



**ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST: A FOCUS ON
PROFESSIONAL SKEPTICISM, QUALITY CONTROL AND GROUP AUDITS**

TEMPLATE FOR RESPONSES

The following template is intended to facilitate responses to the IAASB's Invitation to Comment (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. The questions set out below are replicated from the questions in the ITC on pages 87–95. Question numbers are coded to the consultation topics as follows:

- **G = General Question**
- **PS = Professional Skepticism**
- **QC = Quality Control**
- **GA = Group Audits**

RESPONDENT'S INFORMATION

<p>Name: <i>(Please also fill in name in header for ease of reference)</i></p>	<p>KICPA</p>
<p>Description of the capacity in which you are responding (e.g., IFAC member body, audit oversight body, firm, SMP, individual, etc.)</p>	<p>IFAC member body</p>
<p>Name of contact person at organization (if applicable):</p>	<p>Anna Yoon, Head, International Affairs Team</p>
<p>E-mail address:</p>	<p>global@kicpa.or.kr</p>

GENERAL QUESTIONS

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

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

G1(a)	<p>We believe the public interest issues, as suggested in the Table 1, show a mostly high relevance with professional skepticism, quality control, and group audits. In particular, the two issues of “Enhancing documentation of the auditor's judgments” and “Focusing more on firms and their internal and external monitoring and remediation” have strong relevance with this project and are in line with serving the public interest as well.</p> <p>The evaluation of quality audit, which means that whether professional skepticism is appropriately exercised or not, is based on working papers. This led us to be supportive of the necessity of enhancing documentation, as suggested in the project. As it is necessary to identify and remedy firms' weaknesses, detected internally and externally, for the effective management of audit quality, we believe the project needs to come up with measures (monitoring and remediation) at the firm level.</p> <p>When addressing the issue of enhancing documentation, risk-based approach gives rise to strict documentation across ISAs, resulting in excessive staff workloads in practice. Given this, we recommend IAASB sufficiently consider possible negative impacts, arising from strong documentation, which is necessary to better evidence professional skepticism, resulting in decreasing time and concentration auditors could invest otherwise.</p> <p>Aside from this, addressing changing audit environment-related issues, such as the use of ADMs, innovation in audit data analytics, and increasing the use of the work of auditor's expert under the topics of audit quality and group audits, respectively, is meaningful, but the issues require consistent approach, after reviewing their impacts on ISAs in general. Thus, we think addressing the issues under the same topic of “Keeping ISAs fit for changing auditing environment and purpose” would be more desirable.</p> <p>The issues of “transparency reporting” and “quality control requirements at a network firm level” are directly related with the quality control topic, but they should be dealt with law and regulation at the respective jurisdictional level, instead of international standards of ISAs or ISQC1. For one, accounting firms in Korea submit annual reports, as pursuant to the Act on External Audit of Stock Companies, as equivalent to transparency reports of EU. .</p>
G1(b)	<p>We have no additional public interest issues to suggest, excluding ones in the Table 1.</p> <p>We would like to comment that the appropriate application of the Financial Reporting Supply Chain concept is necessary, when identifying public interest issues and reviewing necessary actions for the ultimate goal of improving the effectiveness and efficiency of international</p>

Template for Responses

Name of Respondent: KICPA

	<p>standards, and safeguarding the public interest.</p> <p>Some of the issues, stated in the Table 1, show a strong relevance with regulatory requirements and environments of the respective jurisdictions. Considering their impacts on audit quality and practice, it would be desirable for IAASB to study and review the issues. However, establishing new standards or revising existing ones at the IAASB level would not be effective to addressing the issues. The issues would be better addressed from coordination with international regulatory bodies, such as IFIAR or IOSCO, coupled with strong initiatives of regulators of the respective jurisdictions. For one, some of the public interest issues in the Table 1 require consistent approach at the international level from the perspective of auditors, but achieving a certain level of consistency in jurisdictional audit-related law and regulation should come first, as we believe. This is not what an international auditing standards-setter can do, but regulators at the respective jurisdictional level can do.</p>
G1(c)	Please refer to our responses to the above (a) and (b).

G2. To assist with the development of future work plans, are there other actions (not specific to the topics of professional skepticism, quality control, and group audits) that you believe should be taken into account? If yes, what are they and how should they be prioritized?

G2	<p>We recognize IFAC SMP Committee's efforts to support SMPs and its contribution that has been made thus far. We suggest IAASB make more considerations as to what to prioritize or how to address issues, when developing standards, which would contribute to SMPs being able to apply ISAs and ISQC in an effective manner up to their scale and size.</p> <p>We support, in principle, the revision of ISAs on the basis that the revision of ISAs and ISQC contributes to improving audit quality in an effective manner. However, we would like to raise a concern that if the project being discussed in this consultation leads to the establishment and revision of standards, it would eventually end up with more voluminous and complex ISAs and ISQC. We suggest IAASB make sufficient review as to whether the main problem lies to difficulties in the appropriate application of existing requirements in practice, not insufficient standards. Thus, if the problem occurs due to insufficient application of the existing requirements in practice, it would be more desirable to focus on providing more reference materials for sharing and discussing to ensure that appropriate practical practice are in place in market, instead of increasing existing requirements and application material. If the establishment and revision of standards are still considered necessary, it would be more desirable for IAASB to make more efforts on clarifying requirements of standards, in order to avoid mismatch in practice and ease expectation gap on the roles and responsibilities of auditors.</p> <p>The responsibility and professional judgment of the engagement partner, who directs and makes decisions during the process of audit, are the most important to improving audit quality. Making too much sophisticated and detailed requirements in ISAs, however, could limit the professional judgment of the engagement partner. This limitation could invite a negative consequence of a form of audit lacking professional judgment, for one, checklist audit.</p> <p>In addition, as answered in G1(a), our proactive responses to changing auditing environments, arising from IT advancement, varied and complex business scenarios, and globalization, hold significance, in relation with international standard-setting, development of auditing practice, changing regulatory practice, and increasing stakeholders' awareness on audits. We</p>
----	---

Name of Respondent: KICPA

	recommend IAASB give a priority to the above in this regard.
--	--

G3. Are you aware of any published, planned or ongoing academic research studies that may be relevant to the three topics discussed in this consultation? If so, please provide us with relevant details.

G3	Please refer to the annex.
----	----------------------------

PROFESSIONAL SKEPTICISM

PS1. Is your interpretation of the concept of professional skepticism consistent with how it is defined and referred to in the ISAs? If not, how could the concept be better described?

PS1	<p>ISAs define professional skepticism as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, due to error or fraud, and a critical assessment of audit evidence (ISA 200.13). The definition is believed to be in line with the general interpretation of the concept of professional skepticism. We think the current ISA provides relatively sufficient guideline on the application of professional skepticism.</p> <p>When it comes to the interpretation of the concept of professional skepticism, the definition and description of ISAs are not much different, respectively. However, the general public and regulators seem to expect the maximum level of professional skepticism of auditors as much as possible, despite that ISAs provide sufficiently relevant guideline as to the skepticism. Professional skepticism is not only influenced by independence and objectivity of auditors, but also by appropriate amount of training and experiences, all of which can make a difference on the effectiveness of the works of the individual auditors. In case accounting fraud are found later on, resulting in claiming the responsibility of auditors who fail to detect the fraud, it seems to conclude that auditors are surely expected to apply their professional skepticism at the maximum level.</p> <p>As mentioned in the consultation, stakeholders, who commented on the IAASB Strategy for 2015-2019 and current work plan, acknowledged the complexities of professional skepticism project and difficulties in IAASB's implementation of the project. They also responded that they do not support a discrete standard-setting project, leading to changes to ISAs, as for the professional skepticism-related topic. Rather, they think that it would first be necessary for IAASB to further explore professional skepticism-related behavioral, training, and other issues, as suggested.</p>
-----	--

Name of Respondent: KICPA

PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?

