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Ms Kathleen Healey
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia
GPO Box 2820
Melbourne VIC 3001
Australia
Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

By email: kathleenhealy@iaasb.org

Dear Kathy,

CPA Australia's Submission on the IAASB's Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits.

Thank you for the opportunity to comment on this Invitation to Comment (ITC). CPA Australia is one of the world's largest professional accounting bodies, with a membership of more than 155,000 finance, accounting and business professionals and leaders in 118 countries. We make this submission on behalf of our global membership and in the broader public interest.

CPA Australia is supportive of the IAASB's efforts to identify ways in which audit quality can be enhanced through its own standard setting and other activities and through recommending actions for other bodies to undertake.

In preparing this submission CPA Australia has sought the views of CPA Australia members and other stakeholders through conducting joint roundtables in Australia to discuss the ITC, and through the conduct of a survey which was widely distributed to both members and non-members. CPA Australia has considered this feedback, as well as the public interest, in formulating this response.

If you have any questions regarding this submission please do not hesitate to contact Claire Grayston, Policy Adviser – Audit & Assurance, at claire.grayston@cpaaustralia.com.au or +613 9606 5183.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Stuart Dignam', written over a light gray background.

Stuart Dignam
General Manager, Policy & Corporate Affairs

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>	CPA Australia
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):	Claire Grayston Policy Adviser – Audit and Assurance
E-mail address:	claire.grayston@cpaaustralia.com.au

GENERAL QUESTIONS

G1. Table 1 describes what we believe are the most relevant public interest issues that should be addressed in the context of our projects on professional skepticism, quality control, and group audits. In that context:

- (a) Are these public interest issues relevant to our work on these topics?
- (b) Are there other public interest issues relevant to these topics? If so, please describe them and how, in your view, they relate to the specific issues identified.
- (c) Are there actions you think others need to take, in addition to those by the IAASB, to address the public interest issues identified in your previous answers? If so, what are they and please identify who you think should act.

G1(a)	<p>We consider that the public interest issues identified are relevant. However, in seeking to keep ISAs fit for purpose, we caution against constant changes in auditing standards, which can create significant challenges for firms, particularly small to medium practices (SMPs), in keeping up to date with current requirements and additional costs, which can flow on to other stakeholders. Some changes have a direct impact on other stakeholders, such as audit committees, which need to be taken into consideration.</p> <p>In considering enhancing documentation requirements, we also caution against the standards becoming overly prescriptive with respect to evidencing professional judgements made and professional scepticism applied. Excessive focus on documentation may actually undermine the exercise of effective professional judgement and professional scepticism. There are risks of a negative effect on audit quality by specifying in too much detail what should be documented to the extent that a 'tick box' or compliance mentality is created. Whilst documentation is a critical part of the audit process that should capture and demonstrate the exercise of professional judgement and professional scepticism, the right balance should be struck when developing new requirements. The focus needs to be on ensuring the principles of a quality audit are in place and encouraging auditors to exercise their professional judgement to conduct an effective audit. The changes to the ISAs should not be directed at meeting audit regulators' agendas with respect to furthering their compliance activities.</p>
G1(b)	<p>Other public interest issues relevant to the topics include the role of the audit committee and board in fostering audit quality and supporting professional scepticism. The quality of governance within an entity has a significant impact on audit quality, due to factors such as receptiveness of those charged with governance (TCWG) to auditor professional scepticism and audit quality considerations when assessing audit fees. TCWG must also understand and fulfil their obligations to provide management oversight, particularly in relation to challenging management estimates and judgements. We recognise that the IAASB are not responsible for setting standards for those charged with governance, however the importance of good governance and its positive impact on audit quality could be highlighted to relevant stakeholders (see response to G1(c) below) to encourage them to take appropriate action in this regard.</p>

G1(c)	<p>Bodies representing directors, such as Global Network of Directors' Institutes (GNDI) and National Institutes of Directors, could take action to provide directors and audit committees with greater insight into their influence on audit quality, the factors they need to consider in appointing a new auditor, ways in which they can support the auditors' exercise of professional scepticism and application of professional judgement, as well as greater scrutiny of the composition of boards and audit committees to ensure adequate level of financial literacy and knowledge to appropriately understand issues raised by the auditors.</p> <p>Non-executive directors and audit committee members have a critical role to play in questioning management, providing the infrastructure to support a quality audit and promoting good governance through their 'tone at the top'. Actions include education of TCWG, audit committees and users of financial reports to better understand what audit provides, in order to reduce the expectation gap, and encouraging regulators, through bodies such as the International Organization of Securities Commissions (IOSCO) and Financial Stability Board (FSB), to clarify the responsibilities of directors, as they have the greatest influence on performance and good governance.</p>
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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	<p>Address the needs of sole or small practitioners as the auditing standards, whilst theoretically scalable, are geared towards the more complex engagements, large networks and large clients.</p>
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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>Academic research funded by CPA Australia relevant to these topics, which is soon to be published, is:</p> <ul style="list-style-type: none"> • <i>Comparative effectiveness of Audit Quality and Audit Committee in Mitigating the Earnings Management Behaviour of Australian Firms during Financial Crisis</i>, Dr. Abu T. Mollik & Monir Mir – due to be published mid 2016. • <i>A Consideration of Literature on Trust and Distrust as they Relate to Auditor Professional Scepticism</i>, Noel Harding, Mohammad I. Azim & Janine P. Muir - forthcoming publication in the Australian Accounting Review 2016.
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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>Professional scepticism is described as an attitude. An attitude is generally understood as a predisposition towards something, while the extant description of professional scepticism mentions a ‘questioning mind’, ‘being alert’ and ‘a critical assessment’. We do not think that these characteristics are attitudes but rather professional competencies. We urge the IAASB to review the existing description of professional scepticism by referring to relevant research and to articulate its characteristics and attributes if it is considered a necessary competency. We are of the view that the interaction between professional scepticism and the ethical principles of the profession requires development and its interaction with professional judgment needs clarification. Arguably if the fundamental principles of professional competence and due care and objectivity are complied with in line with the Code of Ethics of Professional Accountants and appropriate professional judgements are therefore made, then it is unclear what additional consideration professional scepticism contributes.</p> <p>Whilst professional scepticism has been an accepted concept in auditing for some time, we think that it must be able to be clearly defined in order to be able to be applied in practice. When seeking to identify its meaning in our discussions with stakeholders, professional scepticism was perceived as relating to various professional competencies rather than necessarily a separate principle or competency in itself.</p> <p>The definition in ISA 200, includes the words “alert to conditions which may indicate possible misstatement due to fraud or error”. We consider that the auditor needs to be more than just alert when conducting an audit, but instead seek to identify areas which are susceptible to fraud or error and determine whether any indicators exist which require further audit work. The second part of the definition requires a “critical assessment of the audit evidence” which we support as it is consistent with the auditor’s need to challenge the reliability of the evidence and assumptions made, as well as the views and decisions of management in assessing the sufficiency and appropriateness of the evidence gathered. In order to challenge the evidence or assumptions, the auditor needs to have a deep understanding of the industry, the entity and its environment or, in the absence of the necessary expertise, the auditor needs to engage their own experts to assist them on those areas where they do not hold the necessary expertise. The auditor and their experts should be expected to draw on their knowledge and experience of similar entities and entities within the same industry, inform themselves of cases of fraud or error identified in order to be able to look for indications of similar fraud or error occurring. This knowledge will enable the auditor to develop expectations with respect to their clients’ financial statements as a basis for challenging assumptions or calculations. These auditor behaviours are arguably inherent in applying principles of professional competence and due care and will require the exercise of professional judgement in order to form an opinion based on the evidence obtained.</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?

