

Ms. Kathleen Healy
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International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
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Invitation to Comment, *Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits*

Dear Ms. Healy:

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Invitation to Comment, *Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits* (the ITC), issued by the International Auditing and Assurance Standards Board (IAASB).

The IAASB's standards are of critical importance to the execution of high-quality audits, which inherently involve auditors acting independently, objectively and with the appropriate application of professional skepticism. Because professional skepticism is fundamental to the audit process, we are very supportive of the IAASB's efforts to directly consider and address the concept of professional skepticism. In forming our response to the ITC, we have found it helpful to consider professional skepticism not only in isolation but in the specific contexts of quality control and group audits. We encourage the IAASB to explicitly include consideration of enhancements related to professional skepticism in the scope of its projects to revise the International Standards on Auditing (ISAs) on a go-forward basis.

Regardless of the approach that the IAASB decides to take in developing enhanced guidance or new enablement for the appropriate application of professional skepticism, we believe it is most important that any new thinking on professional skepticism be "brought to life" through the ISAs in order to resonate with auditors and stimulate the behavioral improvements the IAASB is seeking.

Common to all three of the topics in the ITC is the importance of leadership and accountability for audit quality. We agree that firm leadership is responsible for driving a quality-oriented culture in which leaders set the appropriate tone to convey that performing high-quality audits is the top priority and cascade supporting messages throughout the firm. Those messages should include promoting the appropriate application of professional skepticism. At the engagement level, the engagement partner (or group engagement partner) should be responsible for setting an appropriate engagement tone-at-the-top and instilling responsibility for audit quality in all engagement team members. We support several of the proposed actions in the ITC to emphasize responsibility and accountability for audit quality at the firm and engagement levels, but we also encourage emphasizing in the ISAs the fact that all engagement team members need to understand their personal responsibilities for audit quality and act accordingly, which is closely related to all team members applying professional skepticism appropriately.

In relation to the IAASB's proposed actions to enhance the standards related to quality control and group audits, we agree that it is time to modernize these standards to address the developments affecting entities, auditors and their respective environments, including changes in business models, practices and structures. The ITC points to specific developments that may not be sufficiently addressed by the current standards, such as 'letterbox' audits, alternative audit delivery models (ADMs), auditing entity's

investments in non-controlled entities, and certain barriers to auditors obtaining access to information for their audits. Although we agree that it is important that the standards provide support for audits affected by these circumstances, we believe it is most important for the requirements in International Standard on Quality Control 1 (ISQC 1) and the ISAs to be sufficiently principles-based and flexible in order for the standards to:

- ▶ *Be scalable.* The standards, and the requirements within them, need to be effectively applied across engagements from the very small to the very large, with different degrees of complexity. In terms of quality control at the firm level, the structure of ISQC 1 needs to enable effective application across firms of varying sizes and differing governing structures, including consideration of quality control activities that may exist at the network level.
- ▶ *Remain 'fit for purpose' over an extended period of time.* For the standards to remain relevant into the future, the fact that audit quality risks change over time, but objectives and principles of quality control generally do not, is an important overall consideration for the IAASB to take into account.
- ▶ *Provide practical solutions to barriers that cannot be overcome by the auditor.* Auditing cross-border or auditing financial information related to non-controlled entities can involve dealing with barriers resulting from, for example, privacy laws or licensing rules, which may present challenges for auditors in accessing information for their audits. These barriers are not likely to be solved by IAASB and it is important that, when the IAASB standards include requirements that may not be achieved due to such barriers, the standards provide practical solutions or guidance to deal with them, including with appropriate consideration to the public interest objectives of an audit.

In addition to the need for the IAASB standards to remain principles-based, we would equally reiterate the need for the standards to facilitate a risk-based approach to the audit. In the areas of quality control and group audits, in particular, we believe that the existing standards set forth requirements in a manner that may tend to set expectations for equal application across firms and engagements of all sizes and complexities, instead of in a manner that promotes customization of the audit approach based on the risk profile of the engagement (or in the case of quality control, customization of quality control policies and procedures to the engagement portfolio of the firm).

Our view of the fundamental importance of a risk-based approach to both quality control and group audits, which is facilitated by principles-based requirements in the related standards, is the underlying theme in our responses to the specific questions posed by the ITC related to quality control and group audits.

Responses to the general and specific questions on which the IAASB is seeking feedback are set out in Appendices 1 – 4 of this letter.

We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Global Professional Practice (karen.golz@eyg.ey.com).

Yours sincerely,

Ernst + Young Global Limited

Appendix 1: Responses to 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?

Yes, we believe the public interest issues in Table 1 are directly relevant to the IAASB's work on these topics with the exception of "Exploring transparency and its role in audit quality."

We do not support the proposals within the ITC to add disclosures in the auditor's report related to the engagement quality control review or the involvement of other auditors as part of the scope of the projects to revise the performance standards related to quality control and group audits. We believe that any further enhancements to the auditor's report should be considered in conjunction with the IAASB's planned post-implementation review of its recently released new and revised ISAs related to auditor reporting in order to evaluate any potential enhancements in a holistic and prioritized manner (refer to our responses to QC3 and QC6). Further, we do not believe that it is necessary for the IAASB to produce guidance for transparency reporting. Among other reasons, we do not believe transparency reporting itself contributes directly to firm- or engagement-level audit quality, which we understand is the primary objective of the proposals in this ITC (refer to our response to QC10).

(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.

We strongly agree with the need to keep the ISAs 'fit for purpose'. We might suggest extending this public interest issue to explicitly include an objective for the ISAs to remain relevant into the future (i.e., "future-proofing" the ISAs), such that revisions to the standards are performed not only in context of recently identified challenges (e.g., alternative audit delivery models), but with wider consideration to challenges and issues not yet identified. We believe such an approach would require a focus on determining the relevant principles for each of the areas of or topics within the standards, which can then be applied on a go-forward basis to a wide range of audits that will continue to vary in structure and circumstances that cannot be contemplated at the present time.

(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.

We have provided our specific suggestions for actions that others can take in regard to the topics of professional skepticism, quality control and group audits in our responses to PS5, QC10 and GA11, respectively. In general, we believe the IAASB's ongoing outreach to stakeholder groups relevant to the audit process is important to continue to promote a common understanding of the auditor's role and responsibilities, as well as to promote consistent interpretation of the specific requirements for the audit.

We also believe that responsibility for the quality of an entity's financial reporting, which lies primarily with management and those charged with governance, is of foundational importance to the audit. We are supportive of efforts by investors and other stakeholders that call on audit committees to play a more active role in their oversight of, and interactions with, auditors.

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?

No, we do not have suggestions for other actions beyond those already included in the IAASB's current work plan.

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 details.

No, we are not aware of any academic research studies (other than those already identified by the IAASB) relevant to the topics discussed in this consultation.

Appendix 2: Responses to Professional Skepticism questions

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?

We believe that improvements could be made, in some combination, to the definition, descriptions and references to professional skepticism throughout the ISAs.

Because the definition of professional skepticism in the ISAs is focused on the “attitude” of the auditor, it is inherently difficult for auditors to understand how an “attitude” affects the process of the audit, which in turn makes it difficult for auditors to demonstrate through their audit documentation how professional skepticism has been applied. Further, the ISAs are not descriptive as to how professional skepticism may be applied in the specific circumstances in the ISAs in which it is specifically mentioned or referenced.

Our view of professional skepticism and how it is applied in an audit is as follows:

- ▶ The application of professional skepticism starts at the account assertion level in performing the risk assessment for each assertion. Informed by the risk assessments, the auditor applies a methodical approach to obtain sufficient appropriate audit evidence that either confirms or refutes the assertions made by management. We do not believe that professional skepticism is about inherent disbelief or distrust in management’s assertions; rather we believe it involves the process or method of obtaining evidence, applying reason and critical thinking in an unbiased manner to determine the validity of the assertions.
- ▶ At its simplest, this methodical approach involves designing and performing audit procedures, but we think the audit could actually be viewed as an application of the scientific method, which involves an orderly and rational investigation to determine the validity of a hypothesis (i.e., in an audit, the “hypothesis” consists of management’s assertions and the “investigation” is the auditor’s gathering and evaluation of audit evidence). If auditors view the process of the audit in this manner, this could help in identifying and overcoming biases.
- ▶ Further, it seems that the scientific method can be viewed as a “professional application of skepticism” in that skepticism plays a critical role in determining the data to gather, in evaluating the data gathered and in making judgments about whether that data proves or disproves the hypothesis. In essence, an audit requires this same “professional application of skepticism” beginning with the risk assessment and design of audit procedures, but especially in determining whether the outcome of those procedures provides sufficient appropriate audit evidence, and, if not, what additional procedures or evidence are necessary in order to form a conclusion on the validity of management’s assertions.

We believe that both “sufficient” and “appropriate” in the context of audit evidence are the objectives and outcome measures for the auditor’s application of professional skepticism to the evaluation of the assertions made by management. Further, when measuring whether audit evidence is both sufficient and appropriate, this includes consideration of the evidence that not only corroborates management’s assertions, but also evidence that may be contrary to those assertions, in order to determine whether the relative nature and weight of the evidence obtained supports management’s assertions. The audit documentation constitutes support for the auditor’s conclusion that the audit evidence obtained is both

sufficient and appropriate, which is very much aligned with the objectives of ISA 230, *Audit Documentation*.

However, as noted in the ITC, the application of professional skepticism is not consistently and clearly demonstrated in audit documentation. In our view, there is an opportunity for the IAASB to enhance audit quality by considering how the ISAs (or other guidance) can better assist the auditor's judgment of whether "sufficient" and "appropriate" audit evidence has been obtained. We believe this could be the underlying cause of the auditor applying (or not applying) appropriate professional skepticism.

Guidance improvements could involve an evaluation of whether the definition of professional skepticism warrants enhancement, but we believe further evaluation is needed extending into the ISAs themselves, especially at the particular points in the audit process that involve more complex auditor judgments. That said, we do not believe that the application of professional skepticism is limited to only complex auditor judgments; it is inherent in all auditor judgments but the extent to which professional skepticism is applied is to be scaled up or down depending on the significance and sensitivity of the assertions made by management.

We agree that the concept of professional skepticism is interconnected with the concept of professional judgment (as demonstrated by the diagram on page 13 of the ITC) and we support the IAASB exploring enhanced guidance to facilitate auditor judgments and the documentation of those judgments. However, we believe more may be needed; specifically, a judgment framework is useful to apply to individual judgments but it does not provide a complete perspective of how professional skepticism contributes to and underpins the audit process as a whole. For this reason, we believe it may be useful to explore a professional skepticism framework (of which a judgment framework may be an important component) that demonstrates the process of application throughout the audit.

Regardless of whether the IAASB determines a framework is appropriate or another action should be taken such as increasing guidance about professional skepticism, it is most important that any new framework or guidance be "brought to life" through the ISAs in order to resonate with auditors and stimulate the behavioral improvements that the IAASB is seeking. We see the benefits of an approach that would involve the IAASB investing in a specific framework or guidance on professional skepticism that can exist alongside the ISAs, which can then provide a common point of reference for the individual ISAs (or certain requirements within them) such that the guidance in the ISAs can articulate the applicability and use of the professional skepticism framework in particular contexts. We believe that focus should also be given to how auditors document their application of the concepts in the professional skepticism framework (or other guidance) in executing any ISA requirements for which demonstration of appropriate professional skepticism is especially important.

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?

From a practitioner perspective, we believe that the drivers to the appropriate application of professional skepticism are:

- ▶ **Knowledge:** A sufficient understanding by the auditor of both the audit process and the entity, including an appropriate awareness of the risks that affect financial reporting, including specifically understanding how management and those charged with governance set an

appropriate tone-at-the-top that influences the culture of the entity to value integrity in financial reporting

- ▶ *Skills and competencies specific to the application of professional skepticism*: The ability of the auditor to understand the concept of professional skepticism and apply it in a disciplined and methodical manner in the conduct of the audit; such skills include the auditor being sufficiently aware of the behavioral tendencies, circumstances, or biases that may affect the appropriate application of professional skepticism
- ▶ *Appropriate exercise of professional judgment*: The ability of auditors to successfully connect the application of professional skepticism to the exercise of their professional judgments
- ▶ *Tone-at-the top* : The appropriate emphasis on professional skepticism by the most senior members of an engagement team, but also by firm leadership and within the firm culture

We would view the impediments to professional skepticism to be the inverse of the above (e.g., failure to acknowledge unconscious biases; failure to take into account contrary evidence or overreliance on management representations/prior year or legacy conclusions; influence of tight time commitments or lack of resources; lack of relevant knowledge; lack of appropriate review or supervision).

