



**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

<p>Name: <i>(Please also fill in name in header for ease of reference)</i></p>	<p>Dianne Azoor Hughes</p>
<p>Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)</p>	<p>Individual: Independent Consultant - Governance, Risk & Audit</p>
<p>Name of contact person at organization (if applicable):</p>	<p>n/a</p>
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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)	Yes
G1(b)	<ol style="list-style-type: none"> i. There is a fine balance between ISAs that promote quality audits and implementation of those ISAs to deliver value to stakeholders. Audit quality is a necessary prerequisite for the acceptance and provision of audit services. However, to remain relevant to the public interest, auditors need to understand compliance with ISAs as “the way they do business” and focus on delivering value audits. Presently auditors appear to focus on compliance to satisfy audit inspections by regulators. ii. “Public interest” is far broader than investors in capital markets. A large percentage of the world economy comprises private business; audit services are important to ensuring quality financial information for decision-making to promote economic prosperity and growth in this market segment. These two factors have a pervasive impact on all items listed. iii. The value of audit communications: “Value” is not a one-size-fits-all for audit. Although audit compliance may be an adequate surrogate for value at the top end of the listed market, the value delivered through timely audit communications can be critical for the rest of the market. The ISAs have a somewhat rigid explanation of appropriate communications between the auditor and audit client. iv. Auditor education: The value of communications will be enhanced through the auditor’s identification and understanding of issues relevant to business decisions. Two areas where the auditor’s understanding and knowledge needs to be enhanced are organizational behavior and IT systems. v. Audit breadth of knowledge and experience: As specialization in various aspects of the audit becomes more prevalent, there is increasing risk of dysfunction in the audit process, albeit that regulatory compliance might be satisfied. For example, group audits in the private sector can be considerably more complex than the audit of a traditional corporate group structure. To identify and address audit risk, the auditor leading these group audits needs to understand taxation, tax structures, contractual obligations, organizational structures including service organizations, IT systems, valuation protocols in different jurisdictions, cultural differences, related party priorities and goals beyond profits maximization. Bringing in experts for each area, without understanding the “big picture” is not optimal and carries risk. An auditor cannot be appropriately skeptical in areas where he/she has limited understanding. An auditor’s expert, who may not be an auditor, is likely

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	<p>to have a very different understanding of how to exercise and document skepticism.</p> <p>vi. Contextual differences in global networks: Differences in the operation of global networks comprising large international partnerships with decisions made centrally by an executive, and networks comprising independently owned firms who work through collaboration and co-operation is not well understood. There are strengths and weaknesses in both models. Factors driving audit quality are biased towards the “operational norm” of large international partnerships.</p>
G1(c)	<p>In Australia, those involved in audit inspections are rarely audit experts. Consequently, there is a focus on item-for-item matching for compliance with an ISA requirement and the work documented by the auditor. Audit is (or should be) an iterative and integrated process. The nature and extent of documentation (suitable for a third party who may not be an audit expert) of those thought processes are sometimes difficult when decisions are made in the midst of outcomes in an audit.</p> <p>Regulators need to employ audit experts to conduct audit inspections, with a defined acceptable period of audit experience, in the same way as the regulator defines the appropriate experience needed by a practitioner to become a registered company auditor.</p>

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	Auditor education and the breadth of a senior auditors' knowledge and experience needs urgent attention.
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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>No</p> <p>I have raised the need for undergraduate courses to include units in organizational behavior and IT systems with academic institutions. Generally, these units seem to be available as elective units only. In my view they should be mandatory, as prerequisite learning for those entering the audit profession,</p>
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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?

PS1	I concur with the definition in the ISAs. However, there are limitations as to how skepticism can be exercised in practice. The limitations are a function of the auditor’s education and experience, and the way larger, more complex audits are organized.
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PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?