PS2	<p>The drivers for and impediments to the appropriate application of professional skepticism are mostly consistent with drivers for and impediments to the compliance with the IESBA Code, including integrity, objectivity (independence of mind), professional competence and due care.</p> <p>As mentioned in the consultation, professional skepticism, as an attitude and mindset of an auditor, shows strong relevance with the concepts of the IESBA Code, including an auditor's integrity, objectivity (independence), professional competence and due care. Professional competence and due care, addressed in the IESBA Code, are also touched on in IESs as technical competence for professional accountants, professional skills, professional development, including with respect to values, ethics, and attitudes. Thus, the drivers for and impediments to the appropriate application of professional skepticism can be seen equal to the drivers for and threats posed internally and externally to the compliance of IESBA Code. Specifically, an auditor, who had professional skepticism in a certain circumstance, could not apply sufficient level of professional skepticism, due to tight financial reporting deadlines, excessive workloads, concerns over possibility of losing audit clients (independence issue), and lack of professional experience and knowledge (professional competence and due care issue).</p> <p>The ultimate goal of achieving independence is maintaining independence of mind, but independence of mind cannot be evaluated and controlled. Thus, specific requirements have been developed to set up rules on achieving independence in appearance. A series of massive-scale accounting scandals has given rise to voluminous specific requirements in complexity to achieve independence in appearance. Accordingly, it is more general to touch upon auditor independence requirements in separate standards (IESBA Code or independence standards) or law and regulation.</p> <p>From the perspective of auditor's mindset, professional skepticism is similar to independence of mind. However, addressing professional skepticism in the same manner independence in appearance requirements are enhanced would not be desirable to deal with independence of mind. It would not be viable, in practice, to define "professional skepticism in appearance," just as independence in appearance requirements are developed to define independence of mind in an indirect manner, not to mention its ineffectiveness in enhancing professional skepticism. In addition, the topics of independence and professional skepticism are almost equal to those of drivers for and impediments to the appropriate application. Plus, numerous requirements and guidelines are already being in place in relation with auditor's independence, thereby making it difficult to provide separate detailed descriptions or new requirements on professional skepticism in the IESBA Code or IESs.</p> <p>Given this, it would be useful for IAASB to provide guidelines on how to resolve the expectation gap between auditors and stakeholders, and education materials related with strengthening professional skepticism, instead of enhancing and revising existing standards. For one, providing separate reference materials (not included in ISAs), such as guidelines on specific circumstances where professional skepticism needs to be applied or regulators' findings that professional skepticism is effectively applied or failed to be applied, could be one option to consider. With the IT advancement that results in active development of audit data analytics, thereby ending up with possibilities of improving the application level of professional skepticism, we believe more efforts need to be made into sharing and expanding the developments along</p>
-----	--

Name of Respondent: KICPA

	<p>with how to utilize them.</p> <p>Improvements also need to be made on some of the standards (including documentation) to be helpful to identifying whether professional skepticism is well-exercised or not.</p> <p>We believe the paragraph 37 mostly covers research areas necessary to improve the application of professional skepticism.</p> <p>With the strong needs for addressing ethics, education and circumstances that could undermine the competence or application of professional skepticism, it would be ever more important to study those who can impact the application of professional skepticism. From the perspective of auditors and accounting firms, the study on accounting firms' specific activities in relation with auditors' education and their competence development, and application of professional skepticism is gaining importance, as we believe. In practice, consideration of IT advancement and development of professional judgment accordingly would be significant as well.</p>
--	---

PS3. Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

PS3	<p>The list of areas being explored in the paragraph 38-40 relatively covers the most of areas IAASB or the Joint Working Group should consider. Additional attention needs to be made into areas that could trigger benefits from underscoring professional skepticism further, such as the use of audit data analytics.</p>
-----	---

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

PS4	<p>We are supportive of the direction of and background behind IAASB's intention to underscore the responsibility of accounting firms' leadership and their required commitment to public interest, in relation with quality control, and believe that such direction and efforts could contribute to promoting improved application of professional skepticism.</p> <p>As for reflecting relevant descriptions on ISQC 1 as a form of mandatory requirements, however, we suggest IAASB consider impacts the requirements could have in practice, triggered by different rules and regulations, and practices, in relation with accounting firms' governance, and responsibility issues arising from different quality control system of accounting firms, resulting from the respective law and regulation of jurisdictions, and their effectiveness accordingly.</p> <p>We support IAASB's plan to revise 600 to improve and clarify the responsibility of the group engagement team relating with the use of the work of the component auditor. We also recognize the significance of application of professional skepticism of the group engagement team, regarding the use of the component auditor's work. Emphasis on the application of professional skepticism in ISAs could rather increase the expectation gap, depending on the degree of emphasis, details, and scope. Given this, we suggest IAASB review additional measures to ease the expectation gap, such as illustrating circumstances exceeding the appropriate level of applying professional skepticism.</p>
-----	---

Template for Responses

Name of Respondent: KICPA

Name of Respondent: KICPA

PS5. What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

PS5	<p>As mentioned in this consultation, several factors, including tight financial reporting deadlines and heavy staff workloads, serve as an impediment to applying professional skepticism. There are also other factors as well, such as the lack of interests of those charged with governance on auditors' professional judgments and judgmental criteria on the sufficiency of professional skepticism, practices of limiting the application of professional skepticism (checklist audit) due to risks of lawsuits, and maintaining audit contracts and partners' performance compensation system accordingly.</p> <p>To ease the impediments, we believe different measures would be required at the respective stakeholders as follow:</p> <ul style="list-style-type: none">(a) those charged with governance challenging auditors' professional judgments (those charged with governance);(b) guidance and education materials, including success and failure stories of applying professional skepticism (standard-setters of the respective jurisdictions, PAOs);(c) cultivation of competent auditors and development of IT-based audit data analysis (accounting firms and PAOs); and(d) partner performance compensation system in relation with audit quality (standard-setters of the respective jurisdictions, and accounting firms)
-----	--

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

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

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

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

QC1(a)	<p>We strongly support the revision of ISQC1 to underscore the role and responsibility of the leadership, as the leadership philosophy lies at the core of creating a firm culture focusing on quality. This leads us to strongly support the purpose of and background behind the incorporation of a QMA into ISQC 1 to enhance the responsibility of accounting firms' leadership for the firm-wide, integrative management of quality risks, up to the size of accounting firms and changes in their management environments.</p> <p>However, it is difficult for us to be sure whether the revision of ISQC1 that is designed to reflect a QMA is the best solution to improve audit quality via strengthening leadership's responsibility on audit quality.</p> <p>First, we are not sure whether a QMA that has been developed as part of corporate management methods would be appropriate to the management of accounting firms, since it is difficult to have a profound understanding of the details of a QMA just with what ITC describes. There are no sufficient explanations as to what kinds of positive impacts the OECD Governance Principles or COSO's ERM Framework approaches, both of which are designed to target big-sized companies in the wake of financial crisis, make on SMP's quality control in practice.</p> <p>Second, It is said that the incorporation of a QMA is needed for quality control up to the size of each accounting firm and flexible quality management of their works beyond audits. However, there are no sufficient explanations as to whether incorporation of a QMA into ISQC 1 would be prerequisite to addressing all the relevant issues. From the perspective of accounting firms' audit engagements, quality control could be seen as quality control approach that has been specialized in audits and has developed up to the nature of audits, engagement methods, and professional auditors' characteristics, competence and responsibility. There are no sufficient explanations as to what kinds of merits would come from replacting quality control approach sepcialized in firms with quality contro approach that is applicable to general corporate management.</p>
--------	--