From an IAASB standpoint, we would prioritize actions that the IAASB can take to support the drivers indicated above. Of those listed in paragraph 37, we believe the following areas would be most useful for the IAASB to explore:

- ▶ *Development of a professional skepticism framework, including enhancements to the ISAs to support the appropriate exercise (and documentation) of professional judgment (as advocated in our response to PS1)*. In making enhancements to the ISAs, we believe the IAASB should give specific consideration to how the ISAs (in the language used and/or in the nature and extent of additional guidance) can assist in auditors acknowledging and overcoming unconscious and cultural biases. And, we believe it is beneficial for the IAASB to consider more specifically what constitutes the appropriate application of professional skepticism in particular contexts (e.g., performing risk assessments, auditing estimates, evaluating the work of an expert).
- ▶ *Enhanced understanding of the linkage of the relative roles of the engagement partner, the engagement quality control reviewer and firm leadership/culture to the appropriate application of professional skepticism*. As part of the planned consideration enhancements to the ISAs or ISQC 1 as they relate to the responsibilities of the engagement partner and engagement quality control reviewer (refer to our response to QC2 and QC6) and group engagement partner (refer to GA4), we believe specific consideration should be given to their respective roles related to professional skepticism.
 - For example, we believe the engagement partner is responsible for setting an appropriate engagement tone-at-the-top and instilling a responsibility for audit quality in all engagement team members, including a responsibility for determining whether the appropriate conclusions have been reached. The engagement partner also is responsible for bringing his/her knowledge and experience into the auditor judgments that are made throughout the audit, including giving consideration as part of their review process to the potential for biases of engagement team members or management. For group audits, we believe that the role of the group engagement partner includes setting an appropriate group audit tone-at-the-top that instills responsibility for audit quality not

only in the group engagement team members but that extends to the component auditors.

- As it relates to the engagement quality control reviewer, we believe there is a direct linkage between this role and professional skepticism that is derived from the responsibility to provide an objective evaluation of the significant judgments made and the conclusions reached by the engagement team (i.e., in simplest terms, the engagement quality control reviewer could be viewed as a “hired skeptic”)
- Firm culture should include tone-at-the-top and performance management policies that promote the appropriate application of professional skepticism. The objectives of firm policies (including for methodology and tools) should include supporting the appropriate exercise of auditor judgment, including the appropriate application of professional skepticism.

In addition to the actions listed in paragraph 37, we believe that the IAASB could explore the higher level relationship between the purpose of the audit and professional skepticism in order to provide greater context around how professional skepticism is applied in the evaluation of management’s assertions (refer to our response to PS1).

PS3. Is the listing of areas being explored in paragraphs 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 areas to be considered?

The listing in paragraph 38-40 captures a selection of IAASB projects on the current Work Plan (namely, quality control, group audits, auditing estimates, risk assessment and data analytics). In general, we believe that it would be useful for the IAASB to explicitly consider the role and appropriate application of professional skepticism as part of any of its current or future projects to revise specific ISAs or ISQC 1. We believe that improvements to the standards related to the appropriate application of professional skepticism should not be considered only in context of the responses to this ITC; rather, improvements to the ISAs are a continuous process and the enhancements to promote the appropriate application of professional skepticism, as well as professional judgment, should be inherent in the scope of possible revisions to the standards on a go-forward basis.

We strongly agree with the IAASB’s planned exploration of the application of professional skepticism in auditing estimates as part of its project to revise ISA 540. The auditor judgments in this area are particularly complex and it is important for the auditor to recognize their own biases plus those of management in order to arrive at an appropriate conclusion.

We also specifically agree with considering the role of professional skepticism in the risk assessment process as part of the IAASB’s project to revise ISA 315.

Refer to our response to PS4 for our specific views on the effectiveness of the actions for quality control and group audits in promoting the appropriate application of professional skepticism.

PS4. Do you believe the possible actions we might take in the context our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?

We believe that, in general, the possible actions that the IAASB might take in the context of the projects relating to quality control and group audits can have positive effects in promoting the appropriate

application of professional skepticism. However, there are several proposals within the ITC to increase requirements to address certain issues. It is important that any such increased requirements allow for the effective application of professional judgment, which in turn promotes the appropriate application of professional skepticism, based on the facts and circumstances of the engagement.

Specifically, we believe:

- ▶ A quality management approach should set objectives for firm policies that address quality control, including objectives that address the drivers of appropriate application of professional skepticism, particularly in the areas of human resources and engagement performance. However, sufficient flexibility should be provided to the firms to determine the specific policies that are needed to meet those objectives based on the firm structure and governance, as well as the risk profile of its engagements (refer to our response to QC1 regarding our views of the IAASB's approach to implementing a quality management approach to ISQC1).
- ▶ An appropriate balance between prescription and flexibility needs to be achieved in the requirements related to the responsibilities of the engagement partner and the engagement quality control reviewer, including with respect to group audits. Both roles are critical to the appropriate application of professional skepticism in an audit. Sufficient flexibility in the requirements should be maintained in order to allow those fulfilling these roles to determine how best to achieve the objectives based on the facts and circumstances of the engagement (refer to QC2 and QC6 for further details about our views on the proposed actions in these areas).
- ▶ An integrated risk-based approach to the revisions to ISA 600 (which we recommend in our response to GA1) will improve the connection and relationship among the significant judgments that specifically apply to a group audit (e.g., those related to scoping the audit, as well as those related to determining the nature and extent of communication with component auditors and involvement and review of their work). These judgments culminate in a conclusion on whether sufficient appropriate audit evidence has been obtained based on the aggregate evidence to which often many component auditors contribute. We believe measuring and evaluating the "sufficiency" and "appropriateness" of audit evidence in the context of a group audit can be especially challenging, and IAASB efforts to consider a professional skepticism framework along the lines we describe in our response to PS1 could be helpful in achieving the objective of enhancing the quality of group audits, in particular.

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 standard 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?

Our views on the actions that others should take to address the appropriate application of professional skepticism are as follows:

- ▶ IAESB/IESBA – Although we believe the lead responsibility amongst the IFAC boards for enhancing the application of professional skepticism in audits is firmly that of the IAASB, we encourage continued coordination between the IAASB and IAESB/IESBA on the topic. We believe the other boards have supporting roles to play in addressing the underlying competencies and ethical behaviors of the auditor that promote the appropriate application of professional skepticism.

- ▶ Those charged with governance – We believe audit committees have a responsibility to understand the auditor’s application of professional skepticism as part of the audit and to seek clarification from the auditor on how significant auditor judgments were made, as necessary. Audit committees may also consider whether the timelines and resources for the completion of audit or significant areas of the audit seem appropriate, and assist the auditor (in coordination with management) in obtaining timely and appropriate access to the entity’s information and resources, as necessary. In addition to understanding and enforcing the auditor’s application of professional skepticism, we also believe members of those charged with governance have their own responsibility to be professionally skeptical in discharging their responsibilities for oversight of the financial reporting process, including setting an appropriate tone-at-the-top that influences the integrity of the entity’s financial reporting.
- ▶ Firms – We believe firms have a responsibility for considering the requirements of the IAASB, IAESB and IESBA standards holistically, as they relate to designing policies for human resources and engagement performance that promote the application of professional skepticism, but also specifically as they relate to the design and content of training programs. Training programs should address not only technical training, but also behavioral training, which we believe is critical to the appropriate implementation of professional skepticism.

Appendix 3: Responses to Quality Control questions

QC1. We support a broader revision of ISQC 1 to include the use of a Quality Management Approach (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?

We support using a Quality Management Approach (QMA) for ISQC 1 that incorporates the elements and process included in the graphic on page 23 of the ITC. We believe that incorporating a quality risk assessment element, in particular, into ISQC 1 will result in improved quality control policies and procedures that are responsive to the risks present in a firm (or network) taking into account the governance and firm structure that is in place, as well as the risk profile of the firm's services and engagements. Quality control policies that are responsive to the specific risks of the firms, with accompanying monitoring that assesses whether the audit quality objectives are met, should help to improve audit quality.

We also specifically agree with incorporating leadership accountability for quality into ISQC 1, as well as enhancements to the expectations for a firm-wide culture of quality. Tying responsibility for quality into firm leadership and governance is, in our view, fundamental to improving quality (refer to our response to QC 5).

The existing structure of ISQC 1 is organized by element of the system of quality control and presents requirements for each of the six elements. We find this structure useful as firm policies and procedures are also typically considered, developed or organized by element. In our view, implementing a QMA into ISQC 1 would mean incorporating into the structure of the standard a risk-based approach for each of the elements of the system of quality control, which would include:

- ▶ *Clear high-level objectives for firm policies and procedures related to the element*
- ▶ *Supporting risk factors or topics specific to the element to be addressed in the development of firm policies that achieve the high-level objectives.* These risk factors or topics could be a combination of those that firms are required to address, required to consider, or may consider as part of the new required quality risk assessment. The results of the risk assessment would then determine the risks for which firm policies and procedures should include responsive measures.
- ▶ *Requirement to re-assess risks on a periodic basis, and any specific monitoring considerations for the element*

With regard to the quality risk assessment process and supporting risk factors or topics, we believe that the manner in which these requirements are implemented in ISQC 1 will affect:

- ▶ The extent that ISQC 1 will be scalable among firms and networks of varying sizes and differing governing structures
- ▶ The ability for ISQC 1 to remain fit for purpose over an extended period of time

We believe that the IAASB should carefully consider, for any particular element, which risks are required to be addressed in firm policy, and for any such required risks, ensuring that the requirement remains principles-based. This will enable firms to have the necessary flexibility to design and implement policies

that fit the nature and extent of their risks, size, operating and governance structures, and other specific facts and circumstances, and will be the most effective to manage audit quality. We also caution against adding requirements (even if conditional) to ISQC 1 to address risks that some may view to be specific to the current auditing environment, because these risks change over time, and thus these requirements may become too narrow to effectively address new risks. Implementing principles-based requirements will facilitate firms addressing these new risks in their policies as they arise.

In relation to the ability for ISQC 1 to remain relevant into the future, the fact that audit quality risks change over time, while objectives and principles of quality control generally do not, is an important overall consideration for the IAASB to take into account. For example, the ITC discusses risks around letterbox audits, audit delivery models, and involvement of other auditors and poses questions regarding the extent to which new requirements should be implemented in the ISAs or ISQC 1 to address these specific developments. Our view is that these are new(er) risks to existing objectives of quality control (e.g., appropriate direction and supervision of engagements). We would prefer an approach that involves setting clear objectives and principles-based requirements for, in this example, appropriate direction and supervision, with supporting guidance as necessary to address specific developments or issues that firms should consider in their risk assessment process and in designing their policies.

- (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?**

No, we do not believe there are other high-level elements to address.

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

We would support the IAASB's consideration of whether ISA 220 is sufficiently risk-based and sets clear objectives for engagement-level audit quality that also assist in building quality into the audit throughout the audit process. We do not believe that the restructure of ISQC 1 should directly affect other ISAs.

- (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?**

We support a risk-based approach to the implementation of a firm's system of quality control. We acknowledge there are likely various structure alternatives for ISQC 1 to achieve this objective, including several of the enhancements suggested in Table 2. We believe that any structure should facilitate objective- and principles-based requirements.

QC2. (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.

We strongly agree that timely, direct engagement partner involvement is critical for audit quality. Accordingly, we believe that the most meaningful actions would be those that involve ISA 220:

- ▶ Setting principles that support the overall objectives of appropriate supervision, review, and documentation of the work, which, in turn, would facilitate consistency in execution, including for group audits and other audits where the engagement partner is located in a different jurisdiction
- ▶ Identifying the risks that affect the engagement partner's ability to fulfill these principles and including supporting guidance to assist engagement partners in dealing with the risks specific to their engagements

Setting forth in ISA 220 principles and risks for the engagement partner's role is the best approach, in our view, to achieve scalability across the smallest and largest engagements. These principles and risks could address:

- ▶ An emphasis and elaboration on the role of professional skepticism in the engagement partner's responsibilities for direction, supervision and review of the work performed (refer to our response to PS2)
- ▶ Relevant concepts and risk factors from the Audit Quality Framework
- ▶ Several of the possible actions proposed in the ITC, such as: engagement partner determination of the time and resources for the engagement; partner involvement throughout the course of the engagement; and consideration of all relevant information prior to accepting or deciding to continue an engagement.