<p>PS2</p>	<p>We consider that the following matters are important drivers and impediments of professional</p>
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scepticism as it is currently understood. However, these could also be seen as drivers and impediments to audit quality more broadly and so we are not convinced that they require the concept of professional scepticism to be applicable:

Drivers:

- Robust regulatory framework which fosters good corporate governance.
- Understanding the risks of fraud or error will stimulate professional scepticism and focus it appropriately.
- Applying an objective assessment of the evidence rather than a corroborative approach, so that the underlying assumption is that the auditor is challenging the evidence based on their risk assessment and expectations rather than merely confirming what is presented to them.
- Competence and depth of knowledge, particularly in the industry, the entity and its environment, relevant accounting standards and experience in applying different accounting treatments.
- Confidence to question or challenge client staff, management, TCWG or management's experts appropriately.
- Training in detecting fraud and error, including case studies on how they may be intentionally or unintentionally concealed and which indicators to look out for.
- Tone at the top within entities: Non-executive directors, audit committees and board of directors supportive of and receptive to a questioning mindset by the auditor and the need to appropriately challenge information provided by management or others.
- Tone at the top within firms: Engagement partners promoting engagement team communication, encouraging staff to escalate anomalies and raise questions, and firm leadership demonstrating willingness to challenge the client in their interactions.
- Sufficient involvement on the audit and supervision by the engagement partner, cascading down the engagement team.
- Involvement of all engagement team members in planning meetings to gain appropriate understanding of the engagement, the risks, materiality and concerns of the engagement partner.
- Communication avenues within the engagement team so that anomalies and concerns are escalated appropriately.
- Transfer of knowledge and experience of where it can go wrong from liquidators and forensic accountants, in order to identify signals of where fraud or error may have been detected earlier by the auditors.
- Instilling a culture of professional judgement rather than compliance in accountants through the approach taken in:
 - University education, by encouraging and training students to challenge and question.
 - Membership programs of the professional accounting bodies.
 - Audit firm culture to foster independent thinkers and attract and recruit talent,

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being competent and questioning rather than overly compliant individuals.

- Regulatory inspection programs focusing on exercise of professional judgement rather than a tick box, compliance focus which detracts from understanding the “big picture”.
- Quality control reviews seeking evidence of challenge to assumptions and consideration of alternative explanations which may contradict financial information reported.

Impediments:

- Fee pressure which may result in an inadequate time to conduct a quality audit and to challenge or question. Conducting a robust, quality audit is more time consuming than accepting financial information or client explanations at face value and so it has a cost implication for the auditor.
- Cultural norms do not always allow for questioning mindset particularly the more junior the engagement team member.
- Need for co-operation from the client to obtain the necessary information, which can temper distrust being displayed by the auditor when dealing with the client and hamper effective application of professional scepticism.
- Appointment of the auditor by management or the executive Board members, rather than by non-executive directors, the audit committee, an external body, regulator or legislation, may result in greater influence over the auditor.
- Even if appropriate professional scepticism has been applied, if excessive documentation to evidence the exercise of professional scepticism is expected to satisfy internal and external inspections, professional scepticism may appear to be impeded.
- Insufficient audit work conducted on-site so that observations cannot be made which may have triggered the auditor to question the evidence.
- If the auditor becomes overburdened with requirements they may focus on compliance and documentation, diverting their attention from risks and red flags which require the exercise of professional scepticism.
- Self-interest threats, such as the fear of losing the client, intimidation or advocacy threats can impact the level of scrutiny which auditors subject their clients to.
- Appropriately directed professional scepticism comes from experience, knowledge and competence, so lack of supervision and direction from the engagement team leadership can impede appropriate exercise and development in team members of professional scepticism.

IAASB's Role:

- If professional scepticism can be defined to provide a necessary concept which underpins the audit, then it would need to be embedded in the audit approach in standards and clearly reflected in the documentation requirements which evidence exercise of professional scepticism. There should be clarification of the extent of documentation required in relation to the process involved in exercising professional scepticism during the engagement. Typically, documentation focusses on the amounts

	<p>and disclosures in the final financial report rather than the various iterations which may have been influenced by the auditor's questions and procedures during the audit.</p> <p><u>Priorities:</u></p> <p>Of the matters raised in paragraph 37 of the ITC, we suggest that the priorities for the IAASB should be:</p> <ul style="list-style-type: none"> • Clarifying the meaning and utility of professional scepticism and links to related concepts including professional judgement, sufficient appropriate evidence and risk. • Development of a framework to explain the interaction between professional scepticism and judgement, which demonstrates the practical application of professional scepticism and how it informs the auditor in conducting the audit, particularly whether they are expected to take: <ul style="list-style-type: none"> ○ a neutral position; or ○ a position of presumptive doubt.
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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?

