

16 May 2016

Professor Arnold Schilder  
Chairman  
International Auditing & Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York  
NY 10017  
USA

Dear Professor Schilder

**Comment Letter *Enhancing Audit Quality in the Public Interest***

Crowe Horwath International is delighted to present a comment letter on *Enhancing Audit Quality in the Public Interest*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 130 countries.

We welcome the IAASB's initiative to lead a discussion about the relevance of Auditing Standards particularly in relation to audit quality and the public interest. Audit Standards have to adapt to changing circumstances and we observe that the IAASB is seeking to address concerns regarding the application of Standards that have been raised by firms and stakeholders. For many reasons, including increased adoption of the IAASB's standards, changes in regulation and technology, and the evolution of stakeholder expectations, the time is right for a through review of Auditing Standards.

This is an ambitious project. Although we understand why IAASB issued a single paper covering professional scepticism, quality control and the audit of groups, the large numbers of questions are challenging to respond to. In future, IAASB might seek to break ambitious projects like this into smaller components.

On page 3 of the Invitation to Comment there is a project timeline. It would be helpful if IAASB could develop this timeline to forecast when new and revised Auditing Standards are likely to be issued.

Our responses to the questions in the Invitation to Comment are given in the Appendix to this letter. From our detailed responses, we particularly draw attention to the following:

- ISQC 1 has many good features and has helped firms develop their quality control policies and procedures. ISQC 1 has been effective since 2009. The content of the

standard has changed little, but there has been much change in the professional environment. For ISQC 1 to remain “fit for purpose” it requirements review and revision.

- IAASB has to consider the implications of rapid technological change in the performance of audit, and adapt its standards.
- IAASB has made a series of sensible initial proposals for the revision of ISA 600. The deficiencies in the current ISA 600 are widely recognised. IAASB is taking the right approach to developing a better standard that will help both group and component auditors in the performance of their engagements.
- Auditing Standards have to remain relevant to the performance of the audit of smaller entities. During the review process, IAASB should allocate time and resources to developing solutions that enable effective quality audits to be performed on smaller entities.

We trust that our comments assist the IAASB in its standard setting activities. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive, flowing style.

David Chitty  
International Accounting and Audit Director

**Appendix – Crowe Horwath International response to IAASB Invitation to Comment  
Enhancing Audit Quality in the Public Interest**

**General Questions**

Number	Question	Response
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 scepticism, quality control, and group audits. In that context:	
(a)	Are these public interest issues relevant to our work on these topics?	Yes
(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.	The table should make greater reference to the role of Those Charged With Governance (“TCWG”) in supporting the auditor and the delivery of the auditor’s objectives. There is a brief reference to “communications with the audit committee” under “communication and interactions”. However, there is scope for a separate and distinct heading relating to TCWG.
(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.	In respect of our response to b), the IAASB could be supported in addressing the public interest issues concerning the role of TCWG by: <ul style="list-style-type: none"> <li>• Bodies that set corporate governance standards, and particularly standards and guidance for good boardroom conduct;</li> <li>• Institutional shareholder and investor organisations;</li> <li>• Organisations that support directors and director conduct, and particularly those that support non-executive directors.</li> </ul>
G2	To assist with the development of future work plans, are there other actions (not specific to the topics of	We propose the following other actions that should be taken into account in developing future work