Given this principles-based approach, we do not believe that the IAASB would need to pursue requirements for review of specific documentation or specific requirements on how engagement partners should conduct working paper reviews.

Dealing with group audits and audits for which the engagement partner is not located where the majority of work is performed

For group audits or other audits where the partner is located in a different location than where the majority of the work is performed, we believe that the engagement partner's responsibility to direct and supervise an engagement can effectively involve delegation to those in the location where the work is performed. In our view, delegation does not mean abdication, such that the engagement partner retains responsibility for the engagement, including that any work delegated has been performed appropriately (refer to GA3, GA4 and GA8 for further comments specific to group audits).

By setting appropriate principles for adequate supervision and review, we do not believe that it is necessary to create specific requirements for "letterbox" audits. Further, we believe that the nature of

these engagements vary based on the jurisdictions involved and the structure of the entity such that that it would be difficult to develop one set of requirements that could apply in all situations.

Other matters related to engagement partner responsibilities in the ISAs

When there are engagement partner responsibilities that should not be delegated, we agree that it may be useful for the ISAs to specify this fact as suggested in paragraph 99 of the ITC. We would also support an appendix that accumulates engagement partner requirements throughout the ISAs.

Other action to consider – Engagement team members' responsibility for audit quality

In regard to other actions that should be considered, we believe that consideration should be given to whether ISA 220 should mention responsibilities for audit quality for team members other than the engagement partner.

We agree that the engagement partner retains overall responsibility for the audit; however, we also believe that all audit team members should be accountable for the quality of their audit work. We are concerned that continual enhancements and strengthening of engagement partner (and engagement quality control reviewer) requirements may inappropriately convey that others on the audit team do not have an important responsibility for audit quality. In fact, we believe that audit quality is dependent on all team members understanding their responsibilities for quality and acting accordingly, which is closely related to all team members applying professional skepticism appropriately. We encourage the IAASB to consider whether ISA 220 should make specific mention of responsibilities for audit quality of all team members.

- (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).**

Although we understand several of the concerns expressed in paragraph 79, we do not believe that it is necessary for the ISAs to address when an individual other than the engagement partner signs or is named in the auditor's report. We do not believe that the IAASB standards, and requirements for the engagement partner, should be compromised to acknowledge and address issues that are caused primarily by the licensing practices in certain jurisdictions. This issue is best dealt with by national standard setters and licensing authorities in the relevant jurisdictions.

QC3. (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.

We agree that there are many engagement team structures, which have become increasingly complex with the advent of alternative audit delivery models and the elevated need for personnel with specialized skills on many engagements due to increasing accounting and business complexities. It is not always clear whether these roles fall within the ISA definition of the engagement team or not.

We believe that the approach to addressing the matters identified in the ITC related to the involvement of others in the audit should begin with the definition of engagement team and the principles that should apply in determining whether an engagement participant is a member of the engagement team. Where clear lines can be drawn (such is the case for internal auditors used for direct assistance and external experts, which are scoped out of the definition in the current ISAs), this is useful, of course. In particular, we would recommend that the IAASB consider clarifications to the status of engagement participants associated with alternative audit delivery models and, more generally, participants from a different firm within a network (refer to our response to QC4). For group audits, we also believe clarifications are warranted to the definitions of group engagement team and component auditors (refer to our response to GA1). Further, it would be helpful for the principles and risks regarding the responsibilities for the engagement partner to direct, supervise and review the engagement (refer to in our response to QC2) to include any specific considerations relevant for engagement team as opposed to non-engagement team members.

Making reference to the report of another auditor

We believe that the IAASB should revisit the requirements that currently preclude the ability to make reference to the report of another auditor (i.e. dividing responsibility) but only in certain circumstances when access is restricted or prevented by others. We believe these circumstances include:

- ▶ Non-controlled entities (e.g., equity investees) when these entities restrict access
- ▶ Entities that meet the “de facto” control threshold under IFRS 10, but minority shareholder rights restrict access
- ▶ When access to information by the auditor is restricted by law or regulation (e.g., entities in the defense sector that are subject to secrecy laws)

In our view, allowing the auditor flexibility to refer to the report of another auditor in these circumstances is preferable to either:

- ▶ *The auditor not accepting or continuing the engagement due to these access issues.* This would result in certain groups or entities becoming “unauditable” by any auditor, which we do not believe is in the public interest.
- ▶ *Issuing a report that includes a scope limitation.* This would result in the auditor’s report not providing any indication of the credibility of the information for the affected component or investee, even when the information may have been audited by another auditor. Further, a scope limitation is not an acceptable form of opinion for listed or other entities in some jurisdictions.

A reference in the auditor's report to the report of another auditor in these limited circumstances would allow for the auditor's report to reflect that all information in the financial statements (including that of the component or investee for which auditor access was restricted) has been subject to audit, although by different auditors, and to present the respective opinions expressed. We believe this transparency is in the best interests of users and has worked well in the jurisdictions where it is currently permitted.

Refer to our response to GA2 for our further views on dealing with access issues.

Disclosing the involvement of other auditors in the auditor's report

We do not support the IAASB exploring the disclosure of the involvement of other auditors in the auditor's report at this juncture. The disclosure of other auditors was specifically considered and not pursued in the IAASB's due process leading up to the issuance of the new and revised auditor reporting ISAs. We believe that any further enhancements to the auditor's report should be considered in conjunction with the IAASB's planned post-implementation review in order to evaluate any potential enhancements in a holistic and prioritized manner.

(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)?*

We believe the approach that we recommend above related to clarification of the definition of engagement team, together with the approach we recommend in our response to QC2 to identify risks and set principles related to engagement partner responsibilities, are appropriate to address the matters highlighted in the ITC related to the involvement of other auditors in an audit engagement.

QC4. (a) *Paragraphs 106-123 set out matters relating to networks of firms and use of audit delivery models (ADMs).*

- i. Which of the actions outlined in paragraphs 114-116 and 122-123 would be most meaningful 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 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.***

For engagement teams that involve component auditors (or other auditors from individual firms within a network), it is important for these teams to be informed about the system of quality control in place across the network and to be able to place reliance on that system for the purposes of their engagements. We believe that both the network and individual firms within the network bear the responsibility of determining that the network/firm system of quality control can be relied upon by its engagement teams. Therefore, we strongly support the IAASB's exploration of enhancements to ISQC 1 to clarify the necessary conditions under which this reliance can occur, and the related documentation requirements. Further, expectations vary among regulators across jurisdictions regarding engagement team reliance on network/firm quality control, and individual firm reliance on network quality control, including how the basis for reliance is documented.

We agree that network structures vary greatly, including in their governance, and network structures can be influenced in the various jurisdictions where a network, and firms that are members of that network, are established. Further, the extent to which policies and procedures are developed and monitored at the network level versus the individual firm level may vary greatly. For these reasons, we agree that it would be difficult for ISQC 1 to prescribe specific quality control requirements at the network level.

Instead, we suggest an approach whereby ISQC 1 continues to acknowledge that networks are likely to have some extent of common quality control processes and procedures that apply to the individual firms. That is, a firm that belongs to a network is likely to have a system of quality control that consists of some combination of policies and procedures that operate at the network level and at the firm level. The exact combination in place for a particular individual firm is not relevant for the requirements of ISQC 1 (nor should it be prescribed).

We believe that the documentation of the system of quality control for a network should specify the operating level (i.e., network v. firm) of each of the elements (and sub-elements, where different) of the system of quality control. When individual firms place reliance on network-level quality control policies and procedures, the network should determine and implement monitoring procedures to assess individual firm compliance with network policies and procedures. Further, the network should obtain information about individual firm compliance with firm-level quality control policies and procedures. The objective of these documentation and monitoring efforts should be that engagement teams have a basis for reliance on the system of quality control across a network, including its individual firms.

Communicating inspection results across the network

We view communications about inspections that have taken place across the network, and the results of these inspections, as intrinsically linked to communications that a network may make related to its assessment of its system of quality control and that of its individual firms (such as communications that may be made in connection with the activities we discuss in the prior paragraph). If there are inspection findings or other deficiencies identified by the network or individual firms that may affect, in particular, the use of the work of component auditors in certain countries or regions within the network, it would be appropriate for the network to communicate these findings in a manner that is conducive to use by group engagement teams within the network. For example, this approach may involve a network taking its required analysis of findings from inspection and monitoring activities (refer to QC7) and synthesizing the relevant information into a summary of the audit areas in which findings are most prevalent for a country or region. For these identified countries or audit areas, group engagement teams may consider, for example, increasing their involvement through site visits or understanding whether certain component auditors have completed any required training or other activities for which the network communication may have indicated to be planned remediation activities.

For further views on the evaluating the use of the work of component auditors, refer to our response to GA4.

iii. Paragraphs 117-123 set out matters relating to the use of ADMs and related issues

- 1. How should our standards emphasize the importance of appropriate quality control processes in relation to use of the ADMs?**
- 2. Are you aware of ADMs that raise issues not discussed in these paragraphs? If so, please provide details.**

In our experience, ADMs differ from traditional engagement team structures simply because certain personnel assigned to engagements physically reside in and work from a different location within the firm or, in the case of a network, a different firm within the network. We view these engagement participants as members of the engagement team but working remotely. If the IAASB considers the following to be true, we believe many of the issues that have been raised in the ITC related to ADMs can be effectively addressed:

- ▶ The personnel within ADMs fall within the definition of engagement team (refer to our response to QC3)
- ▶ When the ADM participants are employed within a separate entity from the individual firm that is responsible for the engagement, or is subject to separate governance, the ADM is subject to the requirements of ISQC 1 and the network/firm system of quality control

We do not believe it is appropriate to create specific requirements for ADMs in ISQC 1 or ISA 220, but that it would be useful for the IAASB to consider including guidance about the audit quality risks that may need to be addressed. Specifically, we recommend that:

- ▶ Firm-level audit quality risk factors related to the use of ADMs should be included through the QMA approach to ISQC 1 (refer to our response to QC1)
- ▶ Engagement-level risks to the engagement partner fulfilling their responsibilities for direction, supervision and review when personnel from ADMs are involved in the engagement also should be included through a risk-based approach to ISA 220 (refer to our response to QC2)
- ▶ For ADMs within a network structure, our recommendations above in our response to QC4(a) also apply

Further, we believe the nature of audit procedures that are appropriate for performance by ADMs, as well as policies regarding documentation or privacy or client confidentiality restrictions, should be determined at the firm (or network-level) and set forth in policies and procedures. Such an approach allows firms to design policies that reflect the location, structure, purpose and governance of the ADMs, as well as the intended use and restrictions on use of the ADMs by engagement teams. Engagement teams should be responsible for adhering to these firm or network policies, and determining their planned approach to use of ADMs to comply with those

policies, versus an approach in which the ISAs include specific performance requirements for engagement teams.

QC5. (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.***

We agree that tying responsibility for quality into firm leadership and governance is fundamental to improving quality. Firm leadership should be responsible for driving a quality-oriented culture that involves leaders setting the appropriate tone to convey that performing high-quality audits is the top priority and cascading supporting messages throughout the firm. We believe frequent and consistent messaging from senior leadership, and actions to back it up, significantly influences firm culture.

With regard to our views on the possible actions in paragraphs 131-135 of the ITC, we believe that the actions in paragraphs 132 and 133 regarding clarification of leadership responsibilities for audit quality and expansion of such responsibilities to include accountability for quality are the most meaningful actions. (Please refer to (b)(i) below for our views on paragraph 131 and (b)(ii) below for our views on paragraphs 132-134).

With regard to the suggestion in paragraph 135 of the ITC that the concept of the public interest could be explicitly incorporated into ISQC 1, we are not convinced that this would be appropriate. As the “public interest” does not have an internationally agreed and recognized definition, we agree it will likely be difficult to include this concept directly in the ISAs and require leadership to act in accordance with it. Rather, we believe that expanding ISQC 1 to address leadership responsibilities and accountability for audit quality, as well as implementing a QMA for which leadership has oversight responsibilities, will achieve the objective of leadership responsibility for facilitating and sustaining audit quality. By obtaining this objective, we believe the public interest will be served.