Name of Respondent: KICPA

	<p>Thus, the followings need to be considered before deciding the incorporation of a QMA.</p> <p>First, as for corporate management, a QM not only aims at increasing the responsibility of corporate leadership on risk management in relation with its quality, but also is based on strong leadership and responsibility of companies. On the contrary, the purpose, composition and operation of accounting firms differ from those of companies, not to mention their variance on an each jurisdictional basis. As for accounting firms that tend to show the nature of collection of professionals, their leadership is not as much strong as that of companies. This makes the prerequisite conditions to the incorporation of a QMA unclear in addition to difficult to meet the conditions due to different jurisdictional law and regulation and practical environment.</p> <p>Second, we wonder whether a QMA would apply not only to assurance and audit-related services, but also to consulting and taxation services. It would be reasonable for a QM to be applied to all of the services provided by accounting firms, as it is designed to cover quality control management at the accounting firms' level. However, consulting and taxation services are not what IAASB is responsible for. If quality control on both of the services is not included for consideration, it could be understood not to be in line with the purpose of a QMA.</p> <p>Third, meanwhile, relationships with network firms are the most important factor in the management of accounting firms nowadays. As mentioned in the consultation, differences in network structure, common policies and procedures, governance of accounting firms, and law and regulation of the respective jurisdictions would not make it very much difficult in practice for IAASB to address quality control at the network firm level.</p>
QC1(b)	Please refer to our answers in QC1 (a).
QC1(c)	As the quality control of individual engagements is conducted based on the quality control system of firms, it is expected that the revision of ISA 200 needs to be made, including actions the engagement partner should take when identifying risks and the use of monitoring results, to maintain consistency in case of the revision of ISQC1.
QC1(d)	<p>We believe what could be improved from incorporating a QMA in ISQC1 could be appropriately reflected in the context of current standards. For one, in case of scalability mentioned in the table 2 of IAASB ITC, it could clarify the purpose of the relevant procedures, in stead of ISQC's standardized requirements, and illustrate appropriate procedures according to individual circumstances or develop additional guidelines.</p> <p>In addition, we think IAASB could consider the improvement of ISQC1 or development of additional guidance with clarifying the purpose of relevant procedures and illustrating appropriate procedures according to different scenarios, instead of current uniform requirements of ISQC1, which would help firms select and apply appropriate procedures.</p>

QC2. *Engagement Partner Roles and Responsibilities*

- (a) Paragraphs 69–86 set out matters relating to the roles and responsibilities of the engagement partner.
 - (i) Which of the actions outlined in paragraphs 85–86 would be most meaningful to address issues related to engagement partner responsibilities?
 - (ii) Why do you believe these actions are necessary?

Template for Responses

Name of Respondent: KICPA

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

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

(b) Do you think it is necessary for the ISAs to include requirements or otherwise address the circumstances described in paragraph 79 in which an individual other than the engagement partner is required to or otherwise customarily sign(s) the auditor's report or is named therein? If yes, please explain why, and provide your views about how this could be done (including describing the work effort you believe would be necessary for such an individual).

QC2(a)(i)	We believe ISA 220 providing clarified descriptions on the role of the engagement partner and requiring his/her strong engagement in audits is one of the most meaningful parts.
QC2(a)(ii)	We are witnessing a growing call for clarifying the role and responsibility of the engagement partner in audit environments increasing in their complexity, since he/she is the one to play the most important role and be most responsible for audit quality,
QC2(a)(iii)	Requiring an individual other than the engagement partner to sign or be named in the auditor's report invites mixed opinions. Given this, it would be appropriate to consider both positive impacts of meeting up to the expectation of information users and burdens in practice.
QC2(a)(iv)	As answered in the above (iii) of QC2 (a), we expect that the clarified descriptions on the role and responsibility of the engagement partner and requiring his/her stronger engagement would eventually end up with improvement in audit quality.
QC2(b)	<p>As there are mixed opinions on the above issue, it would be important for IAASB to make a preliminary review on the requirements and expectations jurisdictions have on individuals, who sign or are named in the auditor's report, and their related cases in practice, and then to sufficiently consider as to whether it is possible and necessary to deal with various circumstances in a comprehensive and consistent manner.</p> <p>(For the above requirement) Information users are likely to consider that those who sign or are named in the auditor's report should be responsible for the relevant engagements. ISAs requiring those, who are named in the auditor's report, to have responsibility as equivalent to those of the EQC reviewers would bring about positive impacts of strengthening quality control. In addition, specifying the responsibility and procedures required to those, who sign or are named in the auditor's report, could contribute to clarifying the legal responsibility of the relevant individuals.</p> <p>(Against the above requirement) As for individuals other than engagement partners to be named or sign in the auditor's report, placing certain requirements on the relevant individuals, as outlined in the consultation, is not the issue to be addressed in the context of ISAs. We agree with the idea of the requirements only resulting in making vague the fundamental role and responsibility of the engagement partner, and thereby having a negative impact on audit quality. Thus, the issue would be appropriate to be dealt at the respective jurisdiction's law and regulation, as it is related with the legal responsibility of auditors and actions against them as stipulated by the jurisdiction.</p>

QC3. Others Involved in the Audit

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

QC3(a)(i)	<p>We believe all of the actions outlined would make very much significant impacts in practice.</p> <p>As the complexity of companies and changes in auditing environments give rise to increasing involvement of other auditors and auditor's experts, we think the review as to the necessity of developing requirements and guidance in relation with the involvement of other auditors, and additional consideration of issues relating to the involvement of auditor's experts and concerns over the issues, would be helpful to improving auditing practice and the effectiveness of ISAs.</p> <p>We also believe IAASB's plan to review as to whether the use of other auditor's audit reports should be allowed and making the use should be described in the audit reports, in a circumstance where group auditor's access to the component or component auditor is not possible, would be very much significant, taking into account their possible impacts in auditing practice.</p> <p>In addition, reviewing whether the responsibility belonging to the auditor specifically goes to the engagement partner or engagement team members is also believed to be meaningful from the perspective of improving audit quality and practical effectiveness.</p>
QC3(a)(ii)	<p>Please refer to our answers in (i) of QC (3).</p>
QC3(a)(iii)	<p>Making other auditors' involvement described in the auditor's report would not be appropriate to be reflected in IAASB's standards, since audit-related law and regulation, practices and auditor's responsibility vary from jurisdictions.</p> <p>Under the existing standards, other auditor's works can be used just as audit evidence for the auditor with other auditor's audit report itself not allowed to be used. Under the circumstance, requiring all of the audit work of other auditors, which are used as audit evidence for the auditor, to be described could raise an issue over whether other evidence the auditor received should be described in the auditor's report as well. We think the involvement of other auditors is not necessarily described in the auditor's report, since audit procedures on key audit matters are already required to be described.</p> <p>Especially in a country where the supervision on and legal responsibility of auditors are strict and lawsuit against auditors are frequent, requiring relevant involvement to be</p>

Template for Responses

Name of Respondent: KICPA

	described in the auditor's report, when the responsibility of others, including other auditors, and auditor's experts, is not well-clarified, could increase risks in relation with supervision and lawsuit. Besides, this could increase workloads of the auditor, arising from unnecessary documentation, not relevant to audit procedures and professional judgment, thereby adding burdens of the auditor and having a negative impact on audit quality as well.
QC3(a)(iv)	Please refer to answers in (i) and (iii) of the above QC3 (a).
QC3(b)	Please refer to answers in (i) of the above QC3 (a).