	<p>professional scepticism, quality control, and group audits) that you believe should be taken into account? If yes, what are they and how should they be prioritised?</p>	<p>plans:</p> <p><b>The impact of technological change on the audit.</b> Rapid technological changes are taking place that are changing how audits are performed. The IAASB has to address the impact of “big data solutions” and adapt its standards. The IAASB should acknowledge that there is a risk that aspects of its standards could soon no longer be “fit for purpose”.</p> <p><b>Audit of accounting estimates.</b> We acknowledge that IAASB is working on the audit of accounting estimates. However, changes to accounting standards and the general greater attention given to fair values mean that improvements to ISAs are needed. IFIAR’s surveys of audit regulator findings consistently feature concerns in this area.</p> <p><b>Audit of smaller entities.</b> We note that IAASB mentions this subject in paragraph 12. There are genuine concerns about the application of ISAs to the audit of smaller entities. The changes proposed in <i>Enhancing Audit Quality</i> could well increase these concerns. Recently, the concerns about the applicability of ISAs to smaller audits were expressed in the proposals issued by the Nordic Federation. We do not consider that the Nordic proposals are the right solution, but the IAASB has to give greater acknowledgment to these concerns, and make time and allocate resources to addressing them.</p>
G3	<p>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.</p>	<p>Crowe Horwath LLP, the US member firm of Crowe Horwath International, is participating in a joint initiative between the Rutgers Business School and the American Institute of CPAs (AICPA), called the Rutgers AICPA Data Analytics Research Initiative (RADAR). RADAR is cosponsored by the AICPA and CPA Canada and will</p>

		<p>facilitate the further integration of data analytics into the audit process in an effort to enhance audit quality. The initiative will test theory and methodology to help in developing professional guidance on the application of audit data analytics.</p> <p>Details about RADAR can be found at: <a href="http://raw.rutgers.edu/radar">http://raw.rutgers.edu/radar</a>.</p> <p>The IAASB will be aware of research and studies performed by national regulatory and standard setting bodies. We particularly draw attention to the UK FRC's recent thematic review on the role of the EQCR.</p>
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### Professional Scepticism

Number	Question	Response
PS1	Is your interpretation of the concept of professional scepticism consistent with how it is defined and referred to in the ISAs? If not, how could the concept be better described?	<p>Yes.</p> <p>“Professional scepticism” is not easy to define or explain. The presentation in ISAs is a reasonable effort and we do not see the need to change it.</p>
PS2	What do you believe are the drivers for, and impediments to, the appropriate application of professional scepticism?	<p>The pictorial on page 13 appropriately, clearly and simply, illustrates the drivers. There are many potential impediments, but we would draw attention to the following:</p> <p><b>Culture.</b> There are cultural impediments such as in environments where there is a respect culture. In a respect culture it can be difficult to challenge the view of a superior.</p> <p><b>Status of audit.</b> There are environments in which audit has a low status or is regarded as a “commodity”. If audit has a low status, then this impacts upon how scepticism is applied.</p>



		<p>priority to the areas concerning:</p> <ul style="list-style-type: none"> <li>• Culture, both local and firm related;</li> <li>• The role of engagement partners, EQCR, TCWG and oversight bodies;</li> <li>• The impact of technology; and</li> <li>• Developing innovative and imaginative training and education solutions.</li> </ul>
PS3	<p>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?</p> <p>What do you think are the most important area to be considered?</p>	<p>We regard the listing of areas as complete. It could be added to, but paragraphs 37-40 cover a lot of matters that can be regarded, at this time, as being sufficient.</p> <p>Paragraph 38a mentions firm leadership and culture. These are vital to address if professional scepticism is to be strengthened.</p>
PS4	<p>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 scepticism? If not, why?</p>	<p>We agree that the projects relating to quality control and group audits will improve the application of professional scepticism.</p>
PS5	<p>What actions should others take to address the factors that inhibit the application of professional scepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?</p>	<p>We have noted in our response to PS2 that IAASB, IESBA and IAESB should ensure that their standards are consistent in their approach to professional scepticism.</p> <p>We also noted in our response to PS2 that there is a role for national regulators and standard setters, professional bodies and professional educators to address cultural issues that inhibit the application of professional scepticism. To achieve this, outreach from international standard setters will be required.</p>