(b) Specifically:

- i. Do you believe it is necessary for us to explore how governance of a firm could be addressed in ISQC 1?***

We agree with the statement in paragraph 125 of the ITC that governance of a firm includes leadership responsibility for quality, oversight by firm leadership over the implementation of response to risks of the firm not meeting its quality objectives, and the oversight of firm leadership itself. With regard to whether these concepts should be addressed in ISQC 1:

- ▶ We support further elaboration within ISQC 1 on the leadership responsibilities related to quality (see our response to (b)(ii) below).
- ▶ As part of a QMA, the quality risk assessment process should identify risks to the firm not meeting its quality objectives, which would need responses in the form of firm policies and procedures. We agree that leadership should have oversight responsibilities for the system of quality control, including the risk assessment process and related responses (see our response to (b)(iii) below).
- ▶ Regarding oversight of firm leadership itself, we do not believe this either falls within the scope for ISQC 1 to address or within the IAASB's purview to address in another fashion. We believe senior leadership of the firm is responsible for audit quality, and oversight of the systems that control quality as outlined above, which includes oversight responsibility for the firm's compliance with ISQC 1; these are the appropriate boundaries for addressing governance in the context of ISQC 1. Higher-level firm governance that involves the oversight of senior leadership goes beyond oversight of their quality control responsibilities for assurance services conducted in accordance with IAASB standards and therefore is not within the remit of the IAASB.

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?

We strongly support senior leadership responsibilities for audit quality and for the firm's system of quality control, as set out in ISQC 1 paragraphs 18 and 19. We agree with exploring the expansion of these requirements to address: leadership accountability: responsibility for monitoring of quality within the firm; and responsibility for firm culture, including one that encourages collaboration and consultation. Any expansion, however, would need to address these in a principles-based manner to accommodate differences in firm and network structures.

We agree that it is often useful and necessary, particularly in larger firms, to have individuals with leadership responsibilities for particular elements of the system for quality control, including for independence. However, the needs for such leadership will vary based on the size, structure and governance of the firm. We do not believe it is appropriate to single out independence as the only element that may require element-level leadership.

iii. Would the use by firms of a QMA provide better support or provide 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?

Yes, we believe the use of a QMA by firms would be useful in assisting leadership in fulfilling their responsibilities for audit quality. Specifically, we believe that setting the tone at the top and accountability can be viewed as the "bookends" to a quality management process. The tone at the top, including setting the firm's priorities and objectives for audit quality, is the starting point for creating the firm's culture of quality; while accountability is the measurement of whether a pervasive culture of quality has been instilled and specific quality objectives have been met.

Leadership is also responsible for the oversight of the system of quality control, which can be viewed as largely consisting of the activities that occur between the two “bookends”.

QC6. (a) Paragraphs 136-146 set out matters relating to engagement quality control reviews and 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.***

We believe the most meaningful actions related to engagement quality control reviews and reviewers are:

- ▶ Considering the linkage between professional skepticism and the role of the engagement quality control reviewer (refer to “Objectivity of the engagement quality control reviewer” below)
- ▶ Clarifying the work effort of the engagement quality control for significant matters and significant judgments (refer to “Work effort of the engagement quality control review” below)
- ▶ Implementing a risk-based approach to selecting engagements for engagement quality control review (refer to (b)(i) below)

Objectivity of engagement quality control reviewer

Objectivity of the engagement quality control reviewer (EQC reviewer) is of course fundamental to the EQC reviewer’s responsibility to perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor’s report. We agree with the selection criteria in paragraph A49 of ISQC1, and would support the IAASB considering these and other possible relevant criteria as specific risk factors or criteria to be addressed in the development of firm policies and procedures related to the selection of EQC reviewers.

As we expressed in our response to PS2, we believe there is a direct linkage between the role of the EQC reviewer and professional skepticism that is derived from this responsibility to provide this objective evaluation (i.e., in simplest terms, the reviewer could be viewed as a “hired skeptic”). We believe the IAASB should explicitly consider this linkage as it evaluates expansions to requirements for the EQC review to ensure that the objectivity and the ability of the EQC reviewer to provide an additional “layer” of professional skepticism to the audit are not compromised. We also believe that understanding this linkage may assist in making an appropriate distinction between the role of the engagement partner and the EQC reviewer (as suggested in paragraph 145 of the ITC). However, in our practical experience, we find this distinction quite clear.

Refer to (b)(ii) for our views on a cooling-off period for engagement partners prior to being appointed as EQC reviewers.

Work effort for the engagement quality control review

We support the IAASB exploring the strengthening of the requirements and application material in ISA 220 and whether further specification of the nature and extent of matters to be considered by the EQC reviewer should be made. But, we also believe that the EQC reviewer needs to be provided flexibility to consider how best to achieve the purpose of the EQC review (i.e., an objective evaluation of the significant judgments and conclusions reached by the engagement team) based on the facts and circumstances of the engagement.

Accordingly, we think it is important to maintain the principle in paragraph A27 of ISA 220 that the extent of the EQC review may depend on the complexity of the audit and the nature of the entity. We would add that the extent should also depend on the nature of the risks and the related risk assessment. Therefore, we agree that the EQC reviewer should understand the significant risks and the responses to those risks. More generally, we believe that the EQC reviewer should understand the risks driving the audit strategy (e.g., those identified in the client acceptance/continuance process, risks arising from changes in the entity's business or other significant changes in risks from the prior period).

With an understanding of these risks, the EQC reviewer should consider the level of interaction and review necessary to evaluate the significant judgments related to these risks. This may include:

- ▶ The extent to which reviewing component auditor documentation related to significant judgments or other significant matters is necessary
- ▶ Whether to obtain subject-matter expertise for a particular audit area or judgment to perform the EQC review (which we believe may include direct interaction with external or internal specialists involved on the engagement)
- ▶ Interacting with those charged with governance

As mentioned in paragraph 146 of the ITC, we agree that there are mixed views about whether, and in what circumstances, communication between the EQC reviewer and those charged with governance are appropriate. In our view, there may be circumstances when the EQC reviewer believes that attending an audit committee meeting when certain significant judgments are discussed and directly hearing the audit committee's views may be useful to their objective evaluation of these judgments. However, we do agree that the EQC reviewer should not have interactions with those charged with governance that would be viewed as participating in the engagement (e.g., appearing to cross the boundary into the role of the engagement partner). For the purposes of the ISAs, we do not believe that EQC reviewer interactions with those charged with governance should either be required or precluded.

Documentation of the EQC review

As it relates to requiring documentation of timing and substance of the EQC review, we are uncertain of the difference between documenting the "substance" of the EQC review and the current documentation requirement for the EQC reviewer to document that "the procedures required by firm policies for EQC review have been performed".

Nevertheless, we agree that it should be evident in the audit documentation which significant matters or significant judgments were reviewed as part of the EQC review, and as a result, it should be evident that the EQC reviewer has evaluated the engagement team's conclusions. We believe any further documentation requirements or guidance should be principles-based to focus on the EQC reviewer documenting the basis for meeting the objectives of the EQC review. Specifically requiring documentation of specific discussions between the engagement partner and reviewer would be an overly narrow requirement, in our view, because such a requirement would not be focused on the overall objective of the EQC review.

Relationship between EQCR and pre-issuance reviews

The proposed actions in paragraph 143 of the ITC include adding application material about the use of subject-matter experts to perform pre-issuance reviews when an EQC review is not performed for the engagement. We do not support including this application material. We would contend that the decision of whether an engagement requires an EQC review is separate from the decision of whether an engagement requires a pre-issuance review, which typically serves a special or targeted purpose. Specifically, many engagements have both because the reviews serve different purposes, while others may be subject to one or the other. Most importantly, we agree with the statement in paragraph 148 of the ITC that it is not appropriate to consider a pre-issuance review of some variety as a less extensive replacement for an EQC review.

Required communication with those charged with governance about the EQC review and disclosure in the auditor's report

In regard to the proposals to require communication to those charged with governance that the engagement is subject to EQC review, and also possibly disclose this fact in the auditor's report, we do not believe that either proposal is necessary or appropriate. In our view, the fact that an engagement was subject to an EQC review is not an indicator of audit quality (i.e., engagements that are not subject to an EQCR are not necessarily lower quality). EQC review is a quality control process that is applied to engagements of a certain criteria – generally speaking, audits of higher risk and complexity.

To communicate to those charged with governance that an engagement is subject to EQC review would also require explaining why the engagement has been selected and the role of the EQC reviewer, and perhaps even the results of the EQC review. We are not convinced that this level of communication is necessary or serves the objective to improve audit quality.

We do not support disclosure in the auditor's report that the engagement was subject to EQC review because we believe that this disclosure would imply that audits that are not subject to EQC review are of lower quality, which would not be accurate, or in the public interest. Further, as we expressed in our response to QC3, we believe that any further enhancements to the auditor's report should be considered in conjunction with the IAASB's planned post-implementation review in order to evaluate any potential enhancements in a holistic and prioritized manner.

(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.***

We believe that requiring EQC reviews for audits of listed entities continues to be the appropriate minimum requirement. That said, we do believe it is important for firms to execute against the requirements in paragraph 35(b) and 35(c) of ISQC 1, which require firms to set out criteria for which other engagements are selected for EQC review and to require EQC review for engagements that meet that criteria. Paragraph A41 of ISQC 1 provides high-level guidance on what these criteria could comprise.

It is not helpful, in our view, to have criteria for EQCR linked to “public interest” or public-interest entities, because of the lack of an internationally agreed or recognized definition of either “public interest” or PIEs. Entities that meet the definition of PIE in any particular jurisdiction may vary greatly in their size, complexity and risk profile.

Instead, firms should be required to take a risk-based approach to setting criteria for engagements subject to EQC review, and the risks to be considered are those that are relevant to the objective of the EQC review (i.e., the risk profile of the significant judgments to be made by the engagement team, including risks to the appropriateness of the auditor’s report).

As part of a QMA, enhanced criteria could be elevated to risk factors for consideration in a firm’s quality risk assessment process that forms the basis for development of risk-responsive EQC review policies and procedures (refer to our response to QC1).

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.

No, we do not believe it is necessary for ISQC 1 to require that firms define a “cooling-off” period before an engagement partner can be appointed as the reviewer for the engagement. We believe that ISQC 1 should focus on underlying principles that support the objectivity of the EQC reviewer. Firms should take into account these principles in developing firm policies and procedures related to the selection and appointment of reviewers.

If it is determined that the standards should define a “cooling-off” period of this nature, we believe this is a matter that should be pursued as a revision to the IESBA Code of Ethics, and not as a revision to the IAASB standards.

iii. Would you support the development of a separate EQC review standard? Please explain the reasoning for your response.

We believe that the current structure of the IAASB standards is appropriate, whereby requirements for firms to develop policies and procedures related to EQC review are located in ISQC 1 and performance requirements for EQC reviewers are located in ISA 220.

It does not appear consistent with the structure of the IAASB standards to include together in a separate ISQC standard both requirements for firms related to EQC reviews and performance requirements for the EQC reviewer. We believe it is especially important that performance requirements are located in the ISAs or other IAASB performance standards, as appropriate, and not in ISQC 1 or a new ISQC standard.

QC7. (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.***

Expanded analysis of findings from inspections and other reviews

We support adding in ISQC 1:

- ▶ Required analysis of findings from external inspections in the same way that findings from internal inspections are considered, with supporting application material about the role of external inspections and how these interact with the internal monitoring system
- ▶ Consideration of whether inspection findings are relevant for other engagements (i.e., identifying which findings are not unique to the particular engagement inspected), as well as considering the implications of the findings for the firm's system of quality control (refer to (b)(ii) below)

We also note the IAASB's planned consideration of how the performance of pre-issuance reviews, post-issuance reviews or other firm approaches to reviewing engagements outside of the internal inspection process may factor into the firm's system of quality control. We do believe that these are quality control activities; however, we see these as not necessarily having the same objectives as formal monitoring or inspections depending on how these are used and implemented in a particular firm. For example, some reviews may be related to remediation activities, others may be due to the implementation of new auditing or accounting standards, some may be part of coaching exercises (i.e., a learning activity) or still others may be for fact-gathering purposes to determine how certain issues are being dealt with in practice. Therefore, we believe it is necessary for firms to have the flexibility to determine which of their quality control activities outside of the internal inspections process comprise part of the firm's monitoring process, and any required consideration of the results of such activities in evaluating the deficiencies that have been identified through these activities (i.e., under paragraph 49 of ISQC 1) should be limited to those resulting from activities that have been designated by the firm as monitoring activities.

As a general rule, we do not view the reviews that occur prior to the issuance of the auditor's report as inspection activities that are conducted to fulfill the requirement of paragraph 48(a) if ISQC 1. The objective of these reviews is often to prevent audit quality issues and, when issues are identified, to promptly set the engagement onto a corrective path. Although common quality issues may be identified through this process, they are not typically captured in the same formal manner as those that are identified in internal inspections.