PS2	<p>The IAASB can address the requirements for an auditor’s education and experience, and the way large, complex audits are organized, to improve the exercise of professional skepticism.</p> <p>Consider larger audits where all audit evidence is not examined by one auditor or where an auditor’s expert examines documents relevant to a particular area, without an understanding of the <i>potential</i> broader issues arising in the audit. Skepticism is often related to the potential for issues to arise, triggered by a “gut feeling” that something is not quite right, causing the auditor to delve more deeply. Communications between auditors and with audit experts can identify actual risk, but it is far more difficult to document the potential for risk that might trigger the need for skepticism.</p> <p>Consider evidence presented in a digital format which extracts different “views” or reports from a comprehensive database of information. The report presented may satisfy the audit query, without revealing information that has not been requested.</p> <p>How is contradictory evidence identified in these circumstances?</p>
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PS3. Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

PS3	<p>The discussion in paragraphs 38-40 is not incorrect, but it is set at a high level.</p> <p>In my view, a lack of skepticism is more likely to arise through the auditor’s lack of understanding or experience, and inadequate on-the-job supervision, rather than issues such as tone at the top or firm culture.</p> <p>For example, when auditing complex accounting estimates, there may be the situation where an auditor’s expert is working with a client’s expert, and they both have limited understanding of the business or financial reporting outside their particular area of expertise. This circumstance significantly limits the auditor’s expert’s ability to exercise professional skepticism by correlating evidence or explanations with information from other aspects of the audit.</p> <ul style="list-style-type: none"> • The way in which the lead auditor reviews the expert’s work and questions findings will be critical to the exercise of skepticism. • The ability of the lead auditor to review thoroughly and ask appropriate questions depends on the knowledge and experience the lead auditor has of the subject matter. • Given the cost to the audit of employing an auditor’s expert, together with the lower level of expertise held by the lead auditor in respect of the particular area, there may be
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	<p>a tendency to accept the work completed, without probing more deeply.</p> <p>In more ordinary circumstances, work conducted by junior auditors with limited work experience will implicitly carry a lower level of skepticism than work carried out by more experienced auditors. The ratio of junior auditors to more experienced auditors will impact the extent of “on-the-job” training and how skepticism is demonstrated in the field.</p> <p>Similarly, when audit tests are carried out in isolation offshore, the nature of the inquiry becomes limited to the facts presented, rather than in the context of the broader audit.</p>
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PS4. Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?

PS4	<p>Quality control is always after the event. Quality control will not identify circumstances where the auditor has not “joined the dots” between prima facie conflicting pieces of evidence, where more probing questions should have been asked. There is often nothing to review in these circumstances.</p> <p>On-the-job supervision and review, and timely communications between team members are critical to promoting a skeptical mindset. As audits become more dissected to match procedures with ISA requirements, the role of a reviewer with oversight over all audit findings becomes the most critical role for exercising skepticism.</p> <p>The IAASB should focus attention on how audit tasks are allocated across multi-jurisdictional audit teams (including off-shoring of audit tasks) and the importance of the reviewer’s role in these circumstances. The education and experience of the auditor with responsibility to review with a skeptical mindset is also critical to audit quality.</p>
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PS5. What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

PS5	<p>Educational standards could be more closely aligned with expectations in the ISAs</p> <p>e.g. Do auditors have an understanding of organizational behavior theory to understand pervasive risk in the corporate culture or management bias in accounting estimates?</p>
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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>In my experience ISQC1 is a component of a firm's QMA already, more commonly referred to as the firm's practice risk management. The firm's practice risk management policies and procedures ensure that quality professional services are delivered. ISQC1 is the basis for audit quality but the principles can be applied to other areas of practice.</p> <p>Developing internal policies and procedures to operationalize professional standards can be an arduous task for SMPs with little benefit. In <i>certain circumstances</i> the SMP can simply adopt the professional standard as their internal policy.</p> <p>For example, an SMP may have a very general client base where procedures to agree the terms of an audit engagement may be adequately covered by reference to ISA 210. In contrast, a firm with clients in various regulated industries may need to consider industry expertise, use of specialists etc. before agreeing the terms of an audit engagement. These firms are more likely to need internal policies and procedures to determine and agree the terms of an audit engagement and comply with ISQC1.</p> <p>I do not support restructuring ISQC1 unless the benefits can be clearly identified. Substantial administrative time was required to embed ISQC1 into a firm's practice risk management documentation. Restructuring ISQC1 will require further administrative time to simply update documentation and firm quality control manuals.</p>
QC1(b)	<p>Restructuring is unnecessary as firms already have practice risk management policies and procedures that incorporate ISQC1.</p>
QC1(c)	<p>A restructuring change is likely to result in a superficial response i.e. Policies and procedures will need to incorporate new references.</p> <p>I do not support restructuring ISQC1 unless the benefits can be clearly identified.</p>
QC1(d)	<p>The requirements for quality are already present in ISQC1 and the ISAs. I doubt that changing</p>