**Quality Control (Including questions exploring crossover issues/issues relevant to more than one project)**

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

Number	Question	Response
QC1	We support a broader revision of ISQC 1 to include the use of a QMA as described in paragraphs 45–67.	
(a)	<p>Would use of a QMA help to improve audit quality? If not, why not?</p> <p>What challenges might there be in restructuring ISQC 1 to facilitate this approach?</p>	<p>We agree with the proposed QMA approach.</p> <p>Adopting a QMA approach means that ISQC1 will require significant revision. ISQC1 has many good features, but it is essentially a list of quality control policies and procedures. ISQC1 has a “compliance” approach. QMA is much broader and is more about governance. ISQC1 has been effective since 2009 and has been subject to limited change since its issuance. Governance practice has changed significantly since 2009, as have the expectations of the stakeholders of the audit. IAASB therefore should be prepared to make a significant restructuring of ISQC1. This will, in turn, lead to a significant challenge to communicate the changes in both content and approach.</p>
(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?	<p>We agree with the approach taken in paragraphs 64 and Table 3. The integration with risk management and governance frameworks is the right approach.</p> <p>A reference to reporting quality could be added. This would connect the QMA and the activities described with transparency reporting and other reporting that firms undertake.</p>
(c)	In your view, how might a change to restructure ISQC 1 impact the ISAs,	The restructuring of ISQC 1 clearly

	including those addressing quality control at the engagement level?	<p>impacts upon ISA 220 and ISA 600.</p> <p>The impact on reporting standards should be considered. The audit report is the public output of the audit. Change to ISQC 1 and adoption of QMA is likely to have consequences for the process of presenting an audit report, and especially reports containing key audit matters.</p>
(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?	<p>IAASB should address the matters raised in paragraph 59 and Table 2. ISQC 1 has been in place for a long time, with little change. The professional environment and the expectations of stakeholders have changed. To remain fit for purpose a revision of ISQC 1 is needed.</p> <p>Even without taking a QMA approach, a revision of ISQC 1 should place more emphasis on leadership, culture and tone. There can be greater consideration of quality objectives and risks. The style of ISQC 1 can be changed to make it read less like a checklist.</p>
QC2	<i>Engagement Partner Roles and Responsibilities</i>	
(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?	<p>The actions that are most meaningful are:</p> <ul style="list-style-type: none"> <li>• Addressing what documentation is required to be reviewed by the engagement partner; and</li> <li>• Explaining and illustrating what the engagement partner can do to demonstrate proactive and appropriate direction, supervision and review throughout the audit.</li> </ul>

(ii)	Why do you believe these actions are necessary?	These are necessary because there is considerable variability in practice in the approach to direction, supervision and review. Stakeholders should expect a consistent approach and a minimum standard that delivers and documents effective engagement partner leadership.
(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.	IAASB should consider the documentation of partner involvement and review. Standards and guidance are needed to establish minimum documentation requirements.
(iv)	Describe any potential consequences of possible actions that you believe we need to consider further.	The consequence of our comment above would be improved documentation of partner involvement and review.
(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).	<p>The ISAs should address the circumstances described in paragraph 79.</p> <p>Where partners other than the engagement partner sign the audit report, ISAs should set out appropriate requirements for the exercise of their responsibilities. A straightforward approach would be to develop a set of responsibilities that are similar to those of an EQCR.</p>
QC3	<i>Others Involved in the Audit</i>	
(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?	A meaningful action is to use the ISA 600 revision project as an opportunity to revise the scope of ISA 600 to address a wider range of circumstances than covered by the current ISA 600. Clearly, not all circumstances can be specifically addressed, but the Standard and Application Guidance can include considerations to apply when “others” are involved.

(ii)	Why do you believe these actions are necessary?	The current scope of ISA 600 is narrow, largely following a traditional “parent / subsidiary” model. Business is conducted in ways that are much broader than this.
(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.	At this time we have nothing further to add.
(iv)	Describe any potential consequences of possible actions that you believe we need to consider further.	Paragraph 104 mentions “auditor’s experts”. The IAASB should revisit standards in this area in the near future. In practice there appears to be an increasing use of experts, in part because of the greater use of fair values in financial reporting. Auditors, TCWG and stakeholders need greater clarity in standards.
(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)?	As noted above, IAASB should develop further requirements and / or application material for these circumstances. The scope of the current ISA 600 is too narrow and reflects a traditional approach to business. The scope of standards should reflect the wider range of ways that auditors work together and circumstances in which business is conducted.
QC4	<i>The Firms’ Role in Supporting Quality</i>	
(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?	The actions that would be most meaningful are to revisit existing ISQC 1 requirements and application material that relate to network quality control and monitoring policies and procedures, and network inspection arrangements.
(ii)	Why do you believe these actions are	This action is necessary because the current ISQC 1 does not adequately