PS3	<p>Once the concept of professional scepticism is clarified, its role in quality control and group audits should be evaluated. In identifying further areas to be considered by the Joint Working Group, the drivers and impediments listed above relevant to quality control and group audits should be considered.</p> <p>In particular, the following matters could be addressed:</p> <ul style="list-style-type: none"> • Explain the relationship between professional scepticism, professional judgement and risk in the ISAs. • Explore the impact of cognitive biases, such as confirmation bias, and how these can be addressed by the auditor in order to exercise professional scepticism. • Clarify the expectations with respect to documentation of professional scepticism and whether the whole journey of the audit needs to be documented rather than just the final position.
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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>Effectiveness of the possible actions identified will depend on clearly identifying the meaning of the concept of professional scepticism, keeping the requirements principles-based and not creating an increased compliance focus. Any possible actions could be expanded to address more of the drivers and impediments identified in PS2 above.</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),

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firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

<p>PS5</p>	<p>In order to gather input from CPA Australia members and other stakeholders on the questions raised in the ITC, CPA Australia conducted a survey.¹ The survey respondents identified the parties who need to take action to improve auditors professional scepticism (ranked in order of number of respondents):</p> <ol style="list-style-type: none"> 1. Firms through training and culture 2. Firms through engagement partner leadership 3. Standard setters 4. Professional bodies in professional programs 5. Regulators 6. Audit Committees 7. Firms through use of technology 8. Universities 9. Those charged with governance <p>Our survey of stakeholders reveals a consistent view that a focus on developing a sceptical mindset as a core competency throughout the education journey is a critical issue for broader audit quality improvement. Actions which we consider the parties identified above may take to promote professional scepticism, subject to its clarification as a concept, include:</p> <p><u>Firms:</u> Have a role in attracting confident individuals who are willing to question and challenge, rewarding auditors for exercising professional scepticism and mentoring and training audit staff so that they possess the competence and knowledge to challenge appropriately. Engagement teams need to be involved in both planning and risk assessment and encouraged to apply a questioning mind so that they do not approach their work merely seeking to corroborate the financial information provided.</p> <p><u>Standard setters:</u> As the key international standard setter for auditing, the IAASB needs to further explore the utility of professional scepticism and develop the meaning of the concept, so that how professional scepticism relates to professional competence and judgement is articulated and can be reflected in the standards. IAESB could also investigate how it can emphasise the development of a mindset and exercise of professional scepticism in its standards.</p> <p><u>Professional bodies:</u> Need to ensure that the concept of professional scepticism, once articulated, is incorporated into membership programs and continuing professional development.</p> <p><u>Regulators:</u> continue to seek evidence of the exercise of professional scepticism when conducting audit inspections, however it is important that documentation requirements do not overshadow the genuine application of professional scepticism as redefined and that regulators' expectations with respect to the professional scepticism are clearly understood and consistent</p>
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¹ CPA Australia conducted an extensive survey on the themes of the ITC and received 33 responses from 8 countries.

with the IAASB.

Audit Committees & TCWG: The Global Network of Directors' Institutes (GNDI) and National Institutes of Directors could promote professional scepticism in TCWG, particularly non-executive directors and audit committees, in questioning and where appropriate challenging management, which will help to ensure that high quality financial statements are prepared. This attitude will compliment and support the auditors' exercise of professional scepticism.

Universities: There is a role in clarifying how professional scepticism needs to be addressed in accountants' training and education to ensure that accounting graduates have a sceptical mindset as a part of their core competencies and skills. Emphasis on critical thinking and problem solving is important, in addition to the compliance focused skills, such as how to apply the accounting standards. In the joint roundtable we conducted in Australia, participants cited law graduates as having a more sceptical mindset instilled through their university education.

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

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

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

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

QC1(a)	<p>CPA Australia support the application of a risk based quality management approach and over ¾ of the respondents to CPA Australia’s survey on the ITC considered that the quality control system for audits should be based on risk. We consider that a QMA will help to improve audit quality as it will help to focus audit effort on areas of highest risk of not achieving engagement quality objectives, however, this is predicated on the appropriateness and effectiveness of the detailed framework that the IAASB develop. In Australia there may be some limitation to the improvement to audit quality from introducing a QMA as a risk-based approach is already required by the Accounting and Professional Ethical Standards Board (APESB) in APES 325 <i>Risk Management for Firms</i>. This standard requires the firm to establish and maintain a Risk Management Framework which includes policies and procedures that identify, assess and manage key organisational risks, and encompasses all aspects of a firm’s activities not restricted to audit and assurance services. We welcome the extension of the focus of ISQC 1 beyond audits to other assurance and related service engagements and acknowledge that the revisions to ISQC 1 are likely to be complementary to the requirements currently in place in Australia.</p> <p>We have not identified any particular challenges in restructuring ISQC 1 to address the proposed QMA, however we support the intention to imbed scalability in the QMA in order to better accommodate the needs of small to medium practitioners (SMPs) and sole practitioners.</p>
QC1(b)	<p>The proposed elements of a QMA in Table 3 are appropriate with one exception. We consider that “implement quality control activities” would already be encompassed in the previous element “design and implement responses to quality risks” as those responses would be quality control activities. Consequently this element should be replaced by “operate quality control activities” and relevant activities could be described as “The firm operates quality control policies and procedures as designed.”</p>
QC1(c)	<p>If ISQC 1 is restructured then ISA 220 <i>Quality Control for an Audit of Financial Statements</i> will in turn need to be revised as it is currently structured around the elements of the extant</p>

	ISQC 1. Other standards which may need some revision include: ISA 200, ISA 300 and ISA 600.
QC1(d)	We support the introduction of a QMA as described.

QC2. *Engagement Partner Roles and Responsibilities*

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

QC2(a)(i)	<p>We have not identified a clear need for additional requirements for the engagement partner. Nevertheless, if requirements or application material are to be strengthened, the feedback we have received from stakeholders through our survey and joint roundtables, supports the following priorities for actions to address the engagement partner’s responsibilities:</p> <ul style="list-style-type: none"> 1. Primary priorities for clarification in ISA 220: <ul style="list-style-type: none"> a. Active involvement in the risk assessment, planning, supervision and review of work performed. b. The nature of the engagement partner’s review. 2. Secondary priorities for clarification in ISA 220: <ul style="list-style-type: none"> a. The specific documentation which the engagement partner needs to review. b. Consideration of the adequacy of resources to perform the audit, including the skills, competence and experience of the engagement team and any experts, and sufficient time to meet the reporting deadlines.
QC2(a)(ii)	<p>The reason for the priorities for actions identified above, are:</p> <ul style="list-style-type: none"> 1. Primary priorities: <ul style="list-style-type: none"> a. The extent of involvement of the engagement partner in each stage of the audit process is unclear in the ISAs and consequently there is a broad variation in the resultant interpretation. More clarity is particularly important when the engagement partner is not located where the majority of the audit