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	<p>requirements in ISQC1 or introducing a QMA will have an impact on poor leadership or an inappropriate firm culture.</p> <p>Continuing education at senior levels in audit firms will be fundamental to driving quality. The introduction of whistleblowing provisions for junior auditors to raise concerns about audit decisions may improve audit quality where leadership is deficient.</p>
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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>Paragraph 85 anticipates that the engagement partner has a “hands on” role in the audit rather than delegating tasks to other senior audit team members. This approach is supported. However, the last bullet point in paragraph 85 undermines the objectives in the rest of the paragraph.</p> <p>i.e. How is it possible for an audit partner to be effectively involved in the performance, direction, supervision and review at all stages of the audit, while not located where the majority of the audit work is performed? If limited direct engagement partner involvement is possible when the audit team is in a different location, then why is it not possible when the engagement partner and audit team are in the same location?</p> <p>There is a prima facie contradiction which needs to be addressed.</p>
QC2(a)(ii)	<p>Refer responses to PS2, PS3 and PS4 above. Audit tasks are often dissected across an audit team with different levels of experience and expertise, who may also be conducting tasks in different locations. For a quality audit it is imperative that a senior audit team member (the engagement partner) allocates tasks appropriately and brings together the findings across all aspects of the audit.</p>
QC2(a)(iii)	<p>The engagement partner should have a presence at the location where the majority of the audit work is performed. This should include face-to-face visits at each stage of the audit and regular virtual meetings (eg. Skype) so that consultations are possible on a timely basis.</p>

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QC2(a)(iv)	<p>The nature of audit procedures conducted offshore and engagement partner involvement at multi-location audits needs further guidance.</p> <p>If an engagement partners is expected to take a more “hands-on” role in all audits, other firm responsibilities allocated to the partner, and the related components of partner remuneration, may need examination to ensure they do not cause conflict in demands on partner time.</p>
QC2(b)	<p>I have no experience of circumstances where someone other than the engagement partner signs the auditor’s report.</p>

QC3. Others Involved in the Audit

- (a) Paragraphs 87–104 set out matters relating to involvement of others in the audit:
- (i) Which of the actions outlined in paragraphs 100–104 would be most meaningful to address issues related to others participating in the audit?
 - (ii) Why do you believe these actions are necessary?
 - (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>The ability to refer to the separate audited financial report of a component would help</p> <ul style="list-style-type: none"> • Eliminate practical problems relating to access to working papers of other auditors or the ability to direct their work • Focus responsibility for access to audit information on those charged with governance in the parent entity • Differentiate between active and passive control by the parent entity • Reduce costs of the group audit or eliminate excess costs that are not recoverable • Cause local auditors to focus on local audit risk • Cause parent entity auditors to focus on the strategic risk to the group
QC3(a)(ii)	<p>Reference to a audited financial statements of a component auditor provides a practical solution to a complex problem. There is also greater visibility to stakeholders, who can see more clearly how a group is managed from an audit perspective.</p>
QC3(a)(iii)	<p>As above</p>
QC3(a)(iv)	<p>The audit expectation gap may lessen if stakeholders have a better understanding of how audit responsibilities are managed across a complex group.</p>