	necessary?	consider the role of the network in quality control.
(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.	We have nothing to add.
(iv)	Describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.
(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?	As noted above, the current ISQC 1 does not adequately consider the role of the network in quality control.  The IAASB should 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.	It would be feasible for the IAASB to develop requirements and guidance for networks. Networks that are members of the Forum of Firms are expected to implement a quality oversight system as a condition of membership. IAASB should work with the Forum and its members to understand the arrangements that networks have put in place and use this understanding to develop requirements and guidance.
(iii)	Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.	
	How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?	Paragraphs 122 and 123 list an appropriate set of actions. Most importantly, IAASB should emphasise the responsibility of the engagement partner for the direction, supervision, performance and review of the work performed, whatever the arrangements.

	Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details	Paragraph 117 covers the most common ADM arrangements. The issues raised are sufficient at this time.
QC5	<i>Governance of the Firm, Including Leadership Responsibilities for Quality</i>	
(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?	<p>The actions that are most meaningful are:</p> <ul style="list-style-type: none"> <li>• Clarification of leadership responsibilities;</li> <li>• Clarification of the meaning of the existing terminology;</li> <li>• Increasing the emphasis about the firm leadership setting and maintaining an appropriate culture;</li> <li>• Firm leadership being accountable for quality.</li> </ul>
(ii)	Why do you believe these actions are necessary?	These actions are collectively necessary to address the current absence of firm governance in ISQC 1. A revised ISQC 1 has to take a strong approach to governance and leadership. It has to reflect developments in governance practice, and in some jurisdictions, in transparency reporting.
(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.	We consider that the issues and actions are, at this time, sufficient.
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.
(b)	Specifically:	
(i)	Do you believe it is necessary for us to explore how the governance of a	Yes.

	firm could be addressed in ISQC 1?	
(ii)	<p>Should ISQC 1 specifically address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence-related matters?</p> <p>If so, how should this be done, and what direction should ISQC 1 provide to firms in appointing appropriate individuals to assume these responsibilities?</p>	<p>Yes.</p> <p>This could be done through the preparation of an annual, internal report on quality control. This report should include a statement of responsibility by the firm's leadership and include reference to reports and presentations on quality that have been given to the firm's leadership during the year.</p> <p>ISQC 1 could specify that a member of the firm's leadership should have specific responsibility for quality, including independence. Guidance could be given on how this individual might delegate the exercise of this responsibility to other personnel in the firm.</p>
(iii)	<p>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?</p>	<p>QMA is an appropriate solution as it provides the right context for integrating leadership and accountability with quality. This would be more effective than trying to add leadership and governance to the existing ISQC 1. QMA gives the opportunity to modernise ISQC 1 and emphasise the importance of leadership, governance and accountability.</p>
QC6	<i>Engagement Quality Control Reviews and Engagement Quality Control Reviewers</i>	
(a)	<p>Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.</p>	
(i)	<p>Which of the possible actions outlined in paragraphs 143–146 would be most</p>	<p>The actions that would be most</p>

	<p>meaningful in addressing issues related to EQC reviews and EQC reviewers?</p>	<p>meaningful are:</p> <ul style="list-style-type: none"> <li>• Strengthening the documentation requirements in ISA 220 to more clearly show a record of the conduct of the EQCR; and</li> <li>• Further specifying the nature and matters to be considered by the EQCR.</li> </ul> <p>To address these actions, as well as the other issues identified by IAASB, we believe that a separate EQCR standard should be developed.</p>
(ii)	<p>Why do you believe these actions are necessary?</p>	<p>In respect of the specific actions that we have referred to, we concur with the observations in paragraph 137 about the depth, focus and documentation of the EQCR. Checklists alone cannot evidence EQCR. IAASB has to strengthen standards with a view to improving the documentation of the EQCR.</p> <p>Regarding the development of a separate standard, as noted in paragraph 144, EQCR is important to stakeholders, as well as to firms' risk management. The advantages of having a separate standard outweigh the disadvantages. A separate standard will recognise the importance of EQCR.</p>
(iii)	<p>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.</p>	<p>We have nothing to add.</p>
(iv)	<p>Please also describe any potential consequences of possible actions that you believe we need to consider further.</p>	<p>We have nothing to add.</p>
(b)	<p>Specifically:</p>	
(i)	<p>Should ISQC 1 mandate the performance of EQC reviews beyond</p>	<p>Yes.</p>