Also, we note that paragraph 157 of the ITC mentions analysis of "deficiencies" identified through engagement quality control reviews. We do not view the EQC review as a monitoring activity, nor do we believe that EQC reviewers should be required to capture "deficiencies" for consideration as part of the firm's monitoring processes.

Nevertheless, we agree that quality deficiencies or findings are identified through various sources and activities within a firm's system of quality control, and we strongly agree that the source of the findings is irrelevant to the need to consider whether corrective action is necessary. We also do not believe that corrective action should be delayed until after the formal cyclical inspection process is complete. Instead, firms should have the flexibility to be proactive and continuously invest in new approaches and tools to identify and address emerging audit quality risks and provide resources to support audit teams on quality matters. Therefore, we recommend that ISQC 1 take a principles-based approach to the consideration of deficiencies or findings that are identified through sources other than those that are designated monitoring activities. These principles should be dealt with separately from the required analysis and remediation activities for findings from internal and external inspections.

Additional issue to consider - Cyclical inspection process

Paragraph 48(a) of ISQC 1 requires cyclical internal inspections for each engagement partner, whereby the application material in paragraph A66 presumptively suggests a cycle that spans three years.

We believe that this cyclical approach that is focused on engagement partner coverage should be re-considered in light of the implementation of a QMA that is focused on risk. Although A66 also presents risks factors for consideration in selecting engagements, the required focus on engagement partner coverage results in:

- ▶ Predictability for engagement partners of when they will be subject to inspection because the capacity of internal inspection activities typically does not allow for inspection of an engagement partner more than once in three years
- ▶ A reduction in the ability to select engagements for inspection based on risk because the population of engagements for selection in any particular year is limited to those for which the assigned engagement partners are required to be inspected in that year (i.e., inability to apply a risk-based selection across the entire engagement profile of the firm in any one year)

We believe the basis for engagement inspection selection should be directed to assessing audit quality at the firm-level rather than that of individual partners. We would prefer a principles-based approach to selecting engagements for annual internal inspections focused first on the risk profile of the engagement portfolio, rather than engagement partner coverage. Some engagement partners may have a portfolio of many low risk engagements, while others may have a portfolio of only a few higher risk engagements.

(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?***

We are supportive of requiring consideration of the causal factors of audit deficiencies that have been identified through the firm's monitoring processes in order for firms to consider whether there are certain common trends that indicate threats to audit quality that should be addressed through remediation activities.

As it relates to requiring an analysis of the causal factors of audit deficiencies, we believe there first needs to be a common understanding of what such analysis entails – both in nature and extent.

We have incorporated a root cause analysis in our firm processes to analyze deficiencies, and we continue to develop, enhance and improve this process to result in a common process that can be used consistently across our network globally. What we have learned from our experiences so far is:

- ▶ There is typically not just one, but sometimes several underlying issues within a single engagement that lead to an audit deficiency. Understanding the interrelationship of these issues can be complex and the responses to address these issues can be multi-faceted.
- ▶ Root cause analysis may need to be scaled up or scaled down depending on the findings. For example, when a trend is identified as part of performing a root cause analysis on a few engagements within a given industry or country, the law of diminishing returns may set in, such that there is a low probability that any significantly different causal factors will be found in similar engagements. Conversely, when certain perhaps more surprising or unique factors or trends are identified, this may prompt an expansion in the selection of engagements to be analyzed.
- ▶ When there are systemic or common inspection findings across engagements, firms may need to take interim corrective actions before the process of root cause analysis is complete. We believe the ability to take corrective measures quickly, without the benefit of findings from root cause or other inspection analyses, still needs to be supported by ISQC 1 (i.e., paragraph 49(b) of ISQC 1).

We believe it would be helpful for the IAASB to engage with stakeholders in collecting and assimilating views on what comprises effective root cause analysis. This would be a beneficial exercise to inform the determination of whether a requirement for such analysis should be introduced into ISQC 1 in addition to informing any supporting application material about the process that should be included in ISQC 1.

ii. Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control? Please provide further detail to explain your response.

Yes, we support the incorporation of a new requirement 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. This is consistent with our response to QC4 in which we express our views about the intrinsic linkage that inspection results and other identified deficiencies have to the ability of engagement teams to place reliance on the network or individual firm's system of quality control.

QC8. Paragraphs 160-170 set out matters relating to engagement partner performance and rewards systems.

- (a) Do you believe that establishing a link between compensation and quality in ISQC 1 would enhance audit quality? Why or why not?**
- (b) What actions (if any) do you believe we should take in this regard? Are there potential consequences of possible actions that you believe we need to consider?**

We agree with the statement in paragraph 166 of the ITC that ISQC 1 should not be used as a vehicle to mandate the structure of an engagement partner's remuneration.

We believe that the principle in paragraph A5 of ISQC 1 continues to be a sound principle (i.e., that an internal culture focused on engagement quality includes "establishment of policies and procedures that address performance evaluation, compensation and promotion (including incentive systems) with regard to its personnel, in order to demonstrate the firm's overriding commitment to quality").

We support requiring policies and procedures to address engagement partner remuneration that are aligned with this principle, including a specific linkage to audit quality. We also support requiring compensation policies that take into account audit quality for those individuals in the firm responsible for audit quality. However, we believe such requirements should be principles-based as there are many methods for achieving a linkage between compensation and audit quality. For example, we do not believe it is appropriate for ISQC 1 to require specific methods such as remuneration committees, or provisions in profit-sharing plans or how inspection findings should specifically affect compensation. Further, we believe that firms should consider consequences in response to negative audit quality events that are not limited to effects on remuneration (e.g., remedial training, additional supervision and/or reassignment).

Although ISQC 1 may make reference to the IESBA Code requirements (or other relevant ethical requirements) that deal with threats to independence from the provision of non-audit services and safeguards needed with respect to related compensation, we do not believe that including these references are essential, nor do we believe that requirements from the IESBA Code should be duplicated in the IAASB standards.

QC9. (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.***

We recognize that audit quality is directly dependent on the competencies, knowledge and ethical behaviors of auditors. We agree that firm policies and procedures that address the human resources element of the system of quality control are important to achieving this objective. We believe the most meaningful action to address the matters related to human resources discussed in the ITC is to consider how the current requirements and application material in ISQC 1 can be effectively converted through the implementation of the QMA into quality objectives, and risks to meeting those quality objectives (refer to our response to QC1 for our views on the QMA and refer to "Continuity planning" below for how this could be accomplished for the human resources element of quality control).

Paragraph 177 of the ITC proposes additional application material to suggest that firms should maintain evidence of the procedures performed to maintain the sufficiency of personnel with appropriate competence and capabilities. We are uncertain how this documentation would be different from that already required in paragraph 57 of ISQC 1 for firms to maintain appropriate documentation to provide evidence of the operation of each element of the firm's system of quality control.

Continuity planning

We note that, in paragraph 171 of the ITC, continuity planning is described in the context of dealing with losses of key employees or an office, including due to sanctions affecting key personnel and mandatory rotation of the engagement partner. In paragraph 172 of the ITC, effective continuity planning is described as that which "involves developing and maintaining an appropriate structure for managing people with the firm that supports the firm's commitment to attracting, developing, motivating, retaining and rewarding personnel in line with the firm's strategy and quality objectives". We find these two "definitions" as distinctly different, such that we are not certain what requirements are proposed to be added to address continuity planning in the possible action in paragraph 178 of the ITC.

We would agree that firm policies and procedures should address continuity planning as described in paragraph 172 of the ITC. We believe this is an appropriate objective for the human resources element of the system of quality control. Further, we believe that the policies that support this objective are those that are suggested in paragraphs A24-A28 of ISQC 1.

It is also clear that engagements that are not staffed with the proper set of skills and competence will increase risks to audit quality, and such risks should be considered in developing the firm's policies and procedures related to human resource. Included in these risks are the losses of employees or resources as described in paragraph 172 and the examples in paragraph 173 (i.e., the risk that a firm's financial considerations may undermine a firm's ability to effectively maintain resources that are appropriate experienced and trained, and the risk that firms are influenced by the need to meet financial metrics,

such that the firm's policies do not allow for appropriate investment in training or education of personnel or the firm's policies result in insufficient partner hours being allocated to an engagement).

We support the IAASB implementing a QMA into ISQC 1 along the lines as we have described in our response to QC1, and we would support the IAASB specifically considering how best to restructure the requirements and application material for the human resources element to distinguish between objectives for firm policies and procedures and risk factors that support the development of policies that achieve those objectives.

Engagement partner competency

We believe it is worthwhile to explore the relationship between the engagement partner competencies required by IES 8 and those that are included in ISQC 1 and the ISAs with a goal of clarifying the relationship between IES 8 and the IAASB standards. To the extent that specific competencies in IES 8 are determined to be worth highlighting in the IAASB standards, the requirements of IES 8 could be referenced in the IAASB standards (in a similar manner to which the IESBA Code of Ethics has been referenced), but we do not believe that the requirements from IES 8 should be replicated into the IAASB standards.

In regard to the proposal to create a defined term for "more experienced team members", we are uncertain whether it is intended that this new defined term would affect ISAs other than ISA 220 (e.g., whether this new term would replace use of the term "auditor" in any other ISA requirements).

QC10. 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.**

We do not believe it is necessary for the IAASB to produce guidance for transparency reporting. Transparency reporting has been performed for several years in many jurisdictions and accordingly, many firms have sufficient experience in producing transparency reports. Further, the specific requirements for transparency reporting vary across jurisdictions.

Although we support transparency reporting because it provides useful information for companies, users and other stakeholders, we do not believe that transparency reporting itself contributes directly to firm- or engagement-level audit quality, which we understand is the primary objective of the proposals in this ITC. We believe that it is appropriate for the IAASB to focus in the near term on initiatives that contribute directly to audit quality.

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

Refer to our suggestions in our response to QC 2 regarding the emphasis of audit quality responsibilities for all engagement team members and in our response to QC 8 regarding the consideration of a risk-based approach to cyclical internal inspections.

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

As we suggest in our response to QC 8, we believe that the IAASB should engage with firms and regulators to develop a common understanding of the nature and extent of processes that are necessary to perform an effective analysis of the causal factors of audit deficiencies.

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.

No comment.

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.

No comment.

Appendix 4: Responses to Group Audit questions

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 in a wide range of circumstance (see paragraphs 194-198)? If not, please explain why. What else could we do to address the issues set out in this consultation?**

We believe that an overall emphasis in ISA 600 on the need to apply all relevant ISAs in a group audit could be helpful, but we believe more value could be obtained through an approach that involves increasing the linkages between ISA 600 and the other relevant ISAs to assist the auditor in determining when requirements in other ISAs are relevant. We believe doing so would clarify the interactions of ISA 600 with the other ISAs, such that ISA 600 could continue to focus on supplemental requirements and issues specific to group audits.

We strongly agree with the statements made in paragraphs 200 and 201 of the ITC regarding the need for ISA 600 to be able to be applied to a wide range of group structures and for ISA 600 to remain “fit for purpose” as group structures continue to evolve. We are not in favor of an approach to the revision of ISA 600 that would involve more rules-based or highly structured requirements. We believe in applying a risk-based and principles-based approach to ISA 600 (refer to (d) below for further comments).

Separate standard for component auditors

We do not support the development of a separate standard for component auditors. We do support, however, clarifying the responsibilities for component auditors, where necessary. We believe such clarifications are best done within ISA 600 such that the component responsibilities can be presented in the context of, and in contrast to, the group engagement team responsibilities, especially as they relate to communications between the group and component auditors and risk assessment activities by the component auditor (refer to our responses to GA3 and GA7, respectively).

For our views on what else the IAASB could do to address the issues set out in this consultation, please refer to our response to (d) below.

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

Yes, we believe the areas and topics related to group audits that the IAASB is exploring are those that are important to the quality of group audits. As it relates to the individual actions, we agree with many of these, while in some cases, we believe that these actions:

- ▶ May not achieve the IAASB’s objective of application to a wide range of group structures, and thus also may not allow ISA 600 to remain ‘fit for purpose’ over an extended period of time, or
- ▶ Do not appear to align with the integrated risk-based approach that we describe in our response to (d) below

(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?

Yes, we believe the IAASB should further explore making reference to another auditor in an auditor's report, but only in certain limited circumstances, and when not prohibited by law or regulation. Please see our response to QC3 under the heading of "Making reference to the report of another auditor" for our views.

If such an approach is pursued, we believe that identification of circumstances for which such reference can be made and supporting requirements would be needed for the group engagement partner or team to determine that the other auditor's report is appropriate to be referenced. The supporting requirements should address, for example, evaluating the knowledge of the other auditor in the context of the relevant professional standards that apply to the audit as well as the other auditor's compliance with relevant ethical requirements.