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QC3(b)	<p>It is difficult to understand what authority that guidance might have.</p> <p>i.e. If a parent auditor does not have access to another auditor of a group entity, how can a parent entity auditor have any impact on how that audit is conducted?</p>
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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>It is not possible to generalize requirements across networks or to generalize when it may be appropriate to rely on quality control procedures outside the firm. A “network” is not satisfied by a single explanation of what the term means.</p> <p>There may also be networks within networks e.g. a Victorian state network, an Australian network, an Asia-Pacific network, all operating at different levels within a global network. Different ownership and management structures may operate at each level of “network”.</p> <p>Ultimately, the engagement partner has responsibility for audit quality and needs to recognize when reliance can be placed on procedures conducted at any particular network level.</p>
QC4(a)(ii)	<p>The term “networks” is a complex idea at best; refer above – multiple levels of “network” may co-exist within “a network”.</p> <p>It is not feasible to develop requirements and guidance when the scope of the term has several different interpretations, and the subject is not clearly identifiable,</p>

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QC4(a)(iii)	<p>In my experience, dependence on any quality control procedures operated outside the immediate ownership of the firm, is limited.</p> <p>This is because independent firms, within a network of independent firms must ultimately manage their own practice risk.</p> <p>Hence the extent of dependence on quality control processes conducted outside the firm, becomes a function of the firm's risk appetite. Independent firms have no ability to control what happens in another firm in the same network.</p>
QC4(a)(iv)	<p>The nature and extent of co-operation and collaboration between network firms with independent ownership would benefit from discussion of the strengths and weaknesses in the different models operated on a voluntary basis between firms.</p>
QC4(b)(i)	<p>It is already difficult to extend any reliance on requirements operated in a network of independent firms beyond the engagement partner's firm. If more onerous requirements are introduced I consider that firms will find being part of a network too onerous.</p>
QC4(b)(ii)	<p>The definition of network needs more careful consideration; similarly a better understanding is needed of the complex relationships in networks without common ownership, before any further generic guidance or requirements are developed.</p>
QC4(b)(iii)a	<p>See above</p>
QC4(b)(iii)b	<p>See above</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?

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- (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)	Firm governance extends beyond audit services and should be outside the scope of ISQC1. Attempts to “manage” firm governance rather than governance over an audit division, could restrict practice and the evolution of audit services.
QC5(a)(ii)	Not supported; audit services are more likely to evolve in a multidisciplinary firm rather than a segregated audit practice. Governance responsibilities appropriate to the audit division are already covered in ISQC1
QC5(a)(iii)	Refer above
QC5(a)(iv)	Supply in the audit market is likely to continue to diminish with ever-increasing regulation. Reduced competition will result in lower quality audits.
QC5(b)(i)	No
QC5(b)(ii)	This is already adequately covered in ISQC1
QC5(b)(iii)	Firms already employ practice risk management strategies, which include policies and procedures to monitor audit quality in accordance with ISQC1

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

- (a) Paragraphs 136–146 set out matters relating to engagement quality control reviews and engagement quality control reviewers.
- (i) Which of the possible actions outlined in paragraphs 143–146 would be most meaningful in addressing issues related to EQC reviews and EQC reviewers?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Should ISQC 1 mandate the performance of EQC reviews beyond audits of listed entities? If yes, what other entities should be considered and how could we best define these entities? If no, please explain your reasoning.
- (ii) Do you believe it is necessary for ISQC 1 to require that firms define the minimum period of time between when an individual has been the engagement partner and when that individual would be eligible to serve as the EQC reviewer on the same engagement? If yes, how do you think this should be done and why? If no, please explain why.
- (iii) Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.

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QC6(a)(i)	Criteria for the selection of an EQC reviewer should be defined. An EQCR with limited practical experience is more likely to accept the findings of a more experienced auditor, and may be hesitant to question the judgment of a more senior auditor. The qualifications of the EQCR also impact the focus of the review and the attention given to areas of risk.
QC6(a)(ii)	Auditor rotation scheduling is already difficult in smaller firms with a limited number of audit partners; however, an EQC review conducted by an engagement partner with limited experience has limited value.
QC6(a)(iii)	The role of an EQCR needs to be undertaken by a senior audit partner with a depth and breadth of experience. However, the role of EQCR may not attract remuneration rewards and does not generate revenue for an audit firm. Consequently, a more holistic understanding of the role of the EQCR needs to be promoted within audit firms and remuneration models need to be adapted accordingly.
QC6(a)(iv)	As above
QC6(b)(i)	It may be preferable for ISQC1 to refer to public interest entities (PIEs) rather than listed entities. Many larger privately owned entities may be considered to be PIEs and may have significant economic impact. This would better align audit requirements with terms used in financial reporting and ethical standards.
QC6(b)(ii)	No. This duplicates (or may possibly contradict) requirements in the ethical code.
QC6(b)(iii)	No. The ECQ review should not be limited to the requirements of a single standard but should examine those critical aspects of auditing standards relevant to the engagement.