	<p>audits of listed entities?</p> <p>If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.</p>	<p>As discussed in paragraph 143, there are certain types of public interest engagements to whom the scope of EQCR ought to be extended. IAASB could specify that EQCR should apply where there is a definition of “public interest” in law or regulation (such as in the European Union). IAASB could supplement this with guidance for determining “public interest” in the context of EQCR.</p> <p>In addition, IAASB ought to consider presenting guidance that encourages firms to develop policies for requiring EQCR on higher risk engagements. The firm should define “higher risk”, taking into account the guidance.</p>
(ii)	<p>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?</p> <p>If yes, how do you think this should be done and why? If no, please explain why.</p>	<p>Yes</p> <p>IESBA is addressing “long association”. The minimum period of time should be identified in light of the revisions that are made to the IESBA Code of Ethics.</p>
(iii)	<p>Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.</p>	
QC7	<i>Monitoring and Remediation</i>	
(a)	<p>Paragraphs 147–159 set out matters relating to monitoring and remediation.</p>	

(i)	Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?	<p>The actions that would be most meaningful are:</p> <ul style="list-style-type: none"> <li>• Monitoring by firm leadership of inspection findings (external and internal) and remedial actions;</li> <li>• Linkage between monitoring and QMA; and</li> <li>• Policies and procedures for analysing and responding to findings.</li> </ul>
(ii)	Why do you believe these actions are necessary?	<p>The involvement of firm leadership (and potentially the integration with QMA) emphasises the importance of monitoring and the responsibility of firm leadership to receive reports, and consider the implications of reports.</p> <p>We mention policies and procedures for analysing and responding to findings, because regulators frequently refer to “root cause analysis”. In light of this, IAASB ought to help auditors by referring to “root cause” analysis in requirements and application material.</p>
(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.	<p>A revised ISQC 1 should do more to address the conduct of the “whole firm review” of the operation of the firm’s policies and procedures. Firms need assistance with this, and firms need to understand that internal monitoring is more than the review of completed engagements.</p> <p>The existing application guidance on the frequency of the review of completed engagements is brief and, arguably, dated. This guidance should be revised and the wording changed so that it does not imply that engagement reviews be performed at three-year intervals.</p>
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.

(b)	Specifically:	
(i)	<p>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?</p> <p>Are there any potential consequences or other challenges of taking this action that you believe we need to consider?</p>	<p>Yes</p> <p>We have nothing to add. This should be addressed.</p>
(ii)	<p>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?</p> <p>Please provide further detail to explain your response.</p>	<p>Yes</p> <p>Remedial actions are important, and it is right to give greater emphasis to these in the design and assessment of the firm's system of quality control. The presentation should encourage learning from the findings as an important part of the remedial action.</p>
QC8	<p><i>Engagement Partner Performance and Rewards Systems</i></p> <p>Paragraphs 160–170 set out matters relating to engagement partner performance and rewards systems.</p>	
(a)	<p>Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?</p>	<p>Yes</p> <p>We agree that there should be a link, but it is better to present it in terms of "performance". Audit quality is an important component of assessing a partner's performance. Therefore, it is logical that audit quality measures, including meeting audit quality objectives, should be one of the components that influence a partner's</p>