(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?

Implementing an integrated risk-based approach to group audits

We believe that one of the underlying issues with extant ISA 600 that causes challenges for auditors in determining whether they have achieved their responsibilities to direct and supervise the engagement, as well as in determining whether sufficient audit evidence has been obtained, is that it includes sub-sets of requirements on scoping, involvement, communication and documentation that appear to operate independently. We believe ISA 600 could benefit from an integrated risk-based approach that begins with the auditor's consideration of risks in scoping of engagements. Those same risks and decisions that drive scope should also drive the nature, timing and extent of involvement and communication with component auditors, as well as the nature and extent of documentation. Further, throughout the execution of the group audit, risks should be re-assessed when necessary and appropriate modifications made to the audit strategy.

With a risk-based approach focused on the risks of material misstatement and how those risks are manifested in the group audit structure, we believe the auditor will be able to better demonstrate how the group audit approach was responsive to the risks of material misstatement, which will in turn better facilitate and support the auditor's conclusion that sufficient appropriate audit evidence has been obtained.

We believe that an integrated risk-based approach to ISA 600 also includes:

- ▶ Principles-based requirements that set forth objectives to facilitate auditors identifying the risks related to achieving the objectives
- ▶ Supporting application material that expands on the principles and objectives (with linkages to other ISAs as relevant), including examples of circumstances that auditors may encounter in group audits and approaches to addressing those circumstances that achieve the objectives

Our comments in the specific questions in this Appendix related to group audit scoping, communication, involvement and documentation are provided in the context of this risk-based approach.

Definitions of group and component

We believe that ensuring ISA 600 applies to a wide range of group structures begins with taking a principles-based approach to the definitions of “group” and “component” that expands beyond the current boundaries of the entity’s legal and reporting structure and allows for audit teams to take into account both entity and audit operational structures in determining the scoping of their group audits. Such clarifications are also necessary to ensure that auditors understand more generally whether ISA 600 applies to an audit, especially for audits that may involve other auditors but not include a typical component structure of reporting entities (e.g., those that involve entity’s shared service centers).

Similar to our views expressed in our response to QC3 regarding the definition of engagement team, we believe that bright lines should be drawn, when possible, to clarify which engagement participants fall within or outside the definitions of group engagement team and component auditor. For example:

- ▶ In line with our view in QC4, we would expect that engagement participants from audit delivery models (ADMs) would be viewed as members of the engagement team that is responsible for their direct supervision, which could be either a component auditor or the group engagement team; we do not believe that engagement participants from ADMs should be defined as a separate category or type of component auditor.
- ▶ In line with our view in GA2, we believe that the IAASB should provide requirements and guidance within the ISAs (not within ISA 600) for auditing non-controlled equity investees that apply to all audits, when relevant, as the auditing challenges for these equity investees are not limited or specific to group audits. Accordingly, we would expect that such investees may not fall within the definition of component (or that the respective auditors would fall within the definition of component auditor).
- ▶ The definitions should accommodate a group engagement team also functioning as a component auditor(s).
- ▶ Consideration should be given to the definition accommodating component auditors at the sub-consolidation level (i.e., that are assigned the work related to several components within a sub-consolidation) (refer to our response to GA7(b)(iii)).

Summary of specific issues we believe should be addressed

In addition to our support for implementing an integrated risk-based approach within ISA 600, we see the following specific issues, which we mention in several of our responses within this Appendix, as high importance for the IAASB to address in the scope of its group audits project:

- ▶ Specific requirements and guidance for auditing non-controlled entities (e.g., equity investees), in particular to deal with issues around determining materiality, access to information, direction and supervision of the work, and obtaining sufficient appropriate audit evidence
- ▶ Clarifying the effects on the audit approach for group audits (and other audits) when the entity has implemented a shared service center to centralize the processing of certain transactions
- ▶ Addressing, in the context of component auditors that are within the same network as the group engagement team, how group engagement teams can demonstrate the basis for their reliance on common policies and procedures in determining whether to use (and the necessary involvement in) the work of the component auditors

GA2. (a) Paragraphs 204-217 set out matters relating to acceptance and continuance of the group audit engagement.

- i. Which of the possible actions outlined in paragraphs 215-217 would be most meaningful in addressing issues related to acceptance and continuance procedures?***
- ii. Why do you believe these actions are necessary?***
- iii. Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.***
- iv. Describe any potential consequences of possible actions that you believe we need to consider further.***

We believe the IAASB should pursue actions that result in the auditor having greater guidance and options within the ISAs for dealing with the access issues that are described in this section of the ITC; in particular, those related to non-controlled entities.

However, we do not see the issues related to auditing investments accounted for on the equity method as only applicable to group audits nor do we believe that the primary method of dealing with access issues more generally should be through client acceptance and continuance processes. Implementing restrictions on acceptance and continuance due to access issues may result in certain groups or entities becoming incapable of being accepted by any auditor, which we do not believe is in the public interest. Instead, we have the following recommendations:

- ▶ Many audits that are not group audits involve dealing with investments accounted for in accordance with the equity method for which management may not be able to facilitate auditor access to information or, in some cases, the auditor may have access to the auditor and information of the equity investee but may not have the ability to direct or supervise the audit work. Accordingly, we believe that the IAASB should provide requirements and guidance within the ISAs (not within ISA 600) for auditing non-controlled equity investees that apply to all audits, when relevant. This new guidance could set forth principles that could be adapted for group audits in which auditors experience access issues related to consolidated components, for example, due to secrecy laws.
- ▶ We support the IAASB exploring the ability for the auditor, where not prohibited by law or regulation, to refer to the report of another auditor in certain limited circumstances that primarily relate to access issues. As we express in our response to QC3, we believe allowing the auditor this flexibility is preferable to the auditor not accepting or continuing the engagement due to these access issues.

In addition to the above actions, we are supportive of the actions in paragraph 215(d) and (e) of the ITC to:

- ▶ Emphasize that the agreed terms of the engagement include that management (and group management) provide access to all relevant information for the audit, and provide supplemental guidance on what constitutes appropriate access, especially in circumstances involving non-controlled equity investees or components where access is restricted by law or regulation

- ▶ Provide more clarity about the different circumstances that may lead to access issues, including specific examples

Refer to (b)(ii) below for our further views related to dealing with access issues through enhanced requirements and guidance for acceptance and continuance.

(b) Specifically:

i. Are access issues as described in paragraph 208(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.

Yes, access issues as described in paragraph 208(a) are being experienced in practice, mainly related to auditing investments accounted for in accordance with the equity method and other entities/components for which auditor access to information is limited by law or regulation.

There is not a consistent manner of dealing with these issues; instead, the specific facts and circumstances of the access issue (or issues related to lack of involvement) are considered in determining the approach to address it (e.g., considerations may include the significance of the component or investment, the extent to which the component contains the assessed risks of material misstatement for the group, the timing of availability of audited information, the jurisdictions involved, the competence and capabilities of the auditors involved (network v. non-network)).

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

Consistent with our view expressed in (a) above that implementing restrictions on acceptance and continuance due to access issues may result in certain groups or entities becoming incapable of being accepted by any auditor, we believe that care must be taken in determining the extent to which access issues influence acceptance and continuance decisions. Instead, we would prefer an approach that focuses on enhancements to ISA 600 (or other ISAs) that provide options and guidance for overcoming or addressing access issues. Nevertheless, we do believe some enhancements to the requirements and guidance can be made to assist in raising the auditor's awareness of potential access issues during the acceptance and continuance process.

In regard to the proposals in paragraph 215(a), 216 and 217 of the ITC to strengthen requirements, we believe the principles-based requirement in paragraph 12 of ISA 600 (i.e., for the group engagement partner to evaluate whether the group engagement team will be able to obtain sufficient appropriate audit evidence) remains sound. We do not believe the requirement needs to be strengthened to include:

- ▶ *Earlier identification of situations where sufficient appropriate audit evidence cannot be obtained, or there may be complexity or difficulty in obtaining such evidence.* We do not believe it is appropriate to add prescriptive requirements for the auditor to specifically identify access issues as part of the engagement acceptance and continuance process, as it may not be possible for auditors to consistently identify all issues in advance. We agree that the auditor inherently will be more knowledgeable in making client continuance decisions than in making client acceptance decisions, and that care must be taken in proceeding with any requirements related to acceptance decisions with which the auditor

cannot practically comply due to limitations in the information available at the time the acceptance decision is to be made.

- ▶ *An explicit conclusion as to whether the group engagement partner or team can fulfill their respective responsibilities for the engagement overall, including for the direction, supervision and performance of the work done by component auditors. We believe that the conclusions relevant to acceptance and continuance that are made in accordance with ISA 220 and the firm policies under ISQC 1 already implicitly include the conclusion that the group engagement partner or team expects to be able to fulfill their responsibilities. Rather than an explicit conclusion, it would be more helpful to have guidance about the auditor's consideration, as part of the client acceptance and continuance process, of whether adequate supervision and review can be achieved.*

Although we are not in favor of strengthening the requirements, we believe it is worth considering whether to restructure them to separate the requirement to understand the group and its components from that to evaluate whether the group engagement team will have sufficient involvement. This restructuring may better facilitate providing application material as suggested in the possible actions to emphasize the importance of these activities (including their role in assisting in the identification of potential access issues) and their relationship to client acceptance and continuance conclusions.

We also support the proposed action to increase the linkages in ISA 600 to the requirements in ISQC 1 and ISA 220 related to 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?

See our comments in (b)(ii) above regarding the need to take care in proceeding with any requirements related to acceptance decisions with which the auditor cannot practically comply due to limitations in the information available at the time the acceptance decision is to be made.

GA3. (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 related to communications 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. Describe any potential consequences of possible actions that you believe we need to consider further.***

We agree that the current requirements in paragraph 40 and 41 of ISA 600 are focused on required communication at the start and the end of work by component auditors. Some requirements within

paragraph 40 include the need for the group engagement team to request timely communications from the component team, but this is not consistently required or emphasized.

We believe the most meaningful action to enhancing the communication requirements in ISA 600 would be to explore supplementing the lists of required communications with principles for auditors to follow in determining the appropriate timing, nature and extent of communication between the group engagement team and component auditors (and vice versa). The level of communication with a component auditor should have a relationship to the risks that were identified related to that component (and which influenced scoping decisions), in addition to taking into account the knowledge obtained about the competence and capabilities of the component auditor.

It is especially important that any enhancements to the communication requirements remain principles-based such that the requirements can be effectively implemented from the smallest group audits to the very largest group audits (e.g., those that include hundreds of components). Requiring two-way communication based on the application of a risk-based approach is more practical for the largest group audits than requiring direct dialogue for each individual component, which is likely to be quite impractical and also runs the risk of the auditor not having enough dialogue with those components that include higher risks of material misstatement to the group financial statements.

As part of a risk-based approach to communications between group engagement teams and component auditors, supporting application material could be developed to address the matters in 224(a),(c) and (d), including examples of how the form, frequency and documentation of communications may differ in certain circumstances.

We also believe it is appropriate to explore whether communication responsibilities for component auditors should be explicitly required, such that component auditors bear the responsibility for communicating matters encountered as part of their work to the group engagement team on a comprehensive and timely basis during the audit. However, consistent with our view in QC1, we do not support the development of a separate standard for component auditors. We believe any requirements for component auditors are best included within ISA 600 in context of, and in contrast to, the group engagement team responsibilities.

Communications related to NOCLAR between the group engagement team and component auditors

In light of the in-process revisions to the IESBA Code to address the auditor's ethical responsibilities to respond to non-compliance with laws and regulations (NOCLAR), we agree with the IAASB's planned consideration of whether paragraph 48 of ISA 600 (or supporting application material) should be revised to specifically deal with the nature and extent of communications related to NOCLAR that may be appropriate between the group engagement team and component auditors depending on the relevant ethical requirements that apply to the engagement.

GA4. (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 communications 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 support a particular action, please explain why.

iv. Describe any potential consequences of possible actions that you believe we need to consider further.