QC4. *The Firms' Role in Supporting Quality*

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

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

(b) Specifically:

- (i) What could we do to address the issues identified in the context of networks of firms? For example, should we develop more detailed requirements and application material to address reliance on network-level policies and procedures at a firm or engagement level?
- (ii) Do you think it would be feasible for us to develop requirements and guidance for networks? Please provide a basis for your views.
- (iii) Paragraphs 117–123 set out matters relating to the use of ADMs and related issues.
 - a. How should our standards emphasize the importance of appropriate quality control processes in relation to use of ADMs?
 - b. Are you aware of ADMs that raise issues not discussed in paragraphs? If so, please provide details.

QC4(a)(i)	<p>The clarification of ISQC 1 and ISA 220 as to what should be considered and documented on common policies and procedures at the network level (audit methodologies and audit technologies), as a ground for the existence of accounting firms, is meaningful. Addressing the issue as to reliance on common quality control and monitoring system, when using the work of the component auditor from the same network is believed to be the most meaningful.</p> <p>As for the changing business models and structures, how to define centralized locations or resources from the perspective of the engagement team based on ISAs, and how to adjust policies and procedures related to direction, supervision and review to take account of differences in matters, such as language, culture, background, or levels of experience of</p>
-----------	--

Template for Responses

Name of Respondent: KICPA

	<p>individuals in the ADM, are believed to be significant. In addition, the consideration of auditors would be important in practice as below:</p> <p>(a) impacts of using ADM, and necessity of appropriate quality control policy and procedure to provide safeguards against the use of inappropriate ADM and ineffective supervision on auditor's works in ADM;</p> <p>(b) providing appropriate safeguards to define material misstatements of accounts and balances in relation with the appropriateness and experiences of engagement team members, in case of conducting audits in and with the centralized locations or resources, and to evaluate judgmental grounds required to conduct audit procedures in complexity;</p> <p>(c) whether audits can be conducted in far-off areas from the engagement team and companies subject to audits, whether the direction and supervision of audit procedures are possible in a remote manner, and whether face-to-face interaction with the management is appropriately required;</p> <p>(d) the nature and scope of documentation required to those who perform at a centralized location or by centralized resources and those who conduct the direction, supervision and review of the performance; and</p> <p>(e) whether performing audit procedures remotely would result in a breach of client confidentiality, or any legal or cross-border restrictions.</p>
QC4(a)(ii)	<p>We are seeing numerous cases in practice where the work of the component auditor, who shares the common quality control policies and procedures, are used in group audits. With this trend, it would be necessary to study the extent of reliance accounting firms or the engagement partner can make on network quality policies and procedures. This study result is believed to increase insights on the quality control issue, related to the use of general work of the component auditor.</p> <p>The quality control issue on the use of ADM is newly raised and expected to be evolved. In relation with the changing business model of accounting firms, the similar nature of quality control issues will be raised, thereby creating a necessity of setting up principles to address the issues. For the set-up, it would be necessary to review all the various issues in relation with the use of ADM. As stated in the consultation, it would be appropriate to review the issues in a form of reference and discussion materials, not of requirements of standards or changing application material, in a bid to maintain flexibility of standards in response to changing environments.</p>
QC4(a)(iii)	<p>We have no comments.</p>
QC4(a)(iv)	<p>Please refer to answers in (ii) of QC(4) (a).</p>
QC4(b)(i)	<p>It would be necessary for IAASB to study and review about to which extent firms rely on policy and procedures at the network level.</p> <p>However, it would be very much challenging for IAASB to develop ISQC 1 requirements and application material to deal with the issues, in a circumstance where the network and firm structure vary, contracts in relation with common quality control policies and procedures differ, and the operation of network and firm is highly affected by law and regulation of the respective jurisdictions. Thus, it would be necessary for IAASB to consider sufficiently developing and providing non-authoritative guidance as well as</p>

	ISQC1 requirements and application material.
QC4(b)(ii)	We believe developing ISQC1 requirements and guidance on the network itself in relation with communication and response to inspection findings is expected to be challenging, in that there are few countries putting law and regulation on the networks, and the structure and operation of networks and accounting firms are highly affected by the respective jurisdiction's law and regulation.
QC4(b)(iii)a	We suggest IAASB underscore the principle of the engagement partner's responsibility as to the direction, supervision and review of the works, regardless of who conducts the work and where the work is conducted, in addition to providing detailed illustrative examples as to how the engagement partner can fulfill his/her responsibility in various circumstances. As mentioned in the consultation, it would be desirable to provide non-authoritative guidance, including reference and discussion materials, not in the form of changing existing requirements and application material, in order to maintain the flexibility of standards in response to the changing environments.
QC4(b)(iii)b	We have no comments.

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

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

- (a) Paragraphs 125–135 set out matters relating to governance of firms, including leadership responsibilities for quality.
- (i) Which of the possible actions outlined in paragraphs 131–135 would be most meaningful in addressing issues related to firm governance and leadership responsibility for quality?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Do you believe it is necessary for us to explore how the governance of a firm could be addressed in ISQC 1?
 - (ii) Should ISQC 1 specifically address accountability of firm leadership, or appropriate personnel within firm leadership, for matters related to quality, including independence- related matters? If so, how should this be done, and what direction should ISQC 1 provide to firms in appointing appropriate individuals to assume these responsibilities?
 - (iii) Would the use by firms of a QMA provide better support or context for the importance of quality-related responsibilities for firm leadership, and related accountability, and therefore better facilitate the ability of firms to address these matters?

QC5(a)(i)	Clarifying the current requirements and application material of ISQC1 to clearly address leadership responsibilities and highlighting the importance of a firm's leadership in all of the
-----------	---

Name of Respondent: KICPA

	stages of quality control are considered the most meaningful. In addition, it would be useful to provide exemplary cases of firm's leadership to be exercised in all of the stages of quality control to improve the clarity of leadership's responsibilities, thereby making it possible to ensure that leadership's responsibilities are well-established in practice.
QC5(a)(ii)	Please refer to answers in (i) of QC5 (a).
QC5(a)(iii)	We have no comments.
QC5(a)(iv)	Please refer to answers in (i) of QC5 (a).
QC5(b)(i)	We find meaningful IOSCO, IFIAR or IAASB's exploring firm's governance for the purpose of conducting studies and developing non-authoritative guidance. As stated in the consultation, however, ISQC 1's addressing the governance would not be effective, since the structure and governance of firms are mostly influenced by the respective jurisdiction's law and regulation.
QC5(b)(ii)	We believe ensuring appropriate personnel in relation with quality control within firm's leadership (including identification of appropriate personnel to be responsible and accountable for independence matters) and clarifying the responsibilities would strengthen the responsibility of those in charge of quality control within the firm, thereby contributing to building a leadership atmosphere valuing the overall organizational quality control.
QC5(b)(iii)	Please refer to the above answers, in general, regarding the incorporation of a QMA in QC1.

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

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

reasoning for your response.