		compensation.
(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?	<p>ISQC 1 should stress that quality is a component of the assessment of partner (and staff) performance. The measurement of quality has to include the meeting of objectives that have been set about quality.</p> <p>The most appropriate action is that firms should develop a performance and rewards system that includes consideration of audit quality. Guidance could be developed to help firms assess quality as a performance measure.</p>
QC9	<i>Human Resources and Engagement Partner Competency</i>	
(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?	<p>The most meaningful actions are:</p> <ul style="list-style-type: none"> <li>• Additional application material concerning career development and promotion;</li> <li>• Aligning IES 8 (Revised) with the IAASB’s standards.</li> </ul>
(ii)	Why do you believe these actions are necessary?	<p>Application material will help firms use quality considerations in career development and promotion. More guidance will help firms develop their human resource systems, including when setting objectives, planning education needs and making promotion decisions.</p> <p>Alignment with IES 8 (Revised) is important to achieve consistency between standards.</p>
(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	We have nothing to add.

	particular action, please explain why.	
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.
(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?	Additions to application material.
(ii)	Related to engagement partner competency?	Alignment with IES 8 (Revised).
(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.	IAASB has identified several areas, which are best addressed in application material.  The alignment with IES 8 (Revised) is logical, and should be done to achieve alignment between standards.
QC10	<i>Transparency Reporting</i>  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?	Yes.  Not all jurisdictions have transparency reporting requirements, and those that do usually confine the requirement to auditors of public interest entities. Therefore, there is a role for IAASB to encourage voluntary transparency reporting by firms that are not subject to an obligation in law or regulation. There is also a role for IAASB to encourage best practices in transparency reporting, which could go beyond minimum national legal

		requirements.
(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.	Not applicable.
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?	We have nothing to add.
QC12	Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.	We have nothing to add.
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.	<p>IAASB has identified several SMP considerations in the discussion paper.</p> <p>The considerations are generally relevant. IAASB has to consider the balance between making changes to standards that are needed to improve audit quality and achieve IAASB's public interest objectives, and the cost to a firm of implementing the changes. We do not agree that there should be "SMP opt outs" but it should be recognised that the public interest considerations are different for a small firm with no public interest clients. However, it also has to be recognised that there are standards that all auditors have to meet and to help SMPs meet these standards, appropriate material can be presented in the application guidance and other means of support.</p>
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	We have nothing additional to comment on this.

	matters.	
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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.

Number	Question	Response
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?	<p>IAASB should increase the emphasis in ISA 600 on the need to apply all relevant ISAs in an audit of group financial statements. The analysis in paragraph 198, and particularly the examples, is very relevant and highlights the importance of the interaction with other ISAs.</p> <p>The increased emphasis will help with the application of ISA 600. Rather than debate “flexibility” now, we agree with the need to revise ISA 600. The consultation paper highlights many of the known weaknesses in the scope, content and application of ISA 600. IAASB should proceed with the revision to address these issues. When there is an exposure draft, there can be a discussion about flexibility.</p>
(b)	Would the actions we are exploring in relation to ISA 600 improve the quality of group audits? If not, why?	Yes.
(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?	<p>There should not be references to other auditors in an auditor’s report. The auditor’s report is the report of the appointed auditor. That auditor has to determine the procedures to conduct the audit and form the opinion. Those procedures may involve various forms of collaboration with other auditors. References to other auditors in the</p>

		report could give the impression that part of the responsibility is being transferred to others. This is potentially misleading.
(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?	IAASB has highlighted the right issues and should proceed with the revision of ISA 600.
GA2	<i>Acceptance and Continuance of the Group Audit Engagement</i>	
(a)	Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.	
(i)	Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?	<p>The actions that would be most meaningful are:</p> <p>Strengthening the link between ISA 600 and ISQC 1 and ISA 220 regarding acceptance and continuance policies;</p> <ul style="list-style-type: none"> <li>• Addressing access issues;</li> <li>• Providing more specific considerations relating to assessing and working with component auditors; and</li> <li>• Strengthening requirements concerning the direction, supervision and performance of the work done by component auditors, including the documentation of the group auditor’s considerations.</li> </ul>
(ii)	Why do you believe these actions are necessary?	<p>These actions are necessary to address known concerns regarding the application of ISA 600.</p> <p>Access to components is a recognised issue. In a traditional “parent / subsidiary” model jurisdictional access issues can arise. IAASB has recognised that there are access issues arising from structures such as associates, joint ventures and</p>

