



**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
(IAASB)**

**INVITATION TO COMMENT – ENHANCING AUDIT QUALITY IN THE  
PUBLIC INTEREST**

**RESPONSE FROM ICAS TO THE IAASB**

13 May 2016

## BACKGROUND

ICAS welcomes the opportunity to comment on the International Auditing and Assurance Standards Board Invitation to Comment (ITC): *Enhancing audit quality in the public interest*.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

## GENERAL COMMENTS

We welcome the IAASB's decision to tackle the three topics of professional skepticism, quality control and group audits addressed in the ITC and acknowledge that each of them can have a bearing on audit quality and that there is some overlap and interaction between the three.

Here are our responses to the questions in the ITC in relation to each of the three topics of professional skepticism; quality control; and group audits.

## 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.

### **Response G1**

We welcome the IAASB's decision to tackle the three topics of professional skepticism, quality control and group audits and acknowledge that each of them can have a bearing on audit quality and that there is some overlap and interaction between the three.

**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 prioritised?

### **Response G2**

We have not identified any other actions that should be taken into account.

**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.

**Response G3**

ICAS and the FRC recently published two joint research reports which explore the ideal composition of modern audit teams and how they can best meet future demands: [Skills, competencies and the sustainability of the modern audit](#) and [The capability and competency requirements of auditors in today's complex global business environment](#)

**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?

**Response PS1**

We associate the term professional skepticism with a mind-set and attitude adopted by an auditor when exercising professional judgement over subjective areas of the financial statements. So there is a clear interaction between the two terms: professional skepticism and professional judgement.

We therefore welcome the illustration on page 13 of the ITC on how professional skepticism drives action, but believe that this could be enhanced by emphasising the need for the auditor to demonstrate and adopt a particular attitude, i.e. that of a questioning and challenging nature, when exercising their judgement.

We also acknowledge the importance of auditor documentation on how skepticism has been applied during the judgement process in order that it can be demonstrated that an appropriate conclusion has been reached based on the facts and information available at the time.

Nonetheless, it is important that a risk-based approach is adopted in relation to the areas/matters over which professional skepticism should be applied with a focus on those areas/matters of significant risk.

**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?

**Response PS2**

Please see response to PS1.

**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?

**Response PS3**

It is important that a challenging and questioning attitude is nurtured at all levels in the firm. We believe that this may have an impact on recruitment processes as equal emphasis may be placed on both the technical abilities and the softer skills of the auditor, ie the psychological awareness and courage of the auditor. This concept features in the ICAS paper: [Moral Courage](#) which acknowledges that it is not always easy to do “the right thing”, and that ethical behaviour and leadership requires moral courage.

**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?

**Response PS4**

See response to PS3.

**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?

**Response PS5**

There may be a need for more diverse audit teams, including specialists in areas outside of the accounting profession. to introduce a new mind-set within the audit engagement team. This suggestion is considered in our Audit Skills research as referred to in Response G3 above. Also, increasingly complex reporting standards, and a rapidly changing technological environment, require new specialisms for the audit engagement team, for example in data analytics and specialist sector knowledge, for example the financial services sector.

Mentoring and training throughout an auditor's career is also important to reinforce the principles and importance of a skeptical mind-set. This might be provided through sharing experiences and examples that illustrate where professional skepticism and professional judgement have been applied and should include the negative experiences, ie where the wrong judgement has been applied, as well as the positive ones.

It has been suggested that the need for the application of professional skepticism is emphasised at the early stages of the audit, for example in the planning stages, but this emphasis is less evident during the latter stages of an audit. The underlying reasons for this inconsistency might be due to time and fee pressures as the audit nears its conclusion. The latter stages are often rushed to meet client expectations, or the firm's budgetary requirements, meaning that the auditor applies less time to considering and adopting a skeptical mind-set.

There have also been suggestions that the model for the composition of the audit engagement team might also need to be revised to include more senior staff within the engagement team who are sufficiently experienced to be able to apply a professional skeptical attitude and have time to develop and encourage a similar attitude in more junior, newer members of the team.

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

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

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

- (a) Would use of a QMA help to improve audit quality? If not, why not? What challenges might there be in restructuring ISQC 1 to facilitate this approach?
- (b) If ISQC 1 is restructured to require the firm's use of a QMA, in light of the objective of a QMA and the possible elements described in paragraphs 64 and Table 3, are there other elements that should be included? If so, what are they?
- (c) In your view, how might a change to restructure ISQC 1 impact the ISAs, including those addressing quality control at the engagement level?
- (d) If ISQC 1 is not restructured to require the firm's use of a QMA, do you believe that we should otherwise address the matters described in paragraph 59 and table 2, and if so, how?

**Response QC1**

Overall we welcome the introduction of a new QMA system. We believe that such a system might help to tackle some of the scalability issues faced by SMPs in ISQC1. However, carefully worded guidance and application material will be necessary to ensure that proportionality is practical and possible for SMPs.