QC7. Monitoring and Remediation

(a) Paragraphs 147–159 set out matters relating to monitoring and remediation.

- (i) Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?
- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.

(b) Specifically:

- (i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?
- (ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm’s monitoring of the effectiveness and appropriateness of the remedial actions to be

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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 actions outlined make sense but they need to be scalable according to the size and complexity of the client. In Australia, listed companies below the top 300 are generally not large or complex and audit fees are very tight. Excessive monitoring is not feasible or cost-effective.</p> <p>For larger complex audits, close monitoring including pre-issuance and post-issuance reviews may be appropriate. For smaller, non-complex listed audits, a checklist approach to ensure documentation and sign-offs are provided on file could be sufficient.</p>
QC7(a)(ii)	<p>For example: An engagement partner working on a large complex audit may have only one major client with a given reporting deadline. In contrast engagement partners with smaller non-complex listed audits may have several audits to sign-off with the same reporting deadline. In the first example audit quality is more concerned with ensuring there is sufficient appropriate audit evidence for areas of judgment. In the second example, audit quality is more concerned with ensuring all matters are properly documented to provide sufficient appropriate audit evidence on every client file being closed within the same timeframe. With electronic working papers, the latter checks can be automated as an electronic checklist.</p>
QC7(a)(iii)	<p>Criteria to determine when pre and post issuance reviews are needed require careful consideration. Given the multiple levels of review and consultation already required in an audit, this could become another layer of bureaucracy rather than value.</p>
QC7(a)(iv)	<p>Smaller firms are likely to exit the listed audit market if there are insufficient reviewers available for more layers of review, together with fee constraints and the costs to sustain regulatory reviews. Outside the USA there are large numbers of small listed companies, which are growing businesses needing value from their audits. Smaller audit firms are better placed to audit smaller listed entities as the auditors in these firms often have a general practice background.</p>
QC7(b)(i)	<p>These changes are not supported as firms are required to follow up on inspection findings, as part of the regulatory oversight process (and their own risk management processes) already.</p>
QC7(b)(ii)	<p>In my experience, this happens already and new requirements in ISQC1 are not needed. When regulators return after an inspection, their first area of inquiry is to follow up on action taken in response to their previous inspection report.</p> <p>Proactive firms monitor the regulatory findings reported for other firms to determine the extent to which action might be needed in their own organization, <i>before</i> their next inspection.</p>

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?

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- (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)	In my experience, failing to meet quality standards, which introduces risk to a firm, is a metric for evaluating engagement partner performance already. It is unlikely that in a multidiscipline practice, remuneration would be determined by reference to ISQC1 but rather by reference to the risk and reward the partner brings to the firm. Any link in ISQC1 would be superficial.
QC8(b)	This is a practice management issue and should be outside the scope of IAASB activity. The introduction of requirements for governance, risk, remuneration etc are all practice management issues. If these matters become the subject of ISQC1 requirements, this scenario could force the evolution of firms that deliver only audit services. If auditors have only audit experience, without the experience of a multidisciplinary practice supporting the audit practice, in my view, audit quality is likely to deteriorate.

QC9. Human Resources and Engagement Partner Competency

- (a) Paragraphs 171–187 set out matters relating to human resources and engagement partner competency.
- (i) Which of the possible actions outlined in paragraphs 176–178 and 187 would be most meaningful in addressing issues relating to human resources and engagement partner competency?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically, which of the possible actions outlined, or other actions not described, in paragraphs 176–178 and 187 would most positively impact audit quality:
- (i) Arising from issues related to knowledge, skills, competence and availability of a firm’s partners and staff?
 - (ii) Related to engagement partner competency?
 - (iii) Why do you believe these actions are necessary? If you would not support a particular action, please explain why, including any potential consequences of those actions that you believe we need to consider.