QC6(a)(i)	We believe that adding ISA 220 application material as to the use of subject-matter experts or other qualified individuals and specifying the nature and extent of matters to be considered by the EQC reviewer would be the most meaningful.
QC6(a)(ii)	<p>Adding the ISAA 220 application material as to the use of subject-matter experts or other qualified individuals is designed for standards to keep up with developments and changes in the auditing practice, not for strengthening requirements, thereby creating positive impacts in the practice.</p> <p>Specifying the nature and extent of matters to be considered by the EQC reviewer would improve the effectiveness and efficiency of EQC reviews and further develop EQC reviews.</p>
QC6(a)(iii)	<p>We do not support the requirements to communicate whether relevant engagements are subject to EQC review in the auditor's report. As mentioned in the consultation, this could inadvertently form a negative view about the quality control of an audit that has not been subject to an EQC review.</p> <p>In addition, we do not support the revision of ISA 260 to require the engagement partner's communications with those charged with governance to include communications that the engagement is subject to an EQC review, in addition to the role and function of the EQC review. If considered necessary, the auditor could include such communications, but there would be no needs for making it mandatory.</p> <p>Requiring EQC reviewer's direct communication with those charged with governance could make the role of the engagement partner vague, thereby making a negative impact on audit quality.</p>
QC6(a)(iv)	Please refer to answers in (i), (ii) and (iii) of QC6 (a).
QC6(b)(i)	We believe there is no need for making mandatory EQC reviews for audits of not-listed entities. As for non-listed entities, auditors are well-establishing criteria to determine whether the audits need EQC reviews or not. If ISQC 1 provides the criteria to determine whether the audits need EQC reviews as for the audits of non-listed entities, such standards should be applicable to all of the environments of jurisdictions. However, it would be difficult, but only result in undermining the easy application of ISQC 1 in practice.
QC6(b)(ii)	The action could be necessary to improve audit quality and enhance the independence of the EQC reviewer. However, we request sufficient reviews on the impacts the requirements could make in practice, given that the efforts and costs, arising from the compliance with the requirements, could exceed the benefits, in a circumstance where the scenario that necessitates such requirements does not take place. For one, one of the scenarios includes an event to prove that audit quality is undermined by the individual engagement partner becoming to serve as the EQC reviewer on the same engagement. Especially in case of SMPs, such requirements could give rise to heavier burdens than expected, due to their lack of human resources.
QC6(b)(iii)	We do not support the development of a separate EQC review standard, unless there surely needs a separate standard to clarify and specify the role and responsibility of the EQC reviewer. We believe disadvantages would be more outstanding, such as the

	duplication with the existing standards, and the excessive emphasis on EQC review as compared to other factors including the lack of consistency with ISQC 1, rather than the advantages of highlighting the importance of EQC review.
--	--

QC7. *Monitoring and Remediation*

- (a) Paragraphs 147–159 set out matters relating to monitoring and remediation.
- (i) Which of the possible actions outlined in paragraphs 156–159 would be most meaningful in addressing issues related to monitoring and remediation?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
- (i) Do you support the incorporation of a new requirement(s) in ISQC 1 for firms to understand the causal factors of audit deficiencies relating to inspection findings and other reviews? If not, why? Are there any potential consequences or other challenges of taking this action that you believe we need to consider?
 - (ii) Do you support the incorporation of a new requirement(s) in ISQC 1 for the results of the firm's monitoring of the effectiveness and appropriateness of the remedial actions to be considered in the design and assessment of the effectiveness of the firm's system of quality control? Please provide further detail to explain your response.

QC7(a)(i)	We believe three actions (a) an analysis of external findings and appropriate responses thereto, (b) consideration of whether inspection findings would have implications for other engagements as well as the firm's system of quality control, and (c) consideration of how the performance of pre-issuance reviews and post-issuance reviews, and the results thereof, may factor into the firm's system of quality control, would be the most meaningful.
QC7(a)(ii)	The analysis of inspection findings and appropriate responses thereto, and consideration of how the findings impact the firm's quality system or other engagements could contribute to improving the firm's quality control capability as well as enhancing the firm's voluntary efforts to develop its quality control system, as we believe.
QC7(a)(iii)	We have no comments.
QC7(a)(iv)	Please refer to answers in (ii) of QC7 (a).
QC7(b)(i)	<p>We believe it is necessary to appropriately strengthen ISQC1's relevant requirements, as taking action on findings is essential to the substantive improvement of the quality control system.</p> <p>However, the nature of inspection findings or the nature and details of remedial actions vary from jurisdictions, not to mention that the severity of remedial actions and the details of requirements as to findings could be influenced by the law and regulation and regulatory</p>

Name of Respondent: KICPA

	<p>practices of the respective jurisdictions. Considering this, it would be more useful to clarify the current requirements with developing application material, taking into account some circumstances, or to expand the provision of non-authoritative guidance. It would also be necessary to consider providing requirements and guideline in detail as to the appropriate scope and method of information sharing to ensure that client confidentiality is not violated when sharing the information on the finding results of inspection.</p> <p>In addition, as stated in the consultation, SMPs have identified monitoring, including compliance with the requirements set out in ISQC 1, as one of the most challenges, largely stemming from resource constraints and funding the cost of compliance. We think it would be necessary for IAASB to consider the fact that the new requirement(s) could make SMPs shoulder unexpected burdens, including strengthening documentation, if ISQC1 requirements are further strengthened. Plus, when the firm is requested remedial actions on external inspection findings from the regulatory body, there have been few cases where the firm fails to take action just because it is not able to understand the root cause. Rather, the lack of resources, including personnel, lies to the main cause of the failure.</p>
QC7(b)(ii)	We have no comments.

QC8. *Engagement Partner Performance and Rewards Systems*

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

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

QC8(a)	<p>The establishment of a link between compensation and quality in ISQC1 could be one of the ways to improve audit quality. The establishment could not be applicable to all of the firms, though.</p> <p>As mentioned in the consultation, the establishment of link between compensation and quality in ISQC1 may be challenging to implement and have unintended consequences, especially for SMPs that has very few partners and suffers from the lack of personnel or has partners not performing audits.</p> <p>Thus, it would not be appropriate to incorporate new requirements or strengthen existing ones in ISQC1 with requirements or application material on building up a link between partner's compensation and audit quality. Rather, it would be desirable to make widespread what IAASB wants to deliver via the development of non-authoritative guidance, thereby making it helpful to improving practice.</p>
QC8(b)	<p>We are supportive of IAASB's view that ISQC 1 should not serve as a vehicle to mandate the structure of an engagement partner's remuneration. We believe what and how ISQC 1 describes for now in its application material, regarding the compensation or incentive system, would be appropriate, as one of the illustrative examples of promoting an internal organizational culture based on quality.</p> <p>Specifically requiring in ISQC1 that firms have a policy in place governing remuneration of partners with the particular attention on individuals within the firm leadership who are responsible for audit quality could mandate the compensation system of the firm and bring</p>

Name of Respondent: KICPA

	<p>about unintended consequences to SMPs, as we think.</p> <p>What ISQC1 considers to address in its application material, in terms of the threats and safeguards in relation with the compensation for non-assurance services, is overlapped with what is already addressed in the IESBA Code. In addition, some jurisdictions have various rules and regulations regarding this topic, which makes it not worthwhile to include the above in ISQC1, just for the purpose of increasing consistency with the IESBA Code.</p>
--	---

QC9. Human Resources and Engagement Partner Competency

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

QC9(a)(i)	We believe strengthening the requirements or enhancing the application material that discusses the responsibilities of the engagement partner in relation to the relevant ethical requirements by members of the engagement team would be the most meaningful.
QC9(a)(ii)	Clarifying the responsibility of the engagement partner tasked with the ethical requirements of the engagement team members would improve the compliance of ethical requirements of team members, in general, in addition to effectively establishing an atmosphere emphasizing ethics within the firm.
QC9(a)(iii)	<p>The purpose and details of actions IAASB is considering are mostly significant and meaningful to improve audit quality.</p> <p>Strengthening requirements and the application material in ISQC1 and ISA 220 as for ethics and education, just as the issue of human resources and engagement partner competency, however, could cause burdens to SMPs, in addition to unexpected consequences in practice. Thus, it would be more effective to develop and provide non-</p>

Name of Respondent: KICPA

	<p>authoritative guidance.</p> <p>Incorporating what is already addressed in IES 8 into ISQC1 or ISA 220 only results in the duplication of existing standards, making standards voluminous and complex, in addition to creating pressure to continuously update standards up to changes in IESs, and having difficulties of determining the extent of updates and risks of missing updates. In addition, IESs deal with qualifications of CPAs and auditors, whose details vary from the respective jurisdictions, making it not relevant to ISQC1 or ISA 220. Thus, it would be desirable to minimize the incorporation.</p>
QC9(a)(iv)	Please refer to answers in (ii) and (iii) of QC9 (a).
QC9(b)(i)	Please refer to answers in (iii) of QC9 (a).
QC9(b)(ii)	Please refer to answers in (iii) of QC9 (a).
QC9(b)(iii)	Please refer to answers in (iii) of QC9 (a).