**QC2. Engagement Partner Roles and Responsibilities**

**(a)** Paragraphs 69–86 set out matters relating to the roles and responsibilities of the engagement partner.

- (i) Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Describe any potential consequences of possible actions that you believe we need to consider further.

**Response QC2 (a)**

Audit delivery models and firm and network structures are becoming increasingly complex therefore it is important that the standards clarify the responsibilities of the engagement partner for directing and providing adequate supervision and control.

**(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).

**Response QC2 (b)**

We are not clear as to the extent that such situations arise and therefore it might be valuable for the IAASB to investigate how widespread such instances are and use these findings as a basis for considering whether including such requirements in the ISAs is necessary.

**QC3. Others Involved in the Audit**

**(a)** Paragraphs 87–104 set out matters relating to involvement of others in the audit:

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

**Response QC3**

As far as other auditors/experts involved in the audit are concerned, reference to the extent of involvement of such parties in the audit could be made in the audit scope section of the new enhanced auditor's reports. Many UK companies currently include this type of information in their audit reports containing, for example, the extent and nature of the work performed by other components auditors as part of the group audit process. This has been seen as a positive inclusion and does not undermine, or create confusion over, the role of the group engagement partner.

**QC4. The Firms' Role in Supporting Quality**

**(a)** Paragraphs 106–123 set out matters relating to networks of firms and use of ADMs.

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

**(b) Specifically:**

- (i) What could we do to address the issues identified in the context of networks of firms? For 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.

**Response QC4**

At the moment, ISQC1 and the ISAs are silent on the firms' use of Audit Delivery Models (ADMs), therefore, further guidance on the approach and procedures to be applied when using ADMs, both in terms of performance and quality control, is necessary throughout the standards and is not isolated to ISQC1.

**QC5–QC10 address the more significant issues relating to quality control specific matters****QC5. Governance of the Firm, Including Leadership Responsibilities for Quality**

**(a)** Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.

- (i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

**(b) Specifically:**

- (i) Do you believe it is necessary for us to explore how the governance of a firm could be addressed in ISQC 1?
- (ii) Should ISQC 1 specifically address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence related matters? If so, how should this be done, and what direction should ISQC 1 provide to firms in appointing appropriate individuals to assume these responsibilities?
- (iii) Would the use by firms of a QMA provide better support or context for the importance of quality-related responsibilities for firm leadership, and related accountability, and therefore better facilitate the ability of firms to address these matters?

**Response QC5**

As far as firm governance and leadership is concerned, any IAASB review of how this could be addressed in ISQC1 should be limited to changes that are likely to have a positive impact on audit quality. References to the importance of the culture of the firm, and 'tone at the top', and 'leading by example', within ISQC1 will reinforce the responsibility for the firm leadership to establish and encourage an appropriate culture at all levels in the firm.

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

**(a)** Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.

- (i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

**(b) Specifically:**

- (i) Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.
- (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.

**Response QC6**

In relation to engagement quality control reviews, we do not believe that this should be subject to a separate standard as this is likely to repeat much of the same information already contained in ISQC1.

**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.

**Response QC7**

With regard to the monitoring and remediation aspects within quality control reviews, it is not only important for firms to undertake root cause analysis and review. Equally important is the development of an action plan to redress these issues and to take steps to ensure that they do not recur. Some means of monitoring the progress against this action plan should also be introduced.

**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?

**Response QC8**

Although remuneration policy and related incentives should be linked to the organisation's overall strategy - in which quality plays an important role - quality is still very subjective. It is therefore difficult to link audit quality directly to compensation.

**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.

### ***Response QC9***

As a means of developing its culture, a firm should also consider how it might incentivise and reward its staff for demonstrating a challenging and professionally skeptical attitude and not just for complying with the technical requirements of the audit process. The issue of staff retention is also an issue that firms need to address. If younger staff cannot be incentivised to stay, then this might impact the audit firm's long-term future if there is no succession plan in place.

### ***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.

### ***Response QC10***

We agree that the evolution of transparency reporting is a matter for local laws and regulations and therefore the IAASB should continue to monitor the extent and demand for such reporting and consider how to facilitate ongoing dialogue and encourage academic research to explore the impact of transparency reporting on audit quality.

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

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

### ***Response QC11***

We have not identified any other issues.

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

### ***Response QC12***

We have not identified any other issues.

**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.

### ***Response QC13***

The scalability of the proposed QMA will need to be given careful consideration and need to be tackled in a fair manner by the IAASB, but not to the extent that it impairs quality. A level playing field should be found for all auditors in relation to quality control, but scalability should not lead to a reduction in audit quality. It is therefore suggested that scalability should be driven by the types of clients that are being audited as opposed to the size of the firms.

**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.

**Response QC14**

We have not identified any other issues.