		<p>special purpose vehicles.</p> <p>The existing ISA 600 does not sufficiently address the practical interaction between the group auditor and component auditors. Regulators have raised concerns about the application of standards. In some cases, “checklist” approaches to relying on component auditors continue. The documentation of the assessment and the reliance on the component auditor can be variable. IAASB should take the opportunity to improve the standard in this area, as this will help auditors with the consistent application of requirements about collaboration of group engagements.</p>
(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.	The consultation paper has identified the issues and contains a lot of possible actions in this area. We have nothing further to add.
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.
(b)	Specifically:	
(i)	Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.	<p>Anecdotally, we would agree that there are access issues in practice. As examples:</p> <ul style="list-style-type: none"> <li>• The group structure includes entities such as associates, joint ventures or special purpose entities. In practice, the group auditor and group management collaborate to obtain sufficient appropriate evidence. However, resolving this may be more challenging than it needs to be, and judgments may have to be made about the audit evidence obtained.</li> </ul>

		<ul style="list-style-type: none"> <li>There can be issues regarding access in specific jurisdictions. These might relate to national laws or regulation regarding the conduct of the audit profession, or data security. These can be overcome by the taking of proper advice about professional conduct in that country from a fellow network firm or other sources.</li> </ul>
(ii)	Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?	ISA 600 should be strengthened in this area. Auditors have to consider these issues at an early stage and determine how they might address these issues.
(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?	This is potentially achievable for a new engagement, because the auditor is likely to be alerted to these issues during the proposal and engagement due diligence process. This may mean that a firm has to undertake additional procedures before it can complete its acceptance process.
GA3	<i>Communications between the Group Engagement Team and Component Auditors</i>	
(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?	<p>All the proposed actions in paragraph 224 have to be addressed to resolve the issues relating to communication between the group auditor and the component auditor. As a package the proposed actions will improve ISA 600 and help auditors in performing group audit engagements.</p> <p>There is a lot of merit in developing a separate standard for component auditors. The current ISA 600 does not address the specific role and responsibilities of the component auditor. Standards should also</p>

		present the audit from the perspective of the component auditor. A separate standard should also help group auditors with achieving their objectives.
(ii)	Why do you believe these actions are necessary?	As we commented above, in this area, the proposed actions can be seen as a package that can improve audit quality, address known concerns and assist auditors in practice.
(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?	The proposed solutions should help address the known concerns in this area. We have nothing further to add.
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing further to add.
GA4	<i>Using the Work of the Component Auditors</i>	
(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?	<p>The proposed actions in paragraphs 234 and 242 collectively would help to address the identified issues. We would regard the following as the most meaningful:</p> <ul style="list-style-type: none"> <li>• Strengthening requirements regarding an explicit determination about whether it is appropriate to use the work of a component auditor (with appropriate supporting documentation). Additional application material is needed to help auditors make this determination;</li> <li>• Developing application material concerning the assessment of results of quality control monitoring and external quality control reviews; and</li> </ul>

		<ul style="list-style-type: none"> <li>Strengthening the standard and application material concerning involvement as discussed in paragraphs 242a and 242b.</li> </ul>
(ii)	Why do you believe these actions are necessary?	The actions we regard as most meaningful would greatly assist auditors in determining and documenting their reliance on component auditors and in their involvement with component auditors. Developing the application guidance would be particularly helpful in assisting auditors in practice.
(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.	The proposed actions are comprehensive. We have further nothing to add.
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.
(b)	Specifically:	
(i)	Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?	Yes.  Changes are best achieved through the application material. Examples, as given in paragraph 242c, would help. The application material should also encourage flexible thinking, the use of judgment and the documentation of the approach taken.
(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?	Yes.
GA5	<i>Identifying and Assessing the Risks of Material Misstatement in a Group Audit</i>	
(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?	Improvements to ISA 600 are needed in this area. The adding of links to other ISAs is a minimum response. However, taking the actions listed in paragraph 253 will help with the practical application of the requirements of ISA 600 and can be seen as a clear effort to address the concerns.
(ii)	Why do you believe these actions are necessary?	Auditors need further assistance with applying the “risk standards” in the context of a group audit. In this situation, a thorough response, particularly using additional application guidance will help address the identified concerns.
(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.	We have nothing to add.
(iv)	Please also describe any potential consequences of possible actions that you believe we need to consider further.	We have nothing to add.
GA6	<i>Issues Relating to Component Materiality and Other Aspects of Materiality Relevant to Group Audits</i>	
(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.	We note that the proposed actions have to take into account the fact that ISA 320 is not currently subject to review. Noting this, the proposed actions are appropriate. The use of application guidance will help with the understanding of the requirements of ISA 600.
(b)	Recognising that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address materiality more broadly), please describe any other relevant issues or	The proposed actions are sufficient at this time to help with the understanding of the requirements of ISA 600.