QC10. *Transparency Reporting*

Paragraphs 188–190 set out matters relating to transparency reporting.

- (a) Do you believe we are able to positively contribute to the evolving developments related to transparency reporting? If so, what, in your view, would be the most appropriate action we could take at this time?
- (b) If you would not support us taking actions as described in paragraph 190(b), please explain why, including any potential consequences of those actions that you believe we need to consider.

QC10(a)	We believe there would be few chances IAASB could directly contribute to the evolving developments, related with transparency reporting. As acknowledged in the consultation, current practices and requirements for transparency reporting are regulated by the respective regulatory bodies, and the details vary from each other, according to the respective jurisdiction's regulatory purpose and environment. The variance and difference are not necessarily considered as inappropriate, making it no need for maintaining consistency. If consistency needs to be made, regulatory bodies are well-advised to cooperate and coordinate each other.
QC10(b)	The actions IAASB is considering do not necessarily mean bad, but would not be “must,” taking into account the priority of IAASB's activities and appropriate allocation of its resources.

The following questions are overall questions relating to quality control:

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

QC11	We have no comments.
------	----------------------

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

QC12	We have no comments.
------	----------------------

QC13. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

QC13	<p>SMPs are facing many difficulties with fully complying with ISQC1, as some of the current ISQC1 requirements are not fit for their size or the nature of services they provide. We recognize that IAASB is trying to come up with many innovative measures, including incorporation of a QMA, and making enormous efforts to strengthen firms' quality control, in a bid to address the difficulties.</p> <p>We recommend that IAASB consider enforcing uniform requirements without considering SMPs that usually do not have enough personnel and resources could eventually end up with expanding mismatch in practice, since it is difficult for SMPs to comply with the requirements.</p>
------	---

QC14. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

QC14	We have no comments.
------	----------------------

GROUP AUDITS

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

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

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

GA1(a)	<p>We believe that whether ISA 600 is applicable or not needs to be clarified, including partial identifications of entities' situations where shared service centers are used. For this, we recommend IAASB improve relevant explanations and application material.</p> <p>Allowing for ISA 600 and all relevant ISAS in an audit of group financial statements to be appropriately related each other is useful to improving the convenience of those who perform engagements and ensuring the complete implementation of necessary procedures.</p>
GA1(b)	<p>Most of actions, IAASB suggests in the paragraph 198 in relation with ISA 600, are expected to contribute to improving the quality of group audits.</p>
GA1(c)	<p>We think that the fundamental direction of the current ISAs that makes the group auditor fully responsible for the audit opinion of the group financial statements for the consolidation-focused IFRS and investors should maintain. As long as the current scheme of making the group auditor responsible, reviewing as to making reference to the component auditor on the group financial statement would be no necessary.</p> <p>Making reference to another auditor in the report in a bid to increase transparency on the use of another auditor's report could undermine the public interest, as who has the responsibility on audit opinion is not likely to be clarified. In case of group audits that have many components, making reference to another auditor in the report is expected to substantially increase audit engagement efforts, thereby relatively reducing audit hours that would be injected into professional judgments and collecting audit evidence otherwise, which will eventually make a negative impact on audit quality.</p>
GA1(d)	<p>We recommend IAASB conduct sufficient studies on the mismatch cases of applying ISA 600 in practice and their impacts accordingly, specified cases of undermining the application in practice and barriers thereof, and exemplary cases of application in practice, and then provide</p>

	such results in a form of non-authoritative guidance.
--	---

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

GA2. Acceptance and Continuance of the Group Audit Engagement

- (a) Paragraphs 204–217 set out matters relating to acceptance and continuance of the group audit engagement.
 - (i) Which of the possible actions outlined in paragraphs 215–217 would be most meaningful in addressing issues related to acceptance and continuance procedures?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
 - (i) Are access issues as described in paragraph 207(a) still frequently being experienced in practice? If yes, please provide details and, where possible, explain how these are being addressed today.
 - (ii) Do you agree that ISA 600 can or should be strengthened in relation to addressing access issues as part of acceptance and continuance?
 - (iii) Would expanding the understanding required for acceptance and continuance, as described in paragraph 215 (b), be achievable in the case of a new audit engagement?

GA2(a)(i)	<p>We believe that requiring the agreed terms of the engagement to include that group management agrees to the preconditions for the group audit, in addition to consents to provide the auditor with access to all information relevant for the group audit, would be most meaningful.</p> <p>In addition, we think that (a) improving application material as to specified circumstances where access issues take place, (b) provision of solutions thereof, and (c) more detailed considerations as to situations where the component auditor has different policies and procedures from those of the group engagement team, would be meaningful as well.</p>
GA2(a)(ii)	<p>Access issues are one of the most frequently raised issues in group audits, and certainly need to be resolved for the normal performance of the group audit engagement, not to mention for the acceptance and continuance of group audits, thereby making the action to resolve access issues most necessary.</p>
GA2(a)(iii)	<p>We believe that (a) revising the requirement to place greater emphasis on the need for an explicit conclusion that the group engagement partner and group engagement team can fulfill their respective responsibilities relative to the engagement overall, including for the direction, supervision and performance of the work done by component auditors, and (b) providing application material to support the revised requirement, in particular to emphasize the significance of the judgments, and highlight the importance of documenting the relevant</p>

	<p>considerations, would make the most substantial impacts in practice.</p> <p>In addition, the group engagement partner and group engagement team need to more appropriately consider what is related with the decision on the acceptance and continuance of group audits. It would also be necessary for IAASB to review the necessity of such action, in response to the respective regulator's request for strong documentation.</p> <p>However, current requirements of ISA 600 in relation with the acceptance and continuance of the group engagement is stipulated, as a form of principle-based approach, which makes very much challenging IAASB's efforts to further strengthen or emphasize the responsibility of the group engagement partner via revising the current requirements. The inspection findings detected by regulators could be caused by insufficient requirements, but mismatch in practice could be the main cause. We think most of the ISAs-related issues, including group audits, are triggered not by insufficiently strict requirements, but by mismatch in practice in relation with the application of requirements. Thus, it would be more effective to sufficiently consider details relating to the acceptance and continuance of the group audit engagement to ensure better compliance with the current ISA 600 principles and requirements in practice, and to provide, in a form of non-authoritative guidance, exemplary or insufficient cases where sufficient considerations are not made into the acceptance and continuance or documentation-related ones, which could better contribute to resolving mismatch issues in practice.</p>
GA2(a)(iv)	<p>Enhancing the involvement of the entity's management in access issues could be effective to deal with the issue, thereby making it possible to improve the awareness of the entity, components, and surrounding environments, which would end up with being greatly helpful to appropriately considering what is related with the acceptance and continuance of the group audit engagement.</p>
GA2(b)(i)	<p>As far as we are aware of the fact that severe restrictions are still being made in practice into the group engagement team's access to the component management or component information, in case of access issues relating to entities using the equity method of accounting or affiliated entities where the power of controlling entities is not fully exercised, or in case of affiliated entities being considered significant in certain countries and residing in the certain countries that strictly prohibit the outflow of entities' information or audit documents outside the country.</p> <p>For one, some of the countries limit certain engagements of foreign CPAs within their territory and prohibit the outflow of related accounting information beyond the country, which makes it difficult for the group auditor to be directly engaged when necessary. In response to the cases, we are seeing in practice the continuous encouragement of the appointment of qualified component auditor, and strengthening the group auditor's risk assessment on components and his/her communication with the component auditor.</p>
GA2(b)(ii)	<p>As acknowledged in the consultation by IAASB, some of the access issues cannot be resolved with the revision or clarification of standards. Thus, enhancing ISA 600 is not the answer, and the enhancement is not easy anyway, taking into account the principle-based approach.</p>
GA2(b)(iii)	<p>It would be difficult to respond to this question, as we cannot estimate how the understanding required for acceptance and continuance would be expanded and the extent</p>