	<p>is being undertaken or where alternative delivery models (ADMs) are being used.</p> <p>b. More detail on the nature of the engagement partner's review would aid in consistency of approach between firms and highlight matters where firms take different approaches currently.</p> <p>2. Secondary priorities:</p> <p>a. Clarify the related documentation requirements without necessarily increasing those requirements.</p> <p>b. In considering more thoroughly the resources available, engagement partners take an informed and consistent approach to acceptance and continuance of the engagement.</p>
QC2(a)(iii)	We have not identified any alternative actions to address the engagement partners' responsibilities.
QC2(a)(iv)	We consider that the impact on audit quality of proposed changes to ISQC 1 and ISA 220 may be restricted by the fact that the IAASB standards apply only to audit and assurance engagements whereas other parts of the firm may be involved in key elements of quality control, including relevant ethical requirements, acceptance and continuance of engagements, human resources and other aspects of quality control at a firm-wide level. Consequently some of this material that relates to ethical requirements should be placed or otherwise reflected in the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA).
QC2(b)	We support the inclusion of appropriate requirements with respect to quality control applicable to any person other than the engagement partner who is required to sign or be named in the auditors' report. This would ensure that appropriate quality control measures apply to all relevant individuals.

QC3. *Others Involved in the Audit*

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

QC3(a)(i)	<p>Actions we think should be prioritised in addressing the work of other auditors involved in the audit are:</p> <ol style="list-style-type: none"> 1. Clarification of how the requirements in ISA 600 can be applied to other auditors, who are not component auditors and not in the engagement team, and how to meet the requirements of ISA 220 with respect to the work of other auditors to be used on the audit. 2. Differentiation between the engagement partner and engagement team responsibilities.
QC3(a)(ii)	<p>We consider that these actions are worthwhile:</p> <ol style="list-style-type: none"> 1. As corporate structures do not always fit the usual group structure and evidence may be needed on equity investments, joint ventures or ADMs from other auditors in other locations or jurisdictions, requirements and application material in ISA 600 should be extended to cover using the work of another auditor more broadly. 2. As the amount of time an engagement partner spends on the audit is used as an indicator of audit quality, identification of the matters which need to be addressed by the engagement partner personally will assist in consistency across firms. This is important in order to clarify what their role should be and the areas on which they need to spend time directly, however this would need to be balanced to allow flexibility for small firms.
QC3(a)(iii)	<p>The majority of stakeholders who contributed to our survey on the ITC and participated in roundtables were not supportive of reference being made in the auditor's report to reports of other auditors or experts. CPA Australia is of the same view, as we consider that the engagement partner needs to retain responsibility for the opinion and not pass on responsibility to others by reference to their work. Nevertheless we see that greater transparency is usually beneficial and a move toward identifying the involvement of experts and component auditors may provide valuable information to users. Where an auditor report includes key audit matters, reference to experts or other auditors can be included in the KAM, if appropriate, and is one means of communicating their involvement when it is of significance to the audit or where there are issues regarding the sufficiency or appropriateness of audit evidence available from the other auditors.</p>
QC3(a)(iv)	<p>In some jurisdictions, including Australia and New Zealand, it would represent a significant change to require experts or other auditors, such as component auditors, to be named in the auditor's report. In the absence of evidence in support of this change, CPA Australia is not convinced that it would have a positive impact on meeting user information needs.</p>
QC3(b)	<p>Whilst our preference is for ISA 600 to be expanded to address using the work of another auditor, it may be sufficient to develop application material to explain how ISA 600 can be applied to the work of other auditors who are not component auditors.</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 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>CPA Australia strongly supports the need to clarify how network firms apply quality control for audit work conducted centrally or remotely within the network, which is supported by the feedback from stakeholders through our ITC survey and roundtables. In particular, in order of priorities, stakeholders called for clarification of:</p> <ol style="list-style-type: none"> 1. Appropriate extent of reliance on the network for quality control and monitoring policies and procedures at the firm level. 2. Safeguards against inappropriate use or ineffective oversight of network firms' work. 3. Nature and extent of documentation required from centralised or remote locations. 4. When the audit procedures are capable of being performed, directed and supervised remotely. 5. Impact of inspection findings across the network.
QC4(a)(ii)	<p>There is great disparity with respect to what is meant by 'network' and the extent to which the network quality control can be relied upon by the network firms. Networks cannot be required to standardise their structures and governance arrangements, therefore the network firms must establish to what extent they can rely on quality control policies and</p>

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	<p>procedures across the network, including when ADMs are used. Networks may be in place for the purpose of marketing and referral, in which case they may operate independently in every other way, or on the other end of the spectrum, networks may have common quality control systems, centralised services and common methodologies. The broad range of governance and operational structures in which networks operate and ADMs are used, means that the appropriate level of reliance will depend on the characteristics of the network. Ultimately if reliance cannot be placed on the quality control of a firm in a remote location or another jurisdiction where an audit is being conducted, it may be necessary for the engagement team to visit that location to conduct the audit work themselves, which does happen quite frequently.</p>
QC4(a)(iii)	<p>Other issues to consider include the impact of technology, including cloud services and other on-line services, which may create challenges for evidence gathering in these “remote” locations and for which cybersecurity may be a significant risk.</p>
QC4(a)(iv)	<p>We consider that developing requirements for networks may be unrealistic for the reasons provided in the ITC paragraph 116 and that the focus should be on the auditor to determine the nature of the network in which they operate and the extent to which reliance can be placed on the network’s quality control systems.</p>
QC4(b)(i)	<p>Application material would assist in addressing the practical challenges presented by different network structures and clarifying what an auditor needs to do in order to place reliance on the network’s quality control. We do not think that further requirements are necessary, but if there is contrary evidence of the need for requirements, they would need to be principles based.</p>
QC4(b)(ii)	<p>We do not consider that it is necessary to develop requirements for networks as there may be commercial reasons for preferences to operate in different ways.</p>
QC4(b)(iii)a	<p>We support emphasising the importance of appropriate quality control processes in relation to use of ADMs and clarifying the nature of the quality control processes which would be effective for ADMs.</p>
QC4(b)(iii)b	<p>No further issues identified.</p>

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

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

- (a) Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.
 - (i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we

need to consider further.

