Dear Ms Healy

Invitation to Comment – *Enhancing Audit Quality in the Public Interest*

The Audit and Assurance Committee of Chartered Accountants Ireland is pleased to have the opportunity to contribute views on the International Auditing and Assurance Standards Board’s Invitation to Comment: *Enhancing Audit Quality in the Public Interest*.

General comments

The Invitation to Comment (ITC) is an ambitious and comprehensive analysis of areas to be addressed in enhancing audit quality and the actions that could be taken to achieve that end. In general, we are supportive of the areas identified by IAASB for development and the direction taken in relation to them.

We agree that the topics identified in Table 1 are those most relevant to the IAASB’s work on its audit quality project and support the three main topic areas of professional scepticism, quality control and group audits identified in the ITC. We consider, however, that there are some additional factors which need consideration in determining the optimal course of action by IAASB, including a number of particular significance in the context of the Irish business environment. Therefore we have taken the view that our response can most usefully focus primarily on those and other key matters, rather than seek to answer every question raised in the ITC.
Professional scepticism

We concur with the IAASB’s description of professional scepticism as an attitude having three key elements:

- a questioning mind,
- being alert to conditions that may indicate possible misstatements, and
- critical assessment of evidence.

Clear differences of view have emerged amongst auditors and others as to how this attitude can be demonstrated and, importantly, documented. Thus we welcome the IAASB seeking to clarify the meaning of professional scepticism and believe the steps set out in paragraphs 37 to 40 are helpful. We have two reservations:

- first, an attitude of mind is not fully amenable to detailed, prescriptive processes and hence we believe that in addition to any enhancement in its standards, IAASB should also co-operate actively with professional bodies and firms with a view to ensuring that the profession gives appropriate focus and support - in recruitment, training, subsequent monitoring and other activities - to support the intellectual skills and characteristics necessary for maintenance of the appropriate attitude of mind by individual auditors;

- secondly, whilst an attitude of mind cannot be driven solely by more detailed or prescriptive procedures, we believe it is nonetheless necessary to articulate the key specific, concrete actions that will ordinarily be sufficient to demonstrate its maintenance during an audit, together with the level of documentation required. Work undertaken by IAASB in conjunction with both the firms and regulators in this area would be of significant value in developing a better common understanding of what is involved both in maintaining an appropriate attitude of scepticism in the course of an audit, and in demonstrating its maintenance, based on audit evidence, at a later date. We also consider, given the nature of the topic, such articulation might be best addressed in supplementary guidance papers rather than in adding to detailed prescription in the ISAs themselves.

Quality control

We broadly support the proposals to introduce the use of a Quality Management Approach. Overall, these should support both appropriate leadership in audit firms and appropriate accountability for audit quality.
Experience of our members involved in the audit of larger, complex multi-national groups also suggest, in revising ISQC 1 and ISA 220 ‘Quality control for an audit of financial statements’ along the lines set out in the ITC, it is essential IAASB clearly articulates both that quality control procedures are to be applied consistently across network firms and that the engagement partner responsible for the audit as a whole may rely on those procedures. This has benefits both in supporting consistency of practice and in allowing the engagement partner to focus more clearly on risks relating to the specific audit. Doing so would support an approach to audit quality that is responsive to the practical issues raised in the various scenarios identified in the ITC, including ‘alternative delivery models’ (such as ‘off-shore’ teams). It will also be beneficial in supporting an effective audit response to the use of shared service centres by global businesses to provide accounting services to components in many different jurisdictions.

We however have concerns that cost implications of the proposed changes relating to quality control may be underestimated. For larger, complex audits the steps proposed are, in general, appropriate but in our view more consideration is needed to allowing for proportionate application of requirements for quality control in the context of smaller firms and less complex audits.

On a specific point, in our view is it not necessary to develop a separate standard relating to the conduct of Engagement Quality Control Reviews. On balance, relevant requirements are best framed in the context of overall requirements for quality control.

**Group audits**

We support the proposal to revise ISA 600, in particular to support effective audit response to the use of shared service centres and other complex arrangements which groups may use to structure their activities.

However, we consider that it is also necessary to develop a new ISA dealing with the use by a reporting auditor of work undertaken by another auditor, including articulation of the responsibilities of the ‘other auditor’. Notwithstanding the reference in the current ISA 600 that it may be adapted in the context of involving other auditors in audits of financial statements that are not those of a group, our experience has been that this is both difficult in practice and problematic in terms of meeting regulatory expectations – for example, in relation to audits of entities established under statute in one jurisdiction whilst its operations and/or accounting function are based in another.
Our experience in relation to investment funds operating in Ireland also leads us to suggest that IAASB should also address issues relating to master/feeder funds, where each fund may have a separately appointed auditor with no obligation to co-operate with the master fund auditor reporting on totality of the fund. Within the European Union, legislation requires sharing of information in such circumstances, supporting the availability of sufficient audit evidence. Such arrangements are not in place outside the EU but could usefully be addressed via auditing standards.

Similar issues arise in relation to entities with significant investments accounted for on the equity method.

Other matters

Whilst supportive of the ITC’s focus on the three initial areas identified, we note that other issues will require attention, particularly in relation to ‘keeping ISAs fit for purpose’ included in Table 1. As acknowledged in the paper, IT risks and the auditor’s response to those risks should be given consideration, together with developing a framework for the effective use of data analytics. We believe these areas are of key importance. We would also support a review and update of ISA 250 ‘Consideration of laws and regulations in an audit of financial statements’.

In addition to its standard setting activity, we also believe it is vital that the IAASB continues to work with all stakeholder groups, ranging from institutional investor bodies to regulators, IFAC member bodies and bodies responsible for development of corporate governance, such as the Financial Reporting Council, whose Code UK Corporate Governance Code is applied in both Ireland and the UK. This is important both to informing IAASB’s development of standards and also to ensuring that broader issues that may affect audit quality – in particular corporate governance standards - are appropriately addressed.

Lastly, in considering the ITC, we have been conscious of the many smaller businesses and other entities currently audited by members of Chartered Accountants Ireland. Such entities would not be regarded as ‘public interest’ and fall outside the current EU definition in the Statutory Audit Directive (Directive 2006/43/EC¹). We are supportive of taking many of the steps set out in the

---

¹ PIEs are defined as listed companies, credit institutions and insurance undertakings. In addition, Member States can designate as PIEs other undertakings that are of significant public relevance, because of the nature of their business, their size or the number of their employees.
ITC in relation to supporting an effective audit response to the complexities involved in auditing public interest entities, particularly those listed on the major markets. However, as noted above, we have some concerns regarding the scalability of the proposals for smaller, non-public interest entities. These lead us to suggest that a point has now been reached where there is merit in considering the articulation of separate requirements for audits of public interest entities’ financial statements and those of smaller or less complex enterprises with fewer stakeholders. This would clearly be a longer term development and would require deliberation with legislators and others. It would, however, enable IAASB to focus clearly on articulation of standards that give an appropriate and proportionate response to information needs of stakeholders in both types of entity.

We look forward to the development of the ambitious programme IAASB has put in train. If there are any matters in our comments which would be helpful to discuss in more detail, we would be very happy to do so.

Yours sincerely

Mark Kenny
Director
Representation and Technical Policy Department
Chartered Accountants Ireland