We believe the most meaningful actions relating to using the work of the component auditor are those that involve:

- ▶ Assisting the group engagement team in determining the appropriate level of their involvement in the work of component auditors (refer to (b)(i) below)
- ▶ Clarifying the basis for group engagement team reliance on common quality control policies and procedures, such as those present in a network (refer to (b)(ii) below)

Understanding the independence, competence and capabilities of the component auditors

We are supportive of enhancing the application material related to the procedures that the group engagement team performs to fulfill their requirement to obtain an understanding of the component auditor, including to:

- ▶ Expand upon the factors to consider in evaluating whether the component auditor possesses the appropriate competence and capabilities
- ▶ Provide more specific examples that address some of the practical challenges with understanding the component auditor's compliance with relevant ethical requirements

In regard to the proposed action to require an explicit determination of the ability to use the work of a component auditor, including our views on the different considerations that are involved depending on whether the component auditor is within the same network as the group engagement team, please refer to our response to (b)(ii) below.

In regard to the proposal in paragraph 234(f) of the ITC for the development of application material to emphasize the need for group engagement teams to understand the results of quality control monitoring and any external quality reviews directly relevant to component auditors, refer to our response to QC4 related to communicating inspection results across the network for use by group engagement teams within the network. As it relates to obtaining information relevant to component auditors outside the network, such information is not publicly available for the majority of jurisdictions. Or, if publicly available, it is difficult to distill from it the expected effect on the quality of the work to be conducted by component auditors in the jurisdiction, let alone the specific component auditor for a particular group audit. For example, some public inspection reports explicitly indicate that the identified deficiencies are not necessarily representative of a firm's audit practice. Therefore, we would caution the IAASB against setting forth expectations, even if only in the application material, that group engagement teams will be able to effectively and consistently consider the effects of quality control monitoring and external quality reviews on the use of particular component auditors.

Applying professional skepticism in judgments related to involvement in the work of the component auditors

Paragraph 242(a) and (b) propose specific actions to demonstrate the need for greater focus and professional skepticism by the group engagement team on the significant judgments about the nature, timing and extent of the involvement of the group engagement team in work performed by the component auditors, and the need for appropriate documentation thereof. We agree that professional skepticism should be applied in determining the appropriate level of involvement, but we believe that focusing only on professional skepticism in this context is overly narrow. The group engagement partner and team should exercise professional skepticism in all the significant judgments related to the group audit – starting with the scoping of the audit and assignment of work to the component auditors and extending to the level of involvement in the work of the component auditors and supporting communications.

As we expressed in our response to PS2, we would prioritize actions regarding improving professional skepticism related to enhancing auditor judgments but also those that enhance understanding the linkages among the relative roles of the engagement partner, the engagement quality control reviewer and the engagement/firm culture to the appropriate application of professional skepticism. As it relates to group audits, we believe that the role of the group engagement partner includes setting an appropriate group audit tone-at-the-top that instills responsibility for audit quality not only in the group engagement team members but that also affects the component auditors. Setting this tone-at-the-top would seem to require a certain level of involvement of the group engagement partner in the work of the component auditors. We encourage the IAASB to specifically consider this aspect in its revisions to ISA 600 to address the appropriate application of professional skepticism.

(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, we believe that the nature, timing and extent of involvement of the group engagement team in the work of the component auditor should vary depending on the circumstances. We favor the development of principles or objectives for appropriate involvement accompanied by the auditor's implementation of a risk-based approach in determining how best to achieve the objectives. The risk-based approach should involve taking into account the risks related to the audit areas and work performed by the component (and which influenced scoping decisions -- refer to GA7 for our further views on how risks should affect scoping decisions) in addition to the knowledge obtained about the competence and capabilities of the component auditor (refer to (b)(ii) below).

We also agree that other factors or circumstances may affect the nature, timing and extent of involvement, including those that are included in paragraph 242 (a) and (c) of the ITC. We would add that whether the group audit is an initial audit, or, in a recurring audit whether the component has been included in scope for the first time, may also affect the level of involvement. Further, as we express in b(ii) below, the group engagement team may have access to more information about the competence and capabilities of component auditors within the network than outside the network. The information obtained, or the lack of information available, about a component auditor may affect the appropriate level of involvement by a group engagement team.

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?

First, we assume that this explicit determination is intended to be made during the planning stages of the group audit. Accordingly, we would clarify that the group engagement team can only make an initial determination of whether they expect to be able to use the work, as opposed to a determination of whether they are able to use the work, which cannot be made until after the auditor has reviewed the required communications and conclusions from the component auditor.

Secondly, as part of its exploration of the inclusion of responsibilities for component auditors in ISA 600, we believe that the IAASB should consider a requirement for component auditors to confirm to the group engagement team during the planning stage their expected ability to perform the work requested (i.e., by providing information about their ability to comply with the relevant ethical requirements and about their professional competence in addition to providing information about any expected barriers to performing the work that can be foreseen). This confirmation from the component auditors should then be a primary consideration by the group engagement team in determining whether the work of the component auditor should be able to be used, along with knowledge from any previous experience with the component auditor.

Also, any approach to clarifying the determination by the group engagement team regarding the use of the work of component auditors may benefit from some extent of differentiation between using component auditors within the network and those outside the network. Specifically, group engagement teams have more information about the competence and capabilities of component auditors within the network through their knowledge of common policies and procedures, including policies specific to learning and competencies (e.g., required internal certification processes for specific financial reporting frameworks or auditing standards), as well as compliance with relevant ethical requirements. As we express in our response to QC4, for engagement teams that involve component auditors (or other auditors from individual firms within a network), it is important for these teams to be informed about the system of quality control in place across the network and to be able to place reliance on that system for the purposes of their engagements.

We therefore support the proposed action in paragraph 242(e) of the ITC to develop application material to address how group engagement teams can demonstrate the basis for their reliance on common policies and procedures in determining whether to use (and the necessary involvement in) the work of the component auditors insofar that this application material takes into account our recommendation for determining at the network level that reliance can be placed on the network/firm system of quality control for the purposes of work performed by component auditors within that network.

Given that engagement teams have a sufficient basis (and related documentation) for reliance on network systems of quality control and that consideration is given to any specific factors relevant to a component auditor based on the information obtained through the direct confirmation suggested above, we believe that an explicit determination about the use of the work of a component auditor that is within the network is not necessary, unless unusual or exceptional circumstances apply.

For component auditors that are not within the network, the execution of paragraph 19 of ISA 600 can be handled also through requesting specific confirmation from the component auditor on

their competence and capabilities (as suggested above) and supplemented by consideration of any previous experience with the component auditor. This information should be documented and already should implicitly, if not explicitly, evidence the conclusion to plan to use the work of the component auditor. However, we would not object to requiring an explicit conclusion in relation to the expectation that the group engagement team will be able to use the work of a component auditor outside of its network.

GA5. (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 paragraph 251-253 would be most meaningful in addressing 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.***

We agree with the views in paragraph 251-253 of the ITC that the existing requirements in ISA 600 related to risk assessment are sufficient for the group auditor to obtain the necessary understanding of the entity and its environment in order to identify and assess the risks of material misstatement at both the group and the component level, but improvements can be made to:

- ▶ Better link these requirements to the underlying principles and requirements in ISA 315 and ISA 330
- ▶ Provide more guidance and examples about the application of ISA 315 and ISA 330 in a group audit context, especially clarifications of the relationship and effect of significant risks identified at the group level to those at the component level (and vice versa)

We also suggest that the IAASB clarify, as part of a risk-based integrated approach to ISA 600, how the significant risks and other risks of material misstatement identified through the risk assessment process feed into the group audit strategy as a whole, including the scoping of the group audit (refer to GA7), the communication protocols (refer to GA3), and extent of involvement (refer to GA4). Specifically, we believe that implementing a risk-based approach does not mean only consideration of significant risks; it includes consideration of all risks of material misstatement at the group level that have been identified.

GA6. (a) Paragraphs 254-261 set out matters 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.

Yes, we agree with the possible actions recommended in paragraph 261, especially as it relates to the development of guidance about how to appropriately consider aggregation risk in determining and assigning component materiality.

We also agree that more guidance is necessary in determining materiality for auditing equity investees; however, we would suggest that such guidance be provided within separate requirements and guidance for auditing non-controlled equity investees that apply to all audits, when relevant (refer to our response to GA2).

(b) Recognizing that significant changes to ISA 320 will not be contemplated until a review of ISA 320 has been performed in its entirety (potentially as part of a future project to address materiality more broadly), please describe any other relevant issue 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.

We do not have any specific requests beyond those contemplated in paragraph 261 of the ITC or included in our comments in (a) above.

GA7. (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.***

We believe the most meaningful actions are those that involve:

- ▶ Clarifying the definitions of significant and non-significant component (as well as the descriptions and principles for use of the corresponding work efforts that may be appropriate for significant and non-significant components) to better reflect and respond to the risks of material misstatement of the group financial statements (refer to (b)(i) below)
- ▶ Providing further guidance on, and examples of, how the group engagement team should determine which non-significant components should be selected for further work (when significant components do not cover the risks of material misstatements of the group financial statements) (refer to (b)(ii) below)

Issues related to audit procedures performed on the component's financial information

We support the IAASB's planned action to revisit the requirements for scoping a group audit in order to promote better alignment with the risks of material misstatement of the group financial statements (refer to (b)(i) below for our further views).

In regard to the other proposed actions in this section:

- ▶ We support clarifying the distinction between work performed for the purposes of the group audit and work performed to support a separate auditor's report (e.g. a statutory audit) at the component level and providing supporting application material on relevant considerations for component auditors. However, consistent with our view in QC1, we do not support a separate standard for component auditors.
- ▶ We support clarifying the implications to the work effort of components when work is performed centrally on certain processes, balances or transactions, either by the group engagement team, or by other auditors. We especially support clarification related to audit work performed at an entity's shared service center. We believe that work performed centrally provides evidence for the group audit as a whole and therefore the work applies to all components to which that process, control or balance is relevant (regardless of whether the procedures performed cover transactions from each relevant component).

Issues related to non-significant components, sub-consolidations and subsequent events procedures

Please refer to our responses to (b)(ii), (iii), and (iv) below, respectively.

(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?***

We favor an approach that retains the concepts of significant and non-significant components, as well as defined levels of work effort (e.g., audit of financial information, audit of account balances, specified procedures). We believe that it is necessary to have this categorization in order to:

- ▶ Facilitate a common understanding between group engagement teams and component auditors of the nature and extent of work that is expected, especially for group audits that involve component auditors from other firms or networks
- ▶ Allow for a practical risk-based approach to scoping the audit (i.e., as opposed to an approach that would allow complete customization of the scoping to the risks present in the group audit, which would require significantly more time and effort to perform as well as significantly increase the risk of inconsistent application across components and engagements)

That said, we believe that the current definitions of significant and non-significant components (as well as the descriptions and principles for use of the corresponding work efforts that may be appropriate for significant and non-significant components) should be improved to better reflect and respond to the risks of material misstatement of the group financial statements.

Significant v. non-significant components

We agree that the current definitions of, and distinctions between, significant and non-significant components do not include enough focus on, or consideration of, the risks of material misstatement related to a component. In particular, the determination of a significant component from a risk perspective in accordance with paragraph 27 of ISA 600 includes consideration of whether the component is likely to include "significant risks of material misstatement of the group financial statements", which could be interpreted to mean that consideration only needs to be given to significant risks.

We would suggest the definition of significant component be revised to include any component that is likely to individually include risks of material misstatement of the group financial statements. Non-significant components would therefore include those components that are not likely to individually include risks of material misstatement of the group financial statements.

Further, we find the application of the "likely" threshold (i.e., whether the component is "likely" to include risk(s) of material misstatement) to be challenging in practice; specific guidance on this threshold would be very useful. We believe this is not an exercise that strictly involves a comparison of the component balances to quantitative materiality thresholds in order to identify those balances that have a mathematical possibility of being materially misstated; rather, this evaluation should be focused on the risks of material misstatement of the group financial statements and how those risks manifest in the components.

As it relates to non-significant components, we agree with the proposed action in paragraph 272(v) of the ITC to clarify the expected work effort related to the analytical procedures that are for the purposes of determining whether these non-significant components, in the aggregate, include risks of material misstatement to the group financial statements. When a conclusion is reached that these non-significant components, or subgroups of these components, are likely to include, in the aggregate, risks of material misstatement, then the auditor needs to determine the appropriate level of further work effort (refer to our comments in (b)(ii)). Importantly, however, when a conclusion is reached that these components, in the aggregate, do not include risks of material misstatement (i.e., the risks of material misstatement have been addressed by the significant components), further guidance on how the auditor supports this conclusion, including that aggregation risk has been appropriately considered, would be beneficial.