(b) Specifically:

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

QC5(a)(i)	We consider that the following actions would be meaningful in relation to leadership responsibilities for quality: <ol style="list-style-type: none"> 1. Allocation of responsibility and accountability for matters related to quality and independence matters. 2. Emphasising leadership’s role in setting a strong ethical culture within the firm and ensuring that it permeates throughout the entire firm and not solely audit divisions.
QC5(a)(ii)	We consider that these actions are necessary to address inconsistencies in the approach firms’ leadership take to quality and to address the concerns regarding allocation of responsibility and accountability for independence.
QC5(a)(iii)	No other issues or actions have been identified.
QC5(a)(iv)	None identified.
QC5(b)(i)	We suggest that caution be exercised in addressing governance of the firm in ISQC 1. ISQC 1 is applicable only to the audit and assurance practice and we query the appropriateness of the IAASB seeking to impose governance requirements over the entire firm. Broader governance issues may be better addressed by IESBA where those issues relate to all parts of the practice including non-audit or assurance services.
QC5(b)(ii)	We consider that ISQC 1 could address firm leadership’s responsibilities for quality and independence in so far as it impacts audit and assurance engagements. This could be done through additional or revised requirements requiring allocation of responsibility for quality and independence to individuals within the firm of sufficient seniority to have the authority to implement quality control systems, independence procedures and influence firm culture.
QC5(b)(iii)	A QMA approach would help to focus firm leadership on areas of greatest risks to quality and independence and to that extent would provide context for addressing quality and independence and assist firms in focusing resources on relevant areas of the highest risk.

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

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

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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.

<p>QC6(a)(i)</p>	<p>Our ITC survey respondents were divided on whether there is a need to strengthen requirements for engagement quality control (EQC) reviews. Those who supported the strengthening of requirements identified the following actions, as those which would be most effective:</p> <ol style="list-style-type: none"> 1. Extending the requirements for EQC reviews beyond audits of listed entities, to public interest entities or entities based on other risk-based criteria. 2. Documentation of review procedures and significant discussions with the engagement partner. 3. Specifying the nature and extent of matters to be considered by the EQC reviewer. <p>There were divided views in the roundtables conducted as to whether direct communication between the EQC reviewer and TCWG was appropriate. There was some concern that it would impact their appearance of independence, and that such communication constitutes a confusion of the role of the engagement partner and the EQR reviewer. Stakeholders certainly considered that if there was to be contact between the EQC reviewer and the entity, that it should be very limited, such as a meeting with the audit committee annually.</p> <p>Some survey respondents also thought that use of experts to support the EQC reviewer or expert reviews where an EQC review is not conducted could be worthwhile, as well as the auditor’s report identifying that the engagement was subject to a quality control review.</p> <p>CPA Australia supports the review of the existing requirements and their application, as well as the gathering of evidence to ascertain the benefits of EQC reviews before extending them to other entities.</p>
<p>QC6(a)(ii)</p>	<p>ISA 220 allows for EQC reviews for other audit engagements of non-listed entities, but</p>

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	<p>does not provide any requirements or guidance as to the basis on which the firm should determine that an EQC review is required. ISQC 1 requires that firms establish policies and procedures which set out criteria for determining when EQC reviews should be conducted on engagements other than listed entity audits and provides limited application material. We support the elevation of application material to a requirement to develop criteria based on risk for conducting an EQC review. Clearer application material in this regard would be helpful.</p> <p>We support clarification of the nature and extent of matters to be considered in an EQC review and the documentation needed to facilitate a consistent approach in conducting EQC reviews across firms.</p>
QC6(a)(iii)	<p>Whilst ISQC 1 currently requires the firm to establish policies and procedures for eligibility of EQC reviewers, clearer requirements would encourage consistency between firms and ensure a suitable level of competency and experience for eligibility as an EQC reviewer. More junior members of the firm may have more difficulty providing EQC review for more senior partners, as they may not have sufficient authority to provide effective oversight.</p>
QC6(a)(iv)	<p>We do not support addressing a cooling off period for EQC reviewers previously involved in the audit as explained in QC6(b)(ii) below nor do we support a new standard for EQC reviewers as we consider that the existing standards should be able to accommodate the additional material needed adequately.</p>
QC6(b)(i)	<p>We do not support mandating EQC reviews beyond listed entities until clear evidence can be established as to the benefits of EQC reviews for other entities, but instead we suggest limiting the additional requirements to establishing criteria for firms to determine whether an EQC review should be conducted.</p>
QC6(b)(ii)	<p>We consider that the proposed cooling off period for EQC reviewers previously involved in the audit is a matter which would be more appropriately addressed by IESBA rather than the IAASB. IESBA is currently in the process of consultation on long associations, including cooling off periods for engagement partners and EQC reviewers engaged on public interest entity audits, through Exposure Draft <i>Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client</i>, for which comments were due on 9 May 2016. Whilst the outcomes of that consultation will only impact audits of public interest entities (PIEs), if a safeguard was needed for non-PIEs it would be more appropriate to be considered in the same framework and not through the IAASB standards.</p>
QC6(b)(iii)	<p>We do not support the need for a new standard for EQC reviewers. EQC reviews are adequately addressed in ISQC 1 and ISA 220 and so where there is a need for further requirements or application material these could be included by revising the material in ISQC 1 or ISA 220 as appropriate.</p>

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?

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- (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>The majority of the stakeholders who responded to our survey considered that there is a need to clarify appropriate responses to internal reviews and external inspections of audits. Respondents supported undertaking the following actions identified in the ITC, in order of priority:</p> <ol style="list-style-type: none"> 1. Design, implementation and monitoring of remedial actions to address deficiencies. 2. Understanding of causal factors of deficiencies identified. 3. Consideration of implications for other audit engagements and the firm's system of quality control. 4. Analysis of findings.
QC7(a)(ii)	<p>We consider that these actions are necessary because they would ensure a consistent response to address both internal and external inspection findings. Responding to findings is a direct and practical way to improve audit quality in areas which are directly relevant to the firm. Given the extensive resources which are directed to the conduct of inspections or reviews by regulators, professional bodies or the firms themselves, taking advantage of the information gathered and insights gained in a systematic way is essential, otherwise the benefits of the process may be wasted. A consistent process will also ensure accountability in following up on the findings, understanding causal factors, designing and implementing remedial actions right through to monitoring the effectiveness of remedial action and considering implications for other engagements and the quality control system.</p>
QC7(a)(iii)	<p>Revisions to ISQC 1 could also address the ambiguity regarding the timeframe which is intended when evaluating one engagement per engagement partner on a "cyclical basis".</p>
QC7(a)(iv)	<p>In relation to remedial action we support the consideration of inspection findings and the development of an appropriate response to be implemented within a practical timeframe.</p>
QC7(b)(i)	<p>We support new requirements to understand the causal factors of deficiencies in inspection</p>

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	findings. Our discussions with auditors indicates that root cause analysis of causal factors coupled with remedial action, almost always has a positive impact on audit quality.
QC7(b)(ii)	We support new requirements to consider results of monitoring of remedial actions in the design and assessment of the firm's quality control system.