**GROUP AUDITS**

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

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

(a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 194–198)? If not, please explain why. What else could we do to address the issues set out in this consultation?

(b) Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?

(c) Should we further explore making reference to another auditor in an auditor's report? If yes, how does this impact the auditor's work effort?

(d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

**Response GA1**

We welcome the decision to revise ISA 600 in response to issues with group audits. However, key to the proper application of ISA 600 is the need to emphasise that it is not a stand-alone standard and to stress the need, in a group audit, for the auditor to consider and apply all relevant ISAs. For that reason, greater linkage between ISA 600 and the more detailed guidance in the most commonly used ISAs in a group audit situation will help reinforce this message.

In terms of how ISA 600 should deal with some of the challenges posed by more complex organisational structures, this might be best done through a Practice Note (IAPN) or training material so as not to cause ISA 600 becoming overly cumbersome.

However, it is also important to recognise that any application material, Practice Note or training material does not remove the need for the auditor to exercise professional judgment in relation to some matters.

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

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

(a) Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.

(i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?

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

(iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.

(iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

(i) Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.

(ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?

(iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

**Response GA2**

We agree that greater diligence needs to be exerted at the acceptance/continuance stage of the audit engagement to encourage the auditor to seriously question whether he/she can perform the audit and therefore should accept the engagement.

We believe that the actions in paragraphs 215 and 217 are sensible and would be helpful in addressing issues related to acceptance and continuance procedures. However, some consideration should be given to whether the underlying causes relate to poor application of the current standards.

**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.

**Response GA3**

The way in which component auditor responsibilities are communicated and documented could be strengthened by requiring the group auditor to document in detail the extent of involvement they will have in the audit of the component and the rationale behind the extent of their involvement.

The issue of subsequent events when using component auditors is also an important one which could be addressed by clarifying the responsibilities of the group auditor for ensuring that clear instructions are given to the component auditor on procedures for dealing with, and the communication of, subsequent events.

**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?

**Response GA4**

While it is expected that component auditors will adhere to the group auditor's instructions, there is also an expectation that the component auditor will exercise his/her professional judgement and communicate any matters, or additional risks, that should be considered at either the group level or in other components.

**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.

**Response GA5**

We believe that the cross-referencing and linking of ISA 600 to the existing requirements and application material already included in ISA 315 and ISA 330 will help to reinforce the need to consider the wider suite of ISAs.

We would like to stress however, that the use of ADMs and SSCs is not restricted to ISA 600 and therefore specific guidance on the appropriate procedures and approach to be applied when using ADMs or SSCs in the audit process, is required throughout the suite of ISAs.

**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.

**Response GA6**

We believe that materiality for the financial statements as a whole is addressed in ISA 320 therefore ISA 600 should not add anything more in relation to determining the financial statement materiality.

However, there may be a need for more guidance on the method of ‘allocating’ component materiality based on its inconsistent application and dependence on a high degree of judgement. Additional guidance in ISA 600 as to how the auditor should arrive at this allocation would be helpful.

**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?
- (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?

**Response GA7**

It would be helpful if further guidance was provided in relation to the extent of work to be performed by group auditors on non-significant components in light of regulatory concerns that insufficient audit work is performed on these component entities. In particular, note (v) in paragraph 272(b) calls for further clarification on “the expected work effort to analytical procedures at the group level for components that are not identified as significant”. It is important to clarify when it will be necessary to perform any further procedures in such cases.

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

(a) Paragraphs 293–303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.

(i) Which of the actions outlined in paragraphs 299 and 303 would be most meaningful in addressing issues relating to the review and evaluation of the work of component auditors by the group engagement team?

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

(iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.

(iv) Please also describe any potential consequences of those actions that you believe we need to consider further.

**Response GA8**

The way in which the group auditor uses the work of component auditors is, in practice, critical. Perhaps the greatest area of uncertainty is whether the group auditor should visit the premises of the component auditors - provided that they are able to do so - or only review their files and send questionnaires. This is an area where illustrative examples of different scenarios might be helpful.

The timing of the work being performed by component auditors is also important and sufficient time should be allocated for the group auditor to review the component auditor’s work before he/she is expected to sign the group auditor’s report.

**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?

**Response GA9**

We do not believe that it is necessary to revise ISA 600 in light of the disclosures project. Nor do we believe that it would be appropriate to include application material to assist in communications between group and component auditors to identify key audit matters.

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

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

**Response GA10**

We have not identified any other issues.

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

**Response GA11**

We have not identified any other specific actions.

**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.

***Response GA12***

It is important for the IAASB to ensure that the changes made to ISA 600 and other standards can be applied in the audit of smaller groups.

In addition, SMPs are often engaged as component auditors and may, or may not, be part of a larger network. It is therefore important that the changes made to ISA 600 can be consistently applied by those firms that are part of a network and those that are not.

**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.

***Response GA13***

We have no further comments.