QC9(a)(i)	The ISQC1 reference to IES8 would be a worthwhile reminder of the broader competencies needed. They should not be repeated in ISQC1, but a cross-reference could be useful.
QC9(a)(ii)	Over the past decade or more, auditors have focused on technical expertise and financial reporting issues. It is worth bringing attention back to the “softer” skillset needed, as on-the-job training remains an important aspect of the professional development of an auditor.
QC9(a)(iii)	It may be worth considering guidance as to <i>how</i> a more senior auditor trains, supervises and mentors more junior auditors. In particular, the guidance needs to consider these

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	issues in a digital environment, with less face-to-face communication.
QC9(a)(iv)	No further comment
QC9(b)(i)	Career development <i>after</i> becoming an engagement partner could be explored. There is a tendency for new engagement partners to have less focus on growing competencies and more focus on growing a client base.
QC9(b)(ii)	Career paths for engagement partners need to be explored to develop a more formal basis for partner progression. For example, perhaps a more senior audit partner should progress to the role of an EQCR or be available for consultations on subjective issues, perhaps to elevate a role that has limited financial incentive.
QC9(b)(iii)	The audit profession needs more senior audit members to remain in the profession to use their experience to drive quality. Presently, there is no financial or status incentive for engagement partners to participate in “audit quality roles” per se. A cultural shift towards quality and value, and away from a compliance perspective, is needed.

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)	Transparency reports appear to be getting little attention outside audit firms. Directors appear to have little interest in these reports, which are more like marketing documents. I am not aware of other stakeholders referring to these reports.
QC10(b)	While I support transparency, I consider research is needed to determine whether these reports are satisfying their purpose, before any further action is taken.

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	<p>Has partner rotation contributed to audit quality?</p> <p>When an engagement partner’s client base is dominated by a single audit client (i.e. one client contributes to a substantial portion of the individual partner’s fee base and chargeable time) is there a need to look more closely at how audit quality is achieved? Are there additional risks that need to be addressed in these circumstances?</p> <p>When audit fees are quoted for extended periods or with particular arrangements (e.g. substantial audit fee discount given in year one; fixed fees for subsequent 4 years), is there an impact on audit quality?</p>
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QC12. Are there any other specific actions that others could take in relation to quality control? If yes, please provide details.

QC12	No further comment
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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	The benefits of a general practice background for an auditor of growing businesses should be further discussed. Growing businesses need <i>value-add</i> in addition to quality from their audits. A broader business background enables the auditor of a growing business to identify risks and opportunities during the course of the audit.
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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 comment
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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)	All ISAs are relevant to the audit of group financial statements but repetition of (some/any) those requirements in ISA 600 is not recommended. Emphasis that all ISAs apply is supported
GA1(b)	Communications between group and component auditors remains difficult. Cultural and domestic paradigms still exist, despite our global economy. Including requirements or further guidance may assist the process for a consistent understanding, but this is a long term endeavor.
GA1(c)	YES – this would help the parent entity auditor communicate to stakeholders how information was obtained and when they needed to rely on another auditor.
GA1(d)	The IAASB should consider the different group structures that exist, including “horizontal” groups without a parent entity per se. ISA 600 is written in the context of a vertical group, yet the accounting standards drive consolidations of very different structures. This is particularly relevant for the private sector and certain regions of the world. A better understanding of these different structures would promote better audit guidance for communications, and better understanding of when references to another auditor’s work might be needed.

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

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

- (a) Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.
 - (i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?
 - (ii) Why do you believe these actions are necessary?