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)	We suggest caution in requiring a linkage between audit quality and compensation as this will favour engagement partners who sign off on the more straightforward, less risky and less complex engagements and potentially disadvantage engagement partners who conduct the more difficult audits where systems, controls or records are poor, or more complex and risky engagements. Whilst audit quality indicators are a useful tool, it will not be appropriate in all circumstances to use such indicators for remunerating engagement partners. The use of audit quality indicators may certainly be a useful tool to monitor and benchmark the audit quality of engagement partners, offices of a firm or firm-wide, however we do not see the need to link audit quality directly to compensation and requiring that link may have unintended negative consequences.
QC8(b)	We consider that performance and reward systems are matters for the governance of firms which should not be stipulated in auditing and assurance standards. If reward systems create conflicts of interest or threats to compliance with the ethical principles, they are addressed in the Code. There are many other means of promoting audit quality at the individual engagement partner level, such as allowing enough time and budget to complete the audit, allocating audit teams with suitable competencies and specialist skills, providing professional development opportunities to engagement partners and providing public acknowledgment of quality audits or providing feedback on poor quality audits. We do not consider that there is a need for application material on the threats and safeguards for the provision of non-audit services as this is dealt with in the Code of Ethics for Professional Accountants issued by IESBA and so this would create duplication and potential for inconsistency.

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

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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 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.

<p>QC9(a)(i)</p>	<p>We do not consider that further requirements or application material on human resources and engagement partner competencies is a high priority relative to other matters raised in the ITC. Nevertheless, clarification of the following matters in ISQC 1 application material would be beneficial:</p> <ol style="list-style-type: none"> 1. Application material to clarify the need not to undermine quality objectives due to financial considerations. 2. Application material, rather than requirements, with respect to continuity planning in order to meet quality objectives. 3. Highlighting the competencies in IES 8 (Revised) in interpersonal and communication skills, professional skills and professional values, ethics and attitudes. <p>We note that in Australia an updated Registered Company Auditor Competency Standard, prepared jointly by CPA Australia, Chartered Accountants ANZ and Institute of Public Accountants, is due to be published in mid 2016 and reflects the competencies in IES 8 (revised).</p> <p>We consider that it would be beneficial to revise ISA 200 to reflect:</p> <ol style="list-style-type: none"> 1. the engagement partner's responsibility for setting a tone which encourages engagement team members to raise questions. 2. the engagement partner's responsibility for leadership and project management, including assessment of competency and independence (whilst the ITC notes 'objectivity', we consider that in the context of an audit that is insufficient).
<p>QC9(a)(ii)</p>	<p>Whilst these matters are not a high priority, the actions identified may be of assistance in reinforcing how human resources and engagement partner competencies may contribute to quality control. We note that, the encouragement of engagement team members to raise questions by setting the right tone, is also critical to the supporting the exercise of professional scepticism by the engagement team.</p>
<p>QC9(a)(iii)</p>	<p>We have not identified any additional actions.</p>

QC9(a)(iv)	<p>Certain actions suggested in the ITC may result in overly prescriptive requirements, which may not be suitable to different circumstances and may be particularly difficult for SMPs to document. The actions which may have these consequences include:</p> <ol style="list-style-type: none"> 1. Provision of timely and effective performance appraisals and evaluations. 2. Evidence of procedures performed to have sufficient personnel with appropriate competence, capabilities and commitment to ethical principles. 3. Responsibility of the engagement partner to lead by example and provide mentoring.
QC9(b)(i)	<p>We have identified the actions which we think may be beneficial in answer to QC9(a)(i) above and we consider that these would as a result benefit audit quality.</p>
QC9(b)(ii)	<p>We have identified the actions which we think may be beneficial in answer to QC9(a)(i) above and we consider that these would as a result benefit audit quality.</p>
QC9(b)(iii)	<p>We have explained why we believe these actions are necessary in QC9(a)(ii) and potential consequences of actions which we do not support in QC9(a)(iii) and (iv).</p>

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)	<p>We consider that it would be most appropriate for the IAASB to contribute to the evolution of transparency reporting by issuing guidance on the description of firm’s quality control system for the purpose of transparency reporting and the information to be included, in order to promote greater consistency between jurisdictions and firms. Practice varies considerably between jurisdictions as to the required content of transparency reports. Whilst transparency reports are required to be prepared in Australia by audit firms conducting 10 or more listed company or other specified audits, feedback we have received suggests that they are not widely relied upon as they are seen by some as more of a marketing tool.</p>
QC10(b)	<p>We have no objections to the actions suggested in paragraph 190(b) in addition to guidance but we would anticipate that those actions would have less impact than guidance which would provide practical assistance to firms.</p>

The following questions are overall questions relating to quality control:

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

QC11	None identified.
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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	None identified.
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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	Clearly quality control requirements need to be scalable for SMPs, which should be achievable if the requirements remain principles based.
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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.

QC14	No public sector issues identified.
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GROUP AUDITS

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

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

- (a) Should we increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements? Will doing so help to achieve the flexibility that is needed to allow for ISA 600 to be more broadly applied and in a wide range of circumstances (see paragraphs 194–198)? If not, please explain why. What else could we do to address the issues set out in this consultation?
- (b) Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?
- (c) Should we further explore making reference to another auditor in an auditor’s report? If yes, how does this impact the auditor’s work effort?
- (d) What else could the IAASB do to address the issues highlighted or other issues of which you are aware? Why do these actions need priority attention?

