to QC1(b).

*QC2(a)(i): Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?*

The most meaningful actions would be to (1) provide further clarity to ISA 220 about what is meant by performance, direction, supervision and review by adding application material and (2) by adding an appendix to ISA 220 and 600 that lists responsibilities of the engagement partner.

*QC2(a)(ii): Why do you believe these actions are necessary?*

To provide more clarity and consistent understanding of expectations within the profession.

*QC2(a)(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.*

No.

*QC2(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?*

No. Standards should avoid additional requirements related to signing the auditor's report for reasons noted in paragraph 86. Quality control procedures should not be determined by who signs the report since the audit organization has the same responsibility regardless of who signs.

*QC3(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)?*

Yes, if only to clarify the difference.

*QC5(a)(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?*

A requirement to identify specific personnel responsible and accountable for independence matters would be most meaningful, because it is a specific and practical requirement.

Also, the Board should consider approaching concerns discussed in paragraph 135 in context of the consideration of the needs and expectations of users when evaluating risks and materiality during engagement planning, rather than introducing the concept of “public interest”.

*QC5(a)(ii): Why do you believe these actions are necessary?*

Establishing authorities and responsibilities in pursuit of objectives is a necessary principle of internal control. While many matters of audit organization governance and leadership may appropriately vary, clearly assigning authorities and responsibilities for key elements of quality control at the firm-level can be expected.

*QC5(a)(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.*

Yes. For each engagement type, financial reporting framework and specialized industry for which engagements are performed, identification of specific personnel responsible and accountable for developing, evaluating and maintaining quality control materials.

*QC5(b)(i): Do you believe it is necessary for us to explore how the governance of a firm could be addressed in ISQC 1?*

Not any further than already addressed, other than expected assignment of responsibility for key elements of the quality control system as noted in answers to QC5(a).

*QC5(b)(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?*

I don't believe this is necessary.

*QC5(b)(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?*

I don't think so. Specific, practical requirements or application material is needed more than additional conceptual guidance.

*QC6(b)(i): Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If no, please explain your reasoning.*

No. EQC reviews are only one possible response to a quality risk. Standards should provide flexibility for both appropriate responses based on risk and the structure of the audit organization, as well as innovation. For example:

- Management oversight processes.
- Integration of independent supervision or consultation as part of regular audit processes.
- Tracking and monitoring certain audit quality indicators.
- Increased efforts to develop policies, quality control materials, training or audit software tools.
- Limited-scope quality control reviews.
- Cross-cutting reviews across many engagements for particular topics or high risk areas (such as sampling or implementation of a new standard or policy).
- Post-release reviews.
- EQC reviews upon request, as part of a corrective action plan, or as a response to risk assessment judgments made in planning and performing the audit.

In particular, the requirement to conduct an EQC review prior to report release assumes existing standards for supervision and review of the engagement are not sufficient to support the auditor's report. If they were, and the function of an EQC review is strictly monitoring, then it should be sufficient to conduct the review on a post-release basis (with existing standards already providing necessary guidance if any issues are noted post-release).

*QC6(b)(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 no, please explain why.*

No. See answer to QC6(b)(i). Standards should allow for monitoring activities to be based on quality control risks and flexible to fit the structure and operations of different audit organizations. For example, audit organizations may establish different levels of

review or involvement by others or technical specialists as part of normal audit processes that would provide for sufficient monitoring of quality apart from a formal EQC.

*QC6(b)(iii): Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.*

No. See answer to QC6(b)(i). EQC reviews should be viewed as only one of many possible elements in a quality control system or responses to quality control risks. Moreover, additional prescription for quality responses regardless of the assessment of quality risks, structure of the audit organization, etc, would seem contrary to the risk-based concept of “QMA”.

*QC7(a)(i): Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?*

All actions described would be meaningful and should be required elements of a quality control monitoring system.

*QC7(a)(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.*

See answer to QC1(b) for required information elements that would be a necessary foundation for quality risk assessments and determination of appropriate responses.

*QC7(b)(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?*

Yes.

*QC7(b)(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?*

Yes.

*QC8(a): Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?*

No. As is well-documented in academic research, performance and motivation are influenced by many factors other than compensation. Unless there is consensus within the profession, supported by consensus academic research, on “the right” compensation

structure or elements that lead to audit quality, then it would not be appropriate have prescriptive requirements of professional standards in this area. Moreover, any linkages made would also be limited by the ability to measure audit quality in real time.

*QC9(a)(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?*

Including detailed application material addressing necessary skills and competencies for on engagement partners would be most meaningful.

*QC9(a)(ii): Why do you believe these actions are necessary?*

Such a list would provide a specific, practical resource for audit organizations and serve to converge thinking related to competency and appropriate engagement assignments within the profession.

*QC9(a)(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.*

No.

Continuity planning is a control relevant to an audit organization's performance objectives, but would only be relevant to quality control objectives to the extent existing acceptance and continuance requirements are ignored.

*QC10(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?*

The Board's perspective and engagement on this emerging dialog would certainly be helpful. The most appropriate action would be to allow dialog to continue and mature, and possibly to provide application materials or non-authoritative material as discussed in paragraph 190(b) for audit quality measures that could or should be tracked as part of a firm's quality control monitoring system. A focus on a firm's quality control monitoring system rather than on a firm's external reporting would seem far more appropriate for this subject.

*GAI(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?*

Continuing efforts for convergence of accounting and auditing standards – including group audit standards - will serve not only to reduce complexities and barriers to group audits, but also serve to reduce differences in perspectives across the profession.

*GA3(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?*

Developing a separate standard or set of requirements directed at component auditors would be most meaningful. The auditor's risk assessment and materiality judgments should be informed, in part, by an understanding of the needs and expectations of users. When an auditor becomes aware that they are auditing a component, they need to understand and consider the needs and expectations of the group auditor and users of the group audit to inform their planning. The group auditor also represents a relevant source of risk assessment information for the component audit.

*GA3(ii): Why do you believe these actions are necessary?*

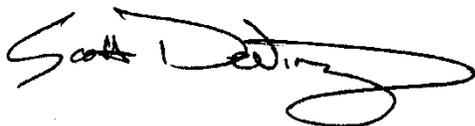
A separate standard or set of requirements directed at component auditors is necessary to clarify how the group audit and information shared with the group auditor relate to the component auditor's normal planning, materiality and other procedures and judgments. In particular, how the component auditor's communication of issues with the group auditor provides necessary information to evaluate materiality of issues in accordance with existing standards.

*GA3(iii): Are there other relevant issues that we should consider, or actions that would be more effective than those described?*

No.

Thank you for the opportunity to provide comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott DeViney". The signature is stylized with a large, sweeping flourish at the end.

Scott DeViney, CPA