	additional actions that you think may be appropriate relating to component materiality, component performance materiality or the clearly trivial threshold at the component level.	
GA7	<i>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)</i>	
(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?	<p>This section includes a wide range of proposed actions. As commented in paragraph 271, ISA 600 does not deal explicitly with some of the practical challenges that have been identified. Therefore, the actions in paragraph 272 have to be seen in total as an effort to resolve deficiencies in the content of the standard and guidance.</p> <p>Regarding the other proposed actions, those relating to the audit of the consolidation in paragraph 288 are important, and would represent a needed enhancement to the existing ISA 600.</p>
(ii)	Why do you believe these actions are necessary?	<p>With respect to the actions proposed in paragraph 272, these would address an area where ISA 600 is seen as deficient.</p> <p>The audit of the consolidation is potentially complex and risky. Enhancements to ISA 600 would assist auditors in practice.</p>
(iii)	Are there other relevant issues that we should consider, or actions that would be more effective than those	We have nothing to add.

	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.	We have nothing to add.
(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?	<p>There are merits in taking a “group approach” to the assessment of risk. In practice this approach might reflect how the group is directed, managed and reported. Also, many systems and processes could be group wide. Overall, this approach can appear to be more “joined up”, and more flexible than taking a component approach.</p> <p>A practical challenge would be the change to the way that auditors have tended to perform group audits. To understand the nature of the challenges, IAASB could meet with audit firms to work through the implications of such a change, prior to proposing changes in an exposure draft.</p>
(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?	<p>A “group wide” approach to the audit would help to address situations where there are a large number of non-significant components.</p> <p>Revisions to ISA 600 could address the judgment decisions that have to be considered by the group auditor in this situation. The group has to design procedures to obtain sufficient appropriate evidence to form an opinion. If there are a large number of non-significant components, then judgments have to be made. Application guidance might help with this.</p>
(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	Yes.

	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?	Yes.
GA8	<i>Review and Evaluation of the Work of Component Auditors by the Group Engagement Team</i>	
(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?	The actions that would be most meaningful would be to strengthen communication and documentation requirements.
(ii)	Why do you believe these actions are necessary?	These actions would result in improvements in the practical process of communication between the group auditor and component auditors, and better documentation of the evaluation and review by the group auditor.
(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.	We have nothing to add.
(iv)	Please also describe any potential consequences of those actions that you believe we need to consider further.	We have nothing to add.
GA9	<i>The Impact of New and Revised Auditing Standards</i>	
	How should the matters set out in paragraphs 304–305 be addressed in our plans to revise ISA 600?	A revised ISA 600 may need to refer specifically to the audit of the process for preparing the financial statement disclosures, and to the group auditor's assessment that group disclosures

		are properly prepared from returns from components and are consistent with the financial statements of the components.
	Are there any other implications from our new or revised standards that should be considered?	We have nothing to add.
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?	The considerations about group audits in the discussion paper are comprehensive. We have no further issues to add.
GA11	Are there any other specific actions that others could take in relation to group audits? If yes, please provide details.	The proposed actions in the consultation paper are extensive. We have nothing further to add.
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.	We agree with the suggestion in paragraph 199 that it may be necessary to develop a standard for component auditors as this can particularly assist SMPs.
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.	We have no specific comments to add.