GA1(a)	We do not consider that the issues identified relate to component auditors not being aware that they have to apply all of the ISAs, but rather from not adequately adapting the work they conduct to address group risks and the specific needs and instructions of the group auditor. Likewise for the group auditor more specific requirements or application material is required to address the issues identified in the ITC. We are of the view that ISA 600 needs to address using the work of other auditors whether within a group structure or within some other structure, such as joint ventures, non-controlled entities or shared service centres.
GA1(b)	We support the actions in paragraph 198 in addressing those issues. We do not consider that there is a need to issue a new standard for component auditors and our stakeholders also oppose a new standard. Any additional material needed should be accommodated in ISA 600.
GA1(c)	We are opposed to reference to other auditors in the auditor’s report as we consider that the engagement partner needs to retain responsibility for the audit opinion and that naming other auditors in the auditor’s report may detract from that responsibility and may imply that they share that responsibility. Also refer to our response provided to QC3(a)(iii).
GA1(d)	It would be helpful if the IAASB identified the various circumstances in which the work of another auditor is currently used, which would highlight the complexity of “group” structures and related entities and provide a clearer picture of the matters to be addressed in revisions to ISA 600.

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.

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- (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 208(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.
- (ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?
- (iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

GA2(a)(i)	<p>Whilst many of our stakeholders did not consider that there was a great need for changes to the requirements to clarify acceptance and continuance considerations for group audit engagements, there are a number of issues arising during engagements where evidence is required from components, equity investments, joint ventures or ADMs which would be better to be addressed when accepting or continuing the engagement. Of the actions identified in the ITC, respondents to our survey considered that the most meaningful would be:</p> <ol style="list-style-type: none"> 1. Requiring early identification of whether sufficient appropriate audit evidence is unlikely to be obtained and the appropriate response. 2. Identifying matters which need to be considered in obtaining a detailed understanding of the group, its components and their environments before deciding to accept or continue a group audit engagement. <p>The following actions may also be of some benefit, although less important than those identified above:</p> <ol style="list-style-type: none"> 1. Requiring group engagement partner assessment of the competence and capabilities of the component auditors. 2. Practical examples of how access issues may be overcome.
GA2(a)(ii)	<p>These actions would be of value in order to support the group auditor to devote adequate time and make enquiries necessary to gather sufficient information about the client and its components or other interests to make a better informed decision regarding whether to accept or continue the engagement.</p>
GA2(a)(iii)	<p>No further issues or actions identified.</p>
GA2(a)(iv)	<p>Caution is needed to ensure that the requirements are not too onerous on the auditor in gathering information regarding the client, components, other interests, component and</p>

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	other auditors prior to acceptance or continuance of the engagement, so that sufficient information is obtained without requiring an unreasonable time commitment prior to commencing the engagement.
GA2(b)(i)	In our dialogue with stakeholders, we note that the large national networks report access issues, particularly with respect to components in other jurisdictions, and whilst some of the largest international networks report less concerns, they still encounter some access issues. Some of these access issues relate to the willingness or ability of the component auditor to share information or working papers with the group auditor rather than access to the components themselves. Nevertheless auditors report that if access is restricted it may be necessary, rather than using the work of a component auditor, instead to use the group engagement team to conduct the audit procedures at the component.
GA2(b)(ii)	We support the strengthening of ISA 600 in relation to access issues identified during the acceptance and continuance phase. We note that this is called for more from SMPs rather than the large international networks.
GA2(b)(iii)	It is possible to expand the understanding required for acceptance and continuance but it is important that the requirements are not unrealistic or unjustifiably onerous for new engagements for the reasons described in paragraph 215(b).

GA3. Communications between the Group Engagement Team and Component Auditors

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

GA3(a)(i)	<p>We received mixed feedback from auditors as to whether there is a need to clarify how the group and component auditors should communicate, however we consider that this is an issue for SMPs more so than the large networks. Therefore we support clarification of communication and we considered all of the following actions would be effective:</p> <ul style="list-style-type: none"> • Requiring communication which ensures instructions have been understood and complied with, component auditor communications meet team expectations, the component auditor’s work is adequate for the group audit and relevant issues have been brought to the group engagement team’s attention. • Providing examples of timely and appropriate communications. • Requiring documentation of significant communications. • Clarifying the ability of the group engagement team to communicate directly with
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	<p>the component or component auditor with respect to non-compliance or suspected non-compliance with laws and regulations.</p> <p>We do not support the need for a new standard for component auditors, as they still need to apply to relevant ISAs when conducting an audit engagement.</p>
GA3(a)(ii)	<p>Clear communication channels are important to ensure that sufficient appropriate evidence is fed back to the group auditor. Group auditors which are not in the same network as the component auditor may experience greater difficulties in obtaining the evidence they require and gaining confidence in the quality control system applied in conducting the audit.</p>
GA3(a)(iii)	<p>The additional issues we believe need to be considered are:</p> <ul style="list-style-type: none"> • Clarification of the group engagement team’s responsibilities to understand and communicate with the component auditor the impact of any differences in the auditing standards in the jurisdiction under which the component auditor is conducting the audit of the component compared to the ISAs under which the group auditor is conducting the audit of the group. Where differences in the standards require additional work to be conducted by the component auditor to meet the requirements of the ISAs, ISA 600 needs to clarify the group engagement team’s responsibilities to instruct the component auditor about the additional work required. • How to overcome restrictions on access to working papers of the component auditor, particularly where they are located in another jurisdiction or are not part of the same network. Solutions may include engaging the component auditor to conduct agreed-upon procedures as an alternative to an audit of the component when only specific procedures and the factual findings are required for the purposes of the group audit.
GA3(a)(iv)	<p>Caution needs to be exercised due to the variety of circumstances and group/component auditor relationships to ensure that the requirements are not too onerous or prescriptive so that the emphasis remains on the engagement partner taking responsibility for the conduct of the audit and using their professional skills and competence to determine the best means of communication.</p>

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:

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- (i) Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?
- (ii) Should ISA 600 be strengthened to require the group engagement partner to make an explicit determination about whether the group engagement team can use the work of a potential component auditor?

GA4(a)(i)	<p>In our view, the most meaningful actions identified are:</p> <ul style="list-style-type: none"> • Clarifying the extent of involvement in the work of the component auditor when relying on common policies and procedures (such as in a network firm). • Confirming the need to understand the results of any internal or external quality control reviews of the component or other auditor. • Encouraging the group engagement team to challenge whether component auditors possess appropriate competence and capabilities. • Requiring the group engagement team to make an explicit determination about whether to use the work of a component auditor.
GA4(a)(ii)	All of these actions are necessary in planning whether or how the work of a component auditor can be used. Addressing these matters in ISA 600 will assist the group auditor to identify likely shortcomings in the availability or reliability of evidence so that alternative sources of evidence can be included in the engagement plan.
GA4(a)(ii)	No further issues or actions identified.
GA4(a)(iv)	No specific consequences identified.
GA4(b)(i)	The nature, timing and extent of involvement of the group engagement team in the work of the component auditor will vary considerably depending on the circumstances. Consequently, application material in ISA 600 needs to address the range of circumstances which the auditor may face and how the group engagement team's involvement should respond to those differing circumstances.
GA4(b)(ii)	Yes, as noted in GA4(a)(i) above we support a requirement for the group engagement team to make an explicit determination about whether to use the work of a component auditor.