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

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

(b) Specifically:

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

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

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

GA2(a)(i)	Generally, I agree with the proposed actions subject to consideration of when reliance on the work of another auditor (and reference to another auditor's report) might be acceptable.
GA2(a)(ii)	There are many different types of group structures and access to information may not be possible.
GA2(a)(ii)	No comment
GA2(a)(iv)	No comment
GA2(b)(i)	<p>Problems with access are most difficult when a group acquires a component during the year, or close to the year end. This may happen with or without communication to the group auditor, particularly when the acquisition is considered sensitive or strategic. In these circumstances, the group audit has already been accepted but, if known, the new acquisition might have overturned that decision. Given the timing of the acquisition, the auditor is not able to resign, whatever the firm's acceptance policies might state, and the audit has to be continued. These are practical issues that are not adequately considered in the guidance for client acceptance and continuance. They impact:</p> <ul style="list-style-type: none"> - Availability of resources - (Re-)Assessment of audit risk - Revision to the audit plan - Communications with component auditors and local management - Planning for particular audit procedures
GA2(b)(ii)	Refer above
GA2(b)(iii)	Refer above

GA3. Communications between the Group Engagement Team and Component Auditors

(a) Paragraphs 218–225 set out matters relating to communications between the group engagement

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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)	The audit requirements for communication are adequate; the different cultural paradigms can be more problematic. Although costly, face-to-face communications are usually needed, and especially in the first year of working with a component auditor.
GA3(a)(ii)	Face-to-face communication supported by written communication can help to bridge cultural expectations and builds relationships between the parent and component auditor.
GA3(a)(iii)	As above
GA3(a)(iv)	The cost of face-to-face contact may be prohibitive.

GA4. *Using the Work of the Component Auditors*

- (a) Paragraphs 226–242 set out matters relating to using the work of the component auditors.
 - (i) Which of the possible actions outlined in paragraph 234 and 242 would be most meaningful in addressing issues related to using the work of the component auditor?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
 - (i) Should the nature, timing and extent of involvement of the group engagement team in the work of the component auditor vary depending on the circumstances? If yes, how could changes to the standard best achieve this objective?
 - (ii) Should ISA 600 be strengthened to require the group engagement partner to make an explicit determination about whether the group engagement team can use the work of a potential component auditor?

GA4(a)(i)	<p>Withdrawing from an engagement is not an option in most circumstances.</p> <p>From a “cost-to-the-client” perspective, the parent auditor may need to use the work of a component auditor (or costs are duplicated).</p>
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	In these situations, something like a <i>pseudo-qualification</i> for using the work of the component auditor may be appropriate in year one and drive changes to arrangements in year two – of course, this scenario needs considerably more deliberation.
GA4(a)(ii)	While a group audit report is a desired outcome, the commercial dimension and practical difficulties in of some of these engagements cannot be ignored.
GA4(a)(ii)	Refer above
GA4(a)(iv)	Refer above
GA4(b)(i)	In an ideal circumstance, communications are not a problem. Issues arise when there are changes to the group structure – both acquisitions and disposals of components. Further guidance is needed for circumstances when the parent auditor is not able to plan ahead regarding communications and access.
GA4(b)(ii)	Documentation requirements mean that an implicit decision must be explicitly documented under the current requirements.

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)	The actions are meaningful but changes to group structures, and changes to senior personnel in groups can upset the planning and risk assessments. Management communications of proposed group changes need to be strengthened, albeit that they are often considered sensitive by the client.
GA5(a)(ii)	Refer above
GA5(a)(iii)	Refer above
GA5(a)(iv)	Refer above

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

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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>Further guidance would be beneficial.</p> <p>In my experience, component materiality is often set too low; performance materiality for the component is not well understood.</p> <p>These metrics are important due to the impact they have on designing audit procedures.</p>
GA6(b)	As above