Name of Respondent: KICPA

	<p>thereof, just with what described in the paragraph 215(b) only.</p> <p>However, we could say that expanding understanding required for acceptance and continuance, as compared to the current requirements, could bring about difficulties with securing necessary information, as for new audit engagements, since the current understanding, required based on ISA 600, also contains relatively much information and related other understanding that are difficult to secure, in case of new audit engagements.</p>
--	--

GA3. *Communications between the Group Engagement Team and Component Auditors*

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

GA3(a)(i)	Enhanced application material including examples of different kinds of communications that may be appropriate in different circumstances, thereby clarifying the meaning of requirements, would be the most meaningful.
GA3(a)(ii)	Making the communication between the group engagement team and the component auditors various and easy could be effective in ensuring sufficient and timely communication between them.
GA3(a)(iii)	<p>We are not for the action to develop separate standards on the component auditor and to strengthen and expand the requirements. We recognize the importance of the role and responsibility of the component auditor, when it comes to two-way communication. However, developing separate standards are expected to inevitably expand the requirements and responsibilities of the component auditor. Such expansion could result in passing the responsibility of the group engagement team to the component auditor or making the responsibility vague, which would run counter to the public interest. It would also be difficult to agree with IAASB' stating that developing a new standard for auditors who serve as component auditors may be particularly useful to SMPs who may often function in this capacity (in the paragraph 199), under a circumstance where whether the works of component auditors are used or not is determined by the group engagement team.</p> <p>We also do not support the revision of ISA 600 to address the ability of group engagement team to communicate directly with a component auditor or component management when the group engagement team is aware of non-compliance or suspected non-compliance with the law and regulation that may be relevant to the work being done by the component auditor. As the issue is associated with professional confidentiality of the respective jurisdictions, it would be reasonable to discuss the matters with the group management and those charged with governance of the group and ask for actions, and if the issue is still</p>

Name of Respondent: KICPA

	<p>unresolved, to consider advising the component auditor not to issue the report on the financial statements, as pursuant to the law and regulation and professional standards. Requiring the group engagement team to directly communicate the non-compliance to the component management team or component auditor could expand the responsibility of the group engagement team, thereby resulting in their excessive burdens. If such action is surely considered necessary, more thorough approach would be desirably required after taking into account the legal responsibility of auditors, lawsuit environments and auditing practice at the respective jurisdictional level.</p>
GA3(a)(iv)	Please refer to answers in (ii) and (iii) of GA3 (a).

GA4. *Using the Work of the Component Auditors*

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

GA4(a)(i)	<p>(a) Including more specific examples that address some of the practical challenges that have been identified related to understanding the component auditors' compliance with relevant ethical requirements, and their competence and capabilities, and (b) developing additional application material to address the impact on the understanding of the competence of the component auditors if there are different or no national or jurisdictional licensing requirements, are believed to be the most meaningful.</p> <p>In addition, including more examples of comprehensive circumstances that could impact the nature, timing, and extent of the work the component auditor will be requested to perform are also considered meaningful as well.</p>
GA4(a)(ii)	<p>Providing specific examples showing how ISA 600 requirements are applied in various circumstances would be one of the effective actions to improve the effectiveness of ISAs.</p> <p>Including more examples of comprehensive circumstances that could impact the nature, timing, and extent of involvement of the group engagement team in the work of the component auditor in application material would be most relevant to issues regulators raise,</p>

Name of Respondent: KICPA

	such as insufficient involvement of the group auditor in the work of the component auditor or the lack of clarity in the professional conclusion of the group auditor who is involved in the engagement. Plus, the action would contribute greatly to improving consistency in practice.
GA4(a)(ii)	<p>We are not supportive of strengthening the requirements in ISA 600 to clarify that the group engagement team should make an explicit determination about whether it is appropriate to use the work of a component auditor. According to the paragraph 20 of current ISA 600, the independence and competence of the component auditor should be taken into account when determining whether it would be appropriate for the group auditor to use the works of the component auditor. We believe there would not be necessary to revise ISA 600 just for strengthening the requirements and requiring the explicit determination. .</p> <p>We fully understand the background behind the action to develop application material to emphasize the need for the group engagement team to understand the results of quality control monitoring and any external quality control reviews for component auditors, irrespective of whether the group engagement team and the component auditors are subject to common quality control monitoring mechanisms. However, it would not be easily applicable in practice, since the access to the results of the component auditor's quality control monitoring and external quality control review should be ensured.</p>
GA4(a)(iv)	Please refer to answers in (ii) and (iii) of GA4 (a).
GA4(b)(i)	The nature, timing and extent of the involvement in the work of the component auditor should be determined, according to individual circumstances. We think improvements could be made into application material or appendix to include more illustrative examples on comprehensive circumstances that could impact such determination.
GA4(b)(ii)	Please refer to answers in (iii) of GA4 (a).

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

(a) Paragraphs 243–253 set out matters relating to identifying and assessing significant risks in a group audit:

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

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

GA5(a)(i)	(a) Providing further clarification about how significant risks that are pervasive to the group impact whether a component is to be considered significant and (b) developing additional application material to further clarify the meaning of the phrase “of financial significance to the group” are considered most meaningful.
-----------	---

Name of Respondent: KICPA

GA5(a)(ii)	With the increasingly complex and varying group structures, we have difficulties in practice with identifying and assessing the risks of material misstatement, and then determining which component is significant. The actions, answered in (i) of the above GA5 (a), are considered helpful to addressing and resolving the difficulties in practice, not to mention that they are necessary to develop ISAs up to the changing auditing environments.
GA5(a)(iii)	Please refer to answers in GA1 (a).
GA5(a)(iv)	Please refer to answers in (ii) and (iii) of GA5 (a).