Levels of work effort for components

We believe the current work effort options in paragraph 27 and 29 of ISA 600 are appropriate. We agree with the proposed actions in paragraph 272 to:

- ▶ Clarify that the manner in which "an audit of the financial information of the component using component materiality" is applied may vary depending on the specific circumstances and that this "audit" includes application of relevant ISAs. Further guidance on the determination of relevant ISAs would also be beneficial, including whether certain ISAs can be considered not relevant (e.g., ISA 260 or ISA 320).
- ▶ More clearly define and distinguish between the work effort levels that could be performed, including clarifying the difference between "specified audit procedures" for significant components and "specified procedures" for non-significant components,

and clarifying when a “review of the financial information” may be an appropriate work effort for a non-significant component.

As it relates to the auditor’s selection of an appropriate work effort for a particular component, we agree with the proposed actions in paragraph 272(a) to revisit the requirements and guidance to promote greater alignment between the risks of material misstatement related to the component and the appropriate level of work effort to address those risks of material misstatement. We believe it is important to clarify which work efforts are likely to be appropriate in certain circumstances but to also allow the auditor sufficient flexibility in the selection of an appropriate work effort, especially as it relates to determining the appropriate work effort for non-significant components, when necessary (refer to (b)(ii) below).

We also believe it is necessary to clarify, for each of the levels of work effort, the required form of conclusion that should be provided by the component auditor to the group engagement team in accordance with paragraph 41(j) of ISA 600. For example, if the component auditor performs an audit of the financial information of the component, we expect the component auditor to be required to express an opinion that reasonable assurance has been obtained that the financial information of the component auditor is not materially misstated. The level of work effort and the resulting conclusions should be taken into account by the group engagement team as part of their evaluation of the component auditor’s work (refer to our response to GA8 for further comments).

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?

When a conclusion is reached that the non-significant components, in the aggregate, are likely to include risks of material misstatement, the auditor needs to determine the appropriate level of further work effort to address these risks. We agree that determining which components to select, as well as determining the appropriate level of work effort (e.g., audit, review, specified procedures) are both quite challenging in practice and further guidance in ISA 600 is definitely needed.

We strongly believe that a risk-based approach is of fundamental importance to effectively dealing with determining the extent of work needed on non-significant components. We would recommend such an approach involve the auditor:

- ▶ *Analyzing how the remaining risks of material misstatement of the group financial statements (i.e., those risks that have not been effectively covered through the work on significant components) manifest themselves across the non-significant components. For example, the auditor should consider which risks are pervasive to all non-significant components and which risks are only relevant to those in particular business lines, geographic areas, processing centers, or other specific components of the group structure. For those that are in the latter category, the non-significant components can be separated into clusters for the purposes of determining further work effort.*
- ▶ *Taking into account, in the context of each “cluster” of non-significant components and the associated risks, further factors that are relevant to the extent of work that may be*

necessary. These factors are likely to include (among others) the relevance and effectiveness of group-wide controls, the extent to which accounting related to the risks is performed centrally, and whether the components are subject to statutory audits for which the timing and applicable financial reporting framework are sufficiently aligned to those of the group audit.

- ▶ *Judgmentally selecting non-significant components (in the context of each “cluster”) that require further work and determining the appropriate level of work effort for each non-significant component selected.* The objective of this selection should be focused on the auditor reducing to an acceptably low level the risk that a material misstatement in the aggregate will not be detected (i.e., sufficient consideration of aggregation risk, which is a concept that is lacking in guidance in ISA 600).

We would contrast this approach to one that is focused on obtaining sufficient “coverage” of the group financial statement balances. In both approaches, there is likely to be some extent of non-significant components that are not covered by specific work. Use of a risk-based approach, however, would reduce the risk that the non-significant components (or elements thereof) not covered may contain a material misstatement of the group financial statements. Further, in group audit structures that are entirely comprised of non-significant components, it is often not practical or possible to obtain what may be viewed as sufficient coverage of the financial statement balances. In these group audits, an approach that involves understanding whether certain “clusters” of non-significant components have higher risks of material misstatement to the group in combination with a focus on the nature and extent of group-wide controls is of high importance to the auditor’s ability to obtain sufficient appropriate audit evidence for the purposes of the group audit.

If the IAASB agrees with following an approach such as that outlined above, further guidance is needed for each of these three sets of considerations by the auditor, recognizing that such guidance needs to be sufficiently flexible to apply to a wide range of groups and specific circumstances.

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?

We believe that paragraphs 33-37 of ISA 600 that address the required further audit procedures to be performed on the consolidation process are already sufficiently detailed and inherently cover sub-consolidations; however, such requirements do not contemplate the involvement of component auditors in performing the required audit procedures, which is likely the source of differing expectations for the group engagement team’s involvement. We believe that clarifications are needed to accommodate component auditor involvement, including related to procedures over sub-consolidations.

Practically speaking, a group audit structure may include components that are included in sub-consolidations (and the sub-consolidation work may be performed by a component auditor), or it may include a component that is a sub-consolidation (i.e., one component auditor is assigned to do work for all components within a sub-consolidation, which inherently includes procedures over the sub-consolidation process). The current definition of component does not acknowledge this latter situation explicitly, and we believe the IAASB should give consideration

to specifically accommodating components at the sub-consolidation level in its definition of component (refer to our response to GA1(d)).

To further facilitate the group engagement team appropriately addressing sub-consolidations, it may be useful to provide clarifications in the application material to:

- ▶ Explain that sub-consolidations may represent a risk of material misstatement and that the group engagement team should include in its understanding of the financial reporting process at which level consolidations are performed
- ▶ Acknowledge that when sub-consolidations are addressed by component auditors, the instructions to those auditors specifically include the performance of the required procedures on the sub-consolidation process

Also, we support the proposed actions in paragraph 288 of the ITC to:

- ▶ Remove the reference to the cost method of accounting in the description of the consolidation process, as we agree that investments of this nature should not be considered components for the purposes of ISA 600
- ▶ Clarify that financial statements that only include investments accounted for at fair value or using the cost method of accounting are not considered group financial statements for the purposes of ISA 600

iv. Should the requirements or application material relating to subsequent events procedures be strengthened or clarified? Are there further issues or practical challenges that have not been considered?

We do not oppose clarifications to the requirements or application material relating to subsequent events procedures. In our experience, this has not been a prevalent issue in practice.

GA8. (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 to address 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 possible actions that you believe we need to consider further.***

Evaluating the communications from the component auditors and the adequacy of their work

The evaluation of the communications from the component auditors begins with clear requirements for the required communications to be requested from the component auditors (paragraph 41 of ISA 600). As we expressed in our response to GA3, we support the IAASB exploring whether to supplement the lists of required communications with principles for auditors to follow in determining appropriate timing, nature and extent of communication between the group engagement team and component auditors (and vice versa).

Consistent with our view of applying an integrated risk-based approach to ISA 600, we believe any enhancements to requirements related to reviewing component auditor's working papers should include setting forth principles or objectives for a risk-based approach to these reviews. These principles should also reflect consideration of the information obtained from the component auditor through the communications and involvement in their work that the group engagement team has had to date (i.e., the group engagement team's consideration of the extent of review necessary should not be independent of its decisions around the level of communication and involvement with the component auditors – all should be driven by the risks of material misstatement of the group financial statement that the particular component presents or includes).

We also support these principles taking into account the fact that the work of the component auditor may have been reviewed by the engagement partner of the component auditor. We would further stress the need for the group engagement team to understand whether, and to what extent, ISA 220 has been complied with at the component level. And, the evidence of such compliance should be inherent (or otherwise explicit) in the form of opinion or conclusion that is provided to the group engagement team by the component auditors. For example, if the component auditor performs an audit of the financial information of the component, we expect that the basis for the component auditor's expression of an opinion that reasonable assurance has been obtained that the financial information of the component auditor is not materially misstated includes compliance with the relevant ISAs, including ISA 220.

In summary, the group engagement team should determine the appropriate approach to their reviews by taking into account:

- ▶ The group engagement team's understanding of the competence and capabilities of the component auditor
- ▶ The form of conclusion received from the component auditor, including whether ISA 220 was applied
- ▶ The risks related to the audit areas and work performed by the component auditor and related dialogue to date about these risks between the group engagement team and the component auditor
- ▶ The amount of involvement of the group engagement team in the component auditor's work

The application of this approach should be such that the group engagement team may continue to come to the conclusion that the review of underlying component auditor working papers is not necessary when the risks of material misstatement of the group financial statements have been addressed through a combination of the above factors.

We agree with the development of supporting application material to:

- ▶ Provide examples of circumstances when reviews of component auditor's documentation by the group engagement team would be appropriate
- ▶ Clarify the nature and extent of procedures that the group engagement team performs as part of the review to understand the extent and quality of the procedures performed by the component auditors

Group engagement team documentation of the evaluation of the component auditor's work

We agree that ISA 600 needs to facilitate a common understanding as to how group engagement teams document their evaluation of component auditors' work. As a matter of principle, we believe that a balance must be obtained in the documentation requirements such that the group engagement team's significant judgments in performing their evaluations are appropriately captured without imposing the need for supporting details that may be impractical or unreasonably onerous to document, especially for the largest group audits that have many components. We believe that the following actions may assist:

- ▶ Considering the nature and extent of documentation necessary by the group engagement team to support its evaluation in the circumstances when the work of the component auditor has been reviewed by the engagement partner of that component auditor (taking into consideration our related comments above)
- ▶ Clarifying the existing requirement in, or providing further application material to, paragraph 50(b) of ISA 600 (which requires the group engagement team to document their review of relevant parts of the component auditor's audit documentation) to address the nature and extent of this documentation, especially when these underlying working papers are not transferable to, or included in, the audit file of the group engagement team
- ▶ Emphasizing the need for the group engagement team to appropriately document their significant judgments related to the findings of the component auditors (e.g., in the circumstances when the group engagement team considers whether a significant finding from one component may indicate risk that the same finding or issue is present in other components)
- ▶ Adding linkages to appropriate requirements in ISA 230

GA9. How should the matters set out in paragraphs 304-305 be addressed in our plans to revise ISA 600? Are there any other implications from our new or revised standards that should be considered?

Disclosures

We agree with the consideration of whether any further changes or clarifications are necessary to ISA 600 in relation to auditing disclosures. In particular, we believe the planned linkages from ISA 600 to ISA 315 may provide opportunities for further clarification.

Key audit matters in a group audit engagement

We do believe that there may be an opportunity for application material around how the determination of key audit matters at the group level may require information from the component level and vice versa,

because such communications may better inform the communication of key audit matters at either the group or the component level. In particular, we believe it is useful for:

- ▶ Group engagement teams to communicate to component auditors the key audit matters that were communicated in the prior period, or that are likely to be communicated in the current period, especially if any key audit matters relate to specific components or need to include descriptions of procedures performed by component auditors
- ▶ Group engagement teams to request information from component auditors about whether key audit matters will be communicated in standalone auditor's reports (e.g., statutory reports) and, if so, the key audit matters that will be or are expected to be communicated

Other information included in an annual report of a group

ISA 720 (Revised) acknowledges that group engagement teams may make inquiries or request assistance from component auditors as part of reading and considering the annual report. It may be helpful for the IAASB to consider including a linkage from ISA 600 to this guidance in ISA 720 (Revised). In addition, consideration could be given as to whether additional guidance may be useful regarding inclusion in the group audit instructions any specific requests for assistance with reading and considering the annual report (or whether to raise awareness of the component auditors that the group engagement team may determine at a later point that such requests may be necessary).

Conforming amendments to the ISAs for NOCLAR provisions of IESBA Code

Refer to our support in our response to GA3 for the IAASB's planned consideration of whether paragraph 48 of ISA 600 should be revised to specifically deal with communications related to non-compliance with laws and regulations (NOCLAR) between the group engagement team and component auditors in light of the revisions to the IESBA Code (when finalized).

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?

Refer to our response to GA1(d) for our views on what else the IAASB could do to address the issues set out in this consultation as well as specific issues that we believe are of high importance to be addressed.

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

At this point, we do not believe any actions that others could take in relation to group audits are as important or necessary as the IAASB's revision of ISA 600. We see this revision as important to level-setting the individual expectations that all stakeholders have for group audits and how they should be executed, especially as it relates to the use of the work of component auditors in forming an opinion on the group financial statements.

That said, we do have one specific suggestion as it relates to the proposal for group engagement teams to take into consideration the results of quality control monitoring activities that are relevant to their component auditors. For external inspection activities, it may be useful for the regulators or others that conduct these activities to provide public information about the results of their inspections through, for example, use of audit quality indicators or another synthesized format that is designed to assist group

engagement teams (or other audit teams that use other auditors) in understanding the competence and capabilities of those other auditors.

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.

No comment.

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.

No comment.