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)	Although the actions are reasonable, the context is limited; the complexity in group structures is not given enough attention.
GA7(a)(ii)	IFRS 10, IFRS 11 and IFRS 12 introduced new complexity into identifying and consolidating group entities, which is not matched by the audit guidance.
GA7(a)(iii)	<p>Identifying non-significant components remain problematic; the auditor needs an understanding of the component’s control environment to make an assessment whether the information presented to the parent is complete. In particular, the auditor needs <i>pre-requisite understanding of the group operational management as it applies to the component</i>, how group culture manifests at a local level, fraud risk at the component, reliability of IT systems used by the component etc. It may be too simplistic to rely on numbers presented for group reporting.</p> <p>Further a group’s IT systems do not always have state-of-the art consistency across all components but may have many sub-systems or disparate systems that link into group reporting through spreadsheets or other input documents. This type of control environment makes the “top-down” approach in ISA 600 very difficult to implement and auditors have tended to favor a “building block” approach, ensuring the completeness of information at each level, building up to a consolidation.</p> <p>ISA 600 seems to presume a uniform control environment across the group and non-significant components, but this rarely occurs. The auditor’s high level understanding of the organization, reporting lines, IT systems drives whether a “top-down” or “bottom-up” audit approach is needed.</p> <p>Further, group consolidations, particularly in the private sector may have different stakeholder and non-controlling (minority) interests in different parts of the group activity which prompt broader consideration of materiality for each component.</p> <p>Many of these aspects have limited guidance in ISA 600, which drives a vanilla group audit response.</p>
GA7(a)(iv)	No further comment
GA7(b)(i)	<p>Private groups may have different ownership structures (including active yet legally non-controlling interests), bank funding with interest in particular activities only, and various operational management objectives, which may not be centralized under a traditional “head office”. Focusing on material misstatement for the group <i>as a whole</i> may not deliver the best value to the audit client or to the broader group of stakeholders.</p> <p>Audited consolidated group accounts may be of interest to (e.g.) family members requiring an overview of their investments. In these circumstances, relying on the work of another auditor, or reference to another auditor’s report, may be acceptable. The group owners understand the arrangements in place, and other stakeholders may have interest in the financial statements of individual components only.</p> <p>In these circumstances a “bottom-up” approach to auditing the group financial statements is likely to be more meaningful and cost effective. Additional work is required to meet the requirements of ISA 600 to provide an audit approach which focuses on material</p>

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	misstatement in the group as a whole. In contrast users are concerned with material misstatement (including qualitative materiality) in components, as reported in the group accounts.
GA7(b)(ii)	The operational and strategic objectives of group management are fundamental to assessing the risk of material misstatement in the non-significant components. The reliability of information provided to the parent, and monitoring activity conducted by the parent, is also critical to evaluating the risk of omission. The extent of audit work required, to be confident that a component can be assessed as non-significant, needs better guidance.
GA7(b)(iii)	No further comments
GA7(b)(iv)	Subsequent events guidance has been adequate; no particular issues have been observed.

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)	Documenting the group engagement team’s evaluation of the component auditor’s communication is difficult. Using questionnaires to probe the extent of work done with direct references to the audit work papers reviewed may assist the process. Documenting work done on the consolidation process is also difficult and frequently the auditor will replicate the client’s process to determine whether the outcome is reasonable.
GA8(a)(ii)	No further comment
GA8(a)(iii)	No further comment
GA8(a)(iv)	Regulators sometimes seek copies of the component auditor’s work papers but this can result in significant duplication. Use of electronic files with remote access available to the parent, sometimes assists the documentation requirement, as it is easy to replicate the component auditor’s work papers – which in turn causes problems with version control and confidentiality/security of documents.

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

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there any other implications from our new or revised standards that should be considered?

GA9	<p>Other issues to consider:</p> <ul style="list-style-type: none"> • Going concern problems in one component and the impact of cross guarantees on the group's financial stability • Addressing the information needs of the non-controlling (minority) interest in a consolidated group when determining key audit matters for disclosure
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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>Other issues to consider:</p> <ul style="list-style-type: none"> • Taxation issues in a group context – communicating with cross-border taxation experts • Understanding materiality in the context of disclosures in the notes to the consolidated financial statements
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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	ISA 600 needs to recognize different types of consolidated groups and how the group structure impacts user needs and the audit process.
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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	SMPs audit many diverse group structures, which are owned privately. Many privately held groups are much larger than listed entities. Some groups may not have a traditional vertical structure and may include other non-corporate entities. Reasons for particular group structures include taxation, asset protection and estate planning. These factors impact audit risk and the way the audit is planned. ISA 600 takes a more traditional approach to auditing a vertical corporate group, with a focus on investors in the parent entity, and limited guidance for these other group scenarios.
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GA13. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

GA13	No comment
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