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

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

GA6(a)	We support, in general, developing guidance on how the concept of component materiality and component performance materiality is expected to be applied in specific practice circumstances. Consideration, in particular, as to how materiality is applied in non-audits of the component financial statements holds substantial significance, as we believe.
GA6(b)	<p>We are for thorough reviews as to whether to revise ISA 600 to include that component performance materiality and the clearly trivial threshold at the component level should be less than the performance materiality and the clearly trivial threshold at the group level, taking into account various practice circumstances.</p> <p>As outlined in the consultation, there are difficulties with applying the concept of aggregation risk in practice. It would be very much useful to provide specified guidance regarding (a) a circumstance where simply adding component materiality in all exceeds group materiality in case of multiple components existed and (b) how to determine and evaluate the amount of component materiality distributed to the respective components.</p>

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

- (a) Paragraphs 262–292 set out matters relating to responding to identified risk of material misstatement in a group audit (including the group engagement team's involvement in the consolidation process).
 - (i) Which of the actions outlined in paragraphs 272–273, 279, 288 and 292 would be most meaningful to address issues relating to responding to identified risks of material misstatement in a group audit?
 - (ii) Why do you believe these actions are necessary?
 - (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
 - (iv) Please also describe any potential consequences of possible actions that you believe we need to consider further.
- (b) Specifically:
 - (i) What are your views on scoping the audit based on identifying and assessing the risks of material misstatement for the group as a whole, rather than focusing the determination of the necessary work effort on the determination of whether components are considered significant or non-significant? Are there any practical challenges that we need to consider further?
 - (ii) Are there other possible actions related to auditing groups where there are a large number of non-significant components that we should explore? Are there other approaches to auditing such groups that need to be considered? Do the possible actions presented lead to any additional practical challenges?
 - (iii) Should the standard be strengthened for the group engagement team to be more involved at the sub-consolidation level in the appropriate circumstances? Are there further issues or practical challenges that have not been considered?
 - (iv) Should the requirements or application material relating to subsequent event procedures be strengthened or clarified? Are there further issues or practical challenges that have not been considered?

GA7(a)(i)	<p>(a) Revisiting the requirements for the types of work required for significant and non-significant components, and challenging whether the outcome of applying them results in the work effort on financial information of components being commensurate with the risks of material misstatement in the components, and (b) providing application material to clarify that the manner in which the requirement to perform an “audit of financial information of the component using component materiality” is applied may vary depending on the specific circumstances, would be most meaningful.</p> <p>In addition, addressing considerations of the group engagement team as to what should be performed in non-significant components and challenging the role of the review engagement on component financial information would also be meaningful.</p> <p>(a) Clarifying 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 purpose of ISA 600, and (b) revising the requirements in ISA 600 to determine</p>
-----------	--

	whether the group engagement team's responsibilities in relation to sub-consolidations need to be clarified or enhanced, are also believed necessary as well.
GA7(a)(ii)	The actions clarify the existing requirements and application material, thereby contributing to easing mismatch in practice and maintaining the standards up to their purpose.
GA7(a)(iii)	We have no comments.
GA7(a)(iv)	Please refer to answers in (ii) of GA7 (a).
GA7(b)(i)	<p>We support IAASB's background behind the direction of reviewing the above actions.</p> <p>Substantial amount of efforts are expected to be demanded, until identifying and assessing the risks of material misstatement for the group as a whole, and then determining the scope of audits, especially in case of a few risks of material misstatements existed in the whole group financial statements, combining the risk of misstatements of the respective components, with a large number of non-significant components.</p> <p>In addition, the current ISA 600 requires that not only financial significance of components but also the identification and evaluation of the risk of material misstatements be considered when determining the significant and non-significant components. Especially in an environment where most of components are under statutory audits, it would be more effective and efficient to maintain the scoping procedures, as described in the current ISA600.</p>
GA7(b)(ii)	We have no comments.
GA7(b)(iii)	<p>We believe it would be necessary to conduct a review to strengthen the responsibility of the group engagement team to be more involved at the sub-consolidation level.</p> <p>Strengthening the responsibility of the group engagement team to be more involved at the sub-consolidation level, however, could result in the duplication of works with the component auditor involved at the sub-consolidation level, thereby creating disruptions when performing other more significant audit procedures, as we consider. Thus, we think it would be more important for IAASB to clarify and specify requirements as to the scope and extent of the group engagement team's involvement at the sub-consolidation level.</p>
GA7(b)(iv)	<p>As for the requirements relating to subsequent event procedures, we believe the current ones are sufficiently clarified, making no need for strengthening the current requirements or application material.</p> <p>When it comes to issues raised by regulators that the group engagement team has not adequately evaluated the work of component auditors in relation to subsequent events, it would be effective to respond to the issues with the provision of non-authoritative guidance.</p>

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

- (a) Paragraphs 293–303 set out matters relating to the review and evaluation of the work of component auditors by the group engagement team.
- (i) Which of the actions outlined in paragraphs 299 and 303 would be most meaningful in addressing issues relating to the review and evaluation of the work of component auditors by

Name of Respondent: KICPA

the group engagement team?

- (ii) Why do you believe these actions are necessary?
- (iii) Are there other relevant issues that we should consider, or actions that would be more effective than those described? If you would not support a particular action, please explain why.
- (iv) Please also describe any potential consequences of those actions that you believe we need to consider further.

GA8(a)(i)	<p>We believe improving requirements and application material to clarify the efforts of the group engagement team, in relation with reviewing the work of the component auditor, such as review schedule of their audit documents and review procedures, would be meaningful. We also consider IAASB's emphasis meaningful in that the review scope required and expected to the group engagement team, when all of the other factors are equal, should not exceed that of the engagement partner, if she/he is not involved in group audits, in addition to that the work of the component auditor should be reviewed by the engagement partner already belonging to the component auditors</p>
GA8(a)(ii)	<p>There are cases in which what the group engagement team reviewed on the audit documents of the component auditors is not sufficiently documented or the impacts the findings of the component auditors could make on group audits are not fully reflected. The consultation is reviewing several actions in response to regulators' arguments on strengthening documentation of reviewing component auditor's documents of the group engagement team. Considering that the purpose of strengthening the documentation requirements would be eventually designed for improving sufficiency and appropriateness of the group engagement team's review and evaluation, what answered in (i) of GA8 (a) is believed to be in lined with the purpose.</p>
GA8(a)(iii)	<p>The consultation suggests that requirements be strengthened as to documentation in relation to group auditor's review and evaluation of the work of the component auditor. This is believed to be part of efforts to clarify the works of the group engagement team in relation with the review and evaluation of the work of the component auditor, as outlined in the (i) of GA8 (a). In addition, this could bring about positive impacts of ensuring that the group auditor has not missed out essential audit procedures and of providing a basis that he/she has performed procedures in an appropriate and sufficient manner</p> <p>ISA 230 requires the documentation of the works of auditors, audit evidence and their professional judgments in an appropriate, sufficient and timely manner. It is clear-cut that such principle of ISA 230 is applied to all of ISAs. We believe IAASB needs to sufficiently consider the concern that strengthening the documentation of certain procedures and circumstances or relating certain ones with ISA 230 could create misunderstanding that certain procedures and circumstances, whose documentation is not underscored and related with, show low level of significance, in terms of their documentation, only resulting in undermining the clarity of standards, and ending up with increasing the volume and complexity of standards.</p>
GA8(a)(iv)	<p>Please refer to answers in (ii) and (iii) of GA8.</p>

Name of Respondent: KICPA

GA9. *The Impact of New and Revised Auditing Standards*

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

GA9	What is suggested in the ITC 304-305 could be additionally considered in the group audit practice in relation with IAASB's discourse project recently completed and the audit report project, and the current ISA 600 requirements and application material need to be further developed to improve consistency and clarification of the group audit practice. Thus, it would be desirable for IAASB to identify whether revision needs to be made in its process of conducting ISA 600 revision project and to study possible implications in practice, arising from the revision.
-----	---

The following questions are overall questions relating to group audits:

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

GA10	We have no comments.
------	----------------------

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

GA11	We have no comments.
------	----------------------

GA12. Are there any specific considerations for SMPs related to the issues and potential actions described in this section? Are there any other considerations for SMPs of which we should be aware? If so, please provide details and views about these matters.

GA12	We have no comments.
------	----------------------

GA13. Are there any specific public sector considerations related to the issues and potential actions described in this section? Are there any other public sector considerations of which we should be aware? If so, please provide details and views about these matters.

GA13	We have no comments.
------	----------------------

[Annex]



(Annex 1) The Case Study on Au



(Annex 2) The Application of a Gr