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

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

need to consider further.

GA5(a)(i)	<p>We consider that the most meaningful actions of those identified are:</p> <ul style="list-style-type: none"> • Emphasising that significant risks at the component level should be communicated and considered at the group level. • Clarifying how significant risks at the group level impact whether a component is considered significant.
GA5(a)(ii)	<p>We consider that the component auditor needs to respond to the risks identified at the group level in order to provide the necessary audit evidence for the group audit. Likewise communication of risks identified at the component level is important in informing the group engagement team's assessment of risks at the group level.</p>
GA5(a)(iii)	<p>No further issues or actions identified.</p>
GA5(a)(iv)	<p>No specific consequences identified.</p>

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

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

GA6(a)	<p>Although our stakeholders did not see it as a priority to clarify how to determine materiality at the component level and how aggregation risk is addressed for group engagement teams, nevertheless we note that there is inconsistency in the application of materiality at the components in practice. If requirements are to be clarified then the feedback we obtained indicated that the most meaningful actions would be:</p> <ul style="list-style-type: none"> • Explaining clearly and practically the concepts of component materiality, component performance materiality and component clearly trivial, including how they address aggregation risk. • Explaining how to apply materiality when auditing only specific balances, transactions or disclosures or performing specific procedures at a component.
GA6(b)	<p>No further issues or actions identified.</p>

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

- (a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team's involvement in the

consolidation process).

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

(b) Specifically:

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

GA7(a)(i)	<p>Our stakeholder engagement provided very little support for clarifying the auditing standards with respect to how component auditors should address group risk, even though they supported clarification of how to determine risk in a group audit. Those stakeholders who supported clarification of response to group risks, considered that the following actions would be most effective:</p> <ol style="list-style-type: none"> 1. Explaining that testing undertaken by the component auditor can be limited to only balances or transactions relevant to the group if the work is solely for the purpose of the group audit. 2. Requiring clear instructions to be provided to component auditors and a mutual understanding to be established about what is expected. 3. Identifying the different types of procedures which may be required from the component auditor. 4. Clarifying the extent of analytical procedures at a group level for non-significant components. 5. Explaining that different work is required for the purposes of the group audit compared to a standalone component auditor's report. 6. Identifying the necessary procedures at the component level on amounts audited
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	<p>centrally and allocated to the component.</p> <p>7. Clarifying how to determine which and how many non-significant components to select for testing.</p> <p>8. Clarifying whether the group engagement team needs to test sub-consolidations and related internal controls.</p> <p>9. Requiring that subsequent events are addressed by component auditors.</p>
GA7(a)(ii)	We do not consider clarifying how component auditors respond to assessed risks is a priority, nevertheless application material on the matters identified may be of assistance to component auditors. Instead we suggest that the focus of amendments needs to be on the assessment of risk (see response to GA5 above).
GA7(a)(iii)	No further issues or actions identified.
GA7(a)(iv)	No specific consequences identified.
GA7(b)(i)	Scoping of the audit needs to consider both materiality of components and the assessed risk at the group level. In assessing risk at the group level, as noted in GA5, consideration of the impact of risks communicated by component auditors is necessary. We consider that the concept of 'significant component' needs to be reassessed as a measure of materiality and that materiality alone cannot be the basis of scoping the audit with respect to components.
GA7(b)(ii)	We suggest that other possible actions could include application material on the appropriate basis for rotation of insignificant components.
GA7(b)(iii)	We support strengthening of ISA 600 with respect to the group audit team's involvement in the sub-consolidation process, whilst still allowing flexibility in the level of involvement based on the specific circumstances. We note that access issued may hinder this involvement.
GA7(b)(iv)	Whilst we do not consider subsequent events in a group audit to be a high priority, we do not oppose this matter being clarified as listed in GA7(a)(i).

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

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

GA8(a)(i)	<p>We consider that the most meaningful actions in relation to the review and evaluation of the work of component auditors by the group engagement team, in order of priority, are:</p> <ol style="list-style-type: none"> 1. Requiring documentation of significant judgements about the findings made by a component auditor. 2. Clarifying how the group engagement team understands the extent and quality of procedures performed by the component auditor. 3. Explaining the nature of the review of each component auditor's report. 4. Clarifying how to demonstrate the group engagement team's judgements and application of professional scepticism.
GA8(a)(ii)	<p>Whilst many of our stakeholders do not see the need for clarification of how group engagement teams review and evaluate the work of component auditors, we consider that the actions above would help to address the issues identified in the ITC and foster consistency in the approach and particularly the documentation of the group engagement team's work with respect to component auditors' reports.</p>
GA8(a)(iii)	<p>No further issues or actions identified.</p>
GA8(a)(iv)	<p>No specific consequences identified.</p>

GA9. The Impact of New and Revised Auditing Standards

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

GA9	<p>We support the consideration of the impact of components on disclosures in the group financial statements and key audit matters in the auditor's report for the group.</p>
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The following questions are overall questions relating to group audits:

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

GA10	<p>Overall we consider that ISA 600 needs to be broadened and retitled to address using the work of other auditors, whether at components, equity investments, joint ventures or ADMs and not limited solely to group audits. This is needed due to the increasing use of ADMs and the growing complexity of ownership structures.</p> <p>Practical examples of the range of circumstances which group engagement teams may face with respect to gathering evidence about components and how the group engagement team may respond would be beneficial. Acknowledging that the spectrum of circumstances may range from component auditors who are part of the same tightly controlled network with the same policies and procedures as the group engagement team within the same jurisdiction, to the other extreme where the component auditor is not from within the same network, is located in a different jurisdiction, using a different language and applying local auditing standards which are different from the ISAs.</p>
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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	Regulatory convergence could facilitate the sharing of information between component or other auditors and group auditors, whether located in the same or a different jurisdiction.
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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	Group audits or using the work of other auditors is often more challenging for SMPs as they are less likely to be using the work of an auditor within a network firm which uses the same methodology and relies on the same quality control system. More extensive application material could promote consistency in the expectations placed on other auditors.
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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